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|  | EUROPEAN UNION  DELEGATION TO THE PHILIPPINES |

Country Team Meeting Philippines

A View from the Delegation

**1. SCENE SETTER**

Relations between the EU and the Philippines are at a good juncture. Since last year GSP+ has been granted to the Philippines; a number of high level visits took place, including President Aquino's visit to Europe; irritants (air ban, seafarers, fish) have been resolved; cooperation budgets more than doubled; the FTA scoping was concluded; and the PCA with the Philippines is about to be ratified, providing a platform for increased and deepened cooperation. Yet, only 3% of EU investments to ASEAN go to the Philippines and only 7% of our trade is with the Philippines.

It will be important to keep up a level of momentum. A major point on the bilateral agenda for the coming years will be the FTA negotiations. Our relationship could be exploited more for our commercial agenda, and the FTA negotiations will help keep trade in focus. The signing of a horizontal aviation agreement is a step in the right direction. In parallel, political relations should be structured and developed. A continued high level exchange is necessary, but also the establishing of mechanisms to underpin both the PCA and the GSP+. We need to look at the Philippines for what it is, the second largest country in ASEAN with a strong growth, but also as an emerging political actor within both the ASEAN and the region at large.

Discussions should now centre on linking EU policy instruments to achieve EU objectives; such as supporting the ones put forward in the recent trade strategy ('trade for all'), as well as the strategies on EU economic and cultural diplomacy; EU's recent ASEAN strategy and our ASEM agenda.

**Changing of the guards – the Aquino legacy**

The coming months in the Philippines will be dominated by the elections to be held in May 2016, which will see a new President and Vice President, together with half of the 24 senators, 288 members of the House of Representatives, 81 province governors and a host of other officials being elected. The campaign officially begins in February, but is already, at least for the Presidency, well under way, and will mean that any other issues will be pushed into the background.

The coming months will then also mark the end of the six-year Aquino presidency (he is constitutionally barred from running for a second term). In his final State of the Union Address, given 27 July, President Aquino focussed on his efforts during his presidency to battle corruption, his track record in sustaining economic growth, and measures undertaken for governance reform – and these will all be part of his legacy. As will the fact, perhaps more importantly, that the country under his reign has enjoyed a prolonged period of stability (it could be recalled that the last – failed, but still – military coup in the Philippines took place only in 2003), and the economy strengthening. Under Aquino, many say, the Philippines has gained greater confidence, and has become more predictable. Trying to influence developments after the end of his term, Aquino has defined a "righteous path" for his successor to follow; this includes continued anti-corruption measures, the strengthening of the business environment, attracting more foreign investment, and increased investment in infrastructure. All issues are crucial to whether the Philippines post-Aquino can strengthen the country's institutions and instil confidence in foreign investors.

Elections in the Philippines centre more on personalities than policies. It is more important for a candidate to be popular or backed by a strong constituency, than to stand on a solid party platform with a clear programme. But one question will still be asked. Will the road chosen by Aquino be followed by his successor? Presidential debates so far (involving the frontrunners Binay, Roxas, Poe and Defensor-Santiago) have centred on the question of continuity. It is not possible to clearly say at this stage, but candidates at least seem to want to be associated with the legacy of Aquino, and his policies.

**Economic break out – at last?**

The Philippines is with a 6.1% growth in 2014 one of the fastest growing economies in the region. Even if growth this year is hampered by a lack of demand from China, a 6% increase is still within reach, which would put the Philippines on par with Vietnam and just behind China. The Philippines reduced its external debts to very low levels (~ 15%), prompting the IMF to ask for more voluntary contributions; and is implementing a reasonably effective anti-corruption policy at the central level and reform agenda. International perceptions have noted progress as the Philippines is climbing the indices, such as the WEF global competitiveness (+28 since 2011), the ease of doing business (+33), and transparency international corruption perception (+44). All rating agencies have upgraded Philippine sovereign debt above investment grade.

With a population of 101 million, the Philippines is the 12th most populous country in the world, and with a population 'dividend' that has yet to peak (10% of its population is below 4 years of age). It is the 39th largest economy in nominal GDP terms, equalling Egypt, or 28th on a PPP basis, equalling Malaysia. While macro-economic and commercial indicators remain modest – USD 284 billion or USD 2,851 per capita, with an external trade of USD 115 billion – governance improvement (budget deficit 0.6%) has facilitated growth and public investment. The health budget has tripled, infrastructure is set to reach €15 billion in 2016, and the middle class (i.e. €4000 per capita) consists of more than 10 million households.. These figures depend, however, heavily on consumption, on overseas remittances, which stand at USD 24.3 billion or 8.5% of GDP, and on government expenditure, as corruption and bureaucracy still make the Philippines a ‘tricky’ environment for foreign investors, limiting them to export processing zones and Business Processing Outsourcing.

**Remaining challenges**

In his last State of the Union, Aquino also stressed that efforts to modernize its military has been more ambitious than under any other administration. The administration sees a clear need to upgrade in particular its maritime security capability, in view of heightened tensions in the South China Sea. Progress has however been slow, and the Enhanced Defense Cooperation Agreement with the US, signed in April 2014, has not yet come into power as it has been referred to the Supreme Court which will judge on its constitutionality. The EDCA will allow rotation of US troops and equipment through Philippine bases, but would also help in capacity building of the Philippine army.

Relations with the US will remain central to the Philippines. The first thing President Obama did when arriving in Manila for the APEC Summit was to visit a Philippine frigate, where he announced further support to the strengthening of the navy. The Philippines will rely on the US to provide both political and security related support in maintaining maritime claims in the South China Sea, but relations are two-way; the US will also need to rely on the Philippines as a strategic partner in the region. China looms in the background, and while maritime disputes have led to tense Philippines-China relations, Philippine business interests still look towards China for opportunities.

Aquino's legacy as the president who brought peace to Mindanao is still to be fully secured, and hinges on the passing of the Bangsamoro Basic Law. The Mamasapano incident in January 2015 meant that the process stalled, and the situation in Congress has hitherto not allowed for its passing. Should the law not be passed under the current administration (which unfortunately looks more and more likely), it is unclear what it will mean for the situation on the ground and for achievements made during 17 years of negotiations.

Given its size and growing economic clout, some say the Philippines has been hitting below its weight. Under Aquino the Philippines has however become more present on the regional, if not global, stage. In bringing the maritime disputes with China to the Permanent Court of Arbitration, and given the courts first ruling, which went in favour of the Philippines, there will not be many in the country regretting the move, although at the cost of worsening relations with China. The first ruling might, however, open up for the possibility of reaching a bilateral solution before the final ruling of the court.

Aquino will make perhaps his biggest international profile when hosting the APEC Summit in Manila in November. Everything went well, it helped show that the Philippines (even though they hosted a smaller size APEC in 1996) has evolved into a country well capable of handling major meetings on the global agenda, and that President Aquino could successfully chair a major international event.

Climate will be an important topic for discussions, where the Philippines has showed some ambition, both in a domestic context, and by chairing the 'Vulnerable 20' group. After having indicated he would not go to Paris, President Aquino has now said he will attend COP21, which in itself is a signal of the importance the Philippines attach to climate change; being one of the countries hardest hit by its effects. They will likely face some difficult discussions, having submitted a very ambitious INDC, but one that is completely conditional on external support to achieve a 70% reduction of emissions.

How Aquino's legacy on the human rights situation in the Philippines will be judged, is more of an open question. Anti-corruption measures have to an extent helped clean up the armed forces, the police and the judiciary, and legal reforms have moved forward. But problems persist. In Mindanao, murders of leaders of indigenous peoples ('lumads') groups have led to strong criticism, and in some cases known perpetrators remain to be charged. The number of journalists killed under the Aquino administration has reached above thirty, which places the Philippines at the top of the list of countries where it is most dangerous being a journalist. The military has been implicated in a number of human rights abuses, including in extrajudicial killings in Mindanao and elsewhere, as has the police. Insurgency movements have led to further human rights offenses. Overall progress in this important area is limited.

**2. RELATIONS WITH THE PHILIPPINES**

**Trade relations: underutilised**

Only around 3% of EU investments to ASEAN go to the Philippines and only 7% of our trade is with the Philippines. Still, since 2011 EU exports increased by over 70%, resulting in a trade surplus of €1.1 billion in 2014. The EU was at par with the US as the third largest trading partner of the Philippines and had become its second source of imports (after China). For 2015, EU's share of Philippines trade continues to increase (to 11.5%), but mostly due to imports – leading to a small trade deficit. Exports to the Philippines include electronics, chemical products, industrial equipment, transport equipment, metal products, paper products, cereals, meat, dairy, and animal feeds, while the Philippines exports include electronics, coconut oil, transport equipment, clothing and textiles, fishery products, metal products, industrial equipment, and fruit. Trade in services is dominated by transport (sea and air); business processing outsourcing and finance reached €3 billion in 2013, with a surplus for the Philippines of €0.4 billion. At around 7.5 billion euro, the EU is the largest investor in the country, well ahead of the US and Japan (€4.5 billion), providing 450,000 jobs, a position strengthened in 2015 with 35% (€360 million) of total FDI coming from the EU. In 2014, the EU became, with 400,000 tourists, the fourth largest source of tourists to the Philippines. Filipino migrants and seafarers in the EU sent $3.35 billion back to the Philippines in 2014, making the EU the second largest source of remittances to the Philippines.

However, both trade and FDI into the Philippines remain modest, partly due to Philippines' relatively underdeveloped external sector and restrictive policies. Corruption and bureaucracy still make the Philippines a "tricky" environment for foreign investors, limiting them to export processing zones and Business Processing Outsourcing. Nevertheless, European businesses are showing a growing interest in the Philippines recently.

**Development cooperation: increased**

The EU has long been a significant development partner of the Philippines. The development cooperation programme of the EU (including emergency, humanitarian and un-programmed assistance) amounted to some 230 million euros over the years 2012-2014. The total for the EU as a whole (Member States plus the EU) over the same period was 533 MEUR making the EU the largest grant partner to the country.

The EU sectors of support during the last years have been access to quality basic social services, governance, support to vulnerable populations and trade related technical assistance. The programme is fully aligned with the Philippine development plan for 2011-2016 and supports the President's stated Social Contract with the people; inclusive growth, improve governance and fight corruption. However, poverty rates remain very high (above 25% of the population). Key social programmes such as universal health care and conditional cash transfer are development efforts addressing the high inequality and making a direct impact on the poor. The EU fully supports the peace process in Mindanao and is delivering a good portion of its aid to ensure the success of the peace process through capacity building and poverty alleviation efforts.

**Political relations: developing**

On a political level, relations are developing. High level exchanges over the last years have increased, albeit from a low level. President Aquino visited Brussels last year, and a number of commissioners, including the HRVP, came to Manila. There is a growing interest in the Philippines of the EU and its Member States, not least based on the granting of the GSP+ and the signing of the PCA.

In terms of dialogues, an agreement on regular SOMs is in place. No meeting has been held in this format for a long time; a next occasion might be early next year.

The Philippines will take over the chairmanship of ASEAN in 2017, and is one supporter of the EU becoming a member of the East Asian Summit. There is scope to increase our cooperation with the Philippines in this area, strengthened regional cooperation, as a way of also promoting our relations with ASEAN on the whole.

Much effort has been put into raising awareness of the EU in the Philippines, with a public diplomacy outreach last year emphasising the mutual benefits of increased cooperation. The yearly high education fairs has helped raise the EU profile, as has yearly film festivals, food promotion activities etc. A more strategic approach to awareness raising, in coordination with and supported by MS, is perhaps needed. In this regard, Schengen requirements need to be streamlined.

**3. WHERE TO OVER THE NEXT YEARS?**

Given current growth it is possible that the Philippines will have entered 'upper middle income country' status in the next five years or so. It will have strengthened its role internationally and it will have a middle class to be reckoned with. The country will have transformed from a more typical 'developing' country to an atypical (as built on services and remittances), an emerging economy with a strong civil society and likely a stronger role in the world. Over time, it is expected that there will be economic pressures to increase the manufacturing sector in the country.

The EU can adjust its policies towards the Philippines accordingly by: i. being a more strategic partner globally (climate change, trade, etc.); ii. start asking for returns (trade, political); and iii. increasing its presence and visibility as a European Union.

**Commercial Ambitions: Double Trade and Investment?**

Given the relative low trade and investment figures, the EU could aim to become the Philippines' second trading partner after China, while maintaining EU's position as largest investor, but at higher levels, mostly through the entry of SMEs and integration of the Philippines in global supply chains.

Negotiations on an FTA are to be launched imminently and under the current administration. With the EU-Vietnam FTA as a model, and given that fact the Philippines, if current growth rates are upheld, will exit the GSP+ in the years to come, the Philippines will be interested in concluding the FTA as soon as possible. While some protectionist voices might make themselves heard during the electoral campaigns, the main presidential candidates seem to be 'trade-friendly' or at least neutral, but amending legislation/reforms will remain slow and challenging given the political Congress structure.

Meanwhile, the EU will need to raise awareness of the benefits of trading with the EU and support further reforms. It should encourage the Philippines to take a more active part – or even leadership - in international (WTO, TFA) and plurilateral agreements (ITA, GPA, TiSA, green goods) which would help the inclusion of other developing countries.

In terms of EU market access strategy, priorities were revised in 2015 and could be taken on strongly as soon as the new Congress and government are in place, also through a closer cooperation with the European Chambers of Commerce (and more strategic use of EU funding), EU MS and other Missions.

**Development cooperation – make the programme more strategic?**

The new Multi-Annual Indicative Programme (MIP), covering the next programming phase of 2014-2020, was prepared jointly with the Philippine Government. The programme, which amounts to 325 million euros (a 2.5 fold increase compared to the last), is concentrated on two focal sectors; inclusive growth through access to sustainable energy and job creation (225 million euros), and the strengthening of rule of law through legal and judicial reform (95 million euros). In addition some support measures will amount to 5 MEUR. The intention is that the conflict region Mindanao/Bangsamoro shall benefit from both sectors.

Our future assistance shall also focus on the implementation of the new EU development policy, the "Agenda for Change". As one of the new elements, it suggests to move towards "joint programming" of the EU and its Member States and to synchronise EU development planning with partner country development plans and cycles.

For Mindanao/Bangsamoro the EU remains committed to the peace promoting activities of the Government and the Moro Islamic Liberation Front (MILF). The Bangsamoro Basic Law (BBL) needs to be approved as it forms a precondition for a referendum in Bangsamoro. The EU support under both focal sectors will also benefit this region.

**Political interaction: EU more recognised as a strategic partner**

It will be a challenge to maintain an appropriate frequency of high level exchange, but the change of government next year should be used as a reason to engage early with the new Philippine government, to make sure our interest are heard, including discussing where we best can support the new administration. This will be done in an environment where the new government is likely to give much attention to relations with the US and the region, and with individual EU Member States.

The ratification of the PCA will provide a platform for increased institutionalised and regular contacts, including a dialogue on human rights which will help underpin the GSP+ requirements. The SOM meeting should be complemented by other mechanisms, which would help engage with the Philippines in areas of mutual interest; on regional security, maritime issues, conflict resolution, governance and judicial reform. These 'mechanisms' could include regular working level contacts from concerned DGs as well as EEAS. We should also look to having relevant EUSRs visit the Philippines, and to use available instruments to arrange seminars and workshops. The Delegation is currently studying how to increase the awareness of education possibilities in the EU.

Public diplomacy has been used to good effect in the Philippines, and should be further expanded to increase the visibility of the EU. On the education side, the EHEF was held for the fourth time, with an increasing attendance from students and higher education institutions, but it is apparent that information about the Erasmus+ needs to be wider disseminated, in order to support a general focus on higher education promotion.

A culture diplomacy strategy is being formulated, and will underpin efforts to further increase EU visibility in the Philippines. The Cine Europa Film Festival, this year in its 18th edition, will continue to be one mainstay in outreach efforts, as will food festivals and other events undertaken in cooperation with EU MS. In cooperation with MS, other initiatives – Visit Europe for example – will be explored.

Development cooperation projects are linked with communication strategies to inform about the EU-Philippines partnership. The use of social media is already at a good level, and will be further developed.

Twelve MS are now represented in Manila. One more, Hungary, is on its way in, establishing an Embassy in March next year. Hungary could be followed by others, and the EU Delegation, in welcoming that development, stand ready to support the process. The growing number of MS attests as well to the growing importance of the Philippines, and should be made good use of in terms of EU coordination and cooperation.