



The Growing Importance of the Philippines in Southeast Asia: Significance for Poland

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The Philippines is one of the most dynamically developing Asian economies and an important security player in Southeast Asia. Poland sees the potential of cooperation with this country, which was indicated by opening of the Polish embassy in Manila in January 2018. It is also worth using other instruments to strengthen relationships, including Poland's non-permanent membership on the UNSC and the EU-Philippines Partnership and Cooperation Agreement. However, it is necessary to take into account the internal political challenges that the Philippines faces, including corruption, the fight against terrorist organisations, accusations of violating human rights as part of the "war on drugs," and foreign affairs, mainly concerning relations with China and the United States.

A New Asian Tiger. In 2017, the Philippines' GDP increased by 6.7%, which was one of the best results in Asia. The IMF forecast shows that this pace will be maintained in 2018, increasing to 6.8% in 2019 and 6.9% in 2020. The Filipino economy is mainly driven by internal consumption (which accounts for about 70% of GDP), due to a large market of more than 104 million consumers, including a growing middle class. In 2016, GDP per capita according to purchasing power parity amounted to \$7,200 (more than 3.5 times lower than in Poland), having risen over the last decade by 26% (in 2008 it was \$5,300). The demographic situation is beneficial for the long-term development of the country, as Filipino society is one of the youngest in the world with an average age of 23.5. As a member of the Association of Southeast Asian Nations (ASEAN), the Philippines also benefits from the economic opportunities offered by the free trade zone within this organisation and its trade agreements (including those with China, India and Japan).

The implementation of a reform plan announced by President Rodrigo Duterte, including simplification of the tax system and industrial development, may provide a significant impulse for economic growth. An important point of the plan is the infrastructure development programme, the value of which is expected to reach as high as 9 billion pesos (\$170 billion) between 2017 and 2022. The programme will focus on 75 flagship projects, including the construction of roads, railways, airports, ports and power plants. Although improving the quality of infrastructure, which is one of the obstacles to long-term development of the Philippines, may attract investors, there are concerns that the plans could have a negative impact on public finances, for example by increasing the budget deficit.

Domestic and International Challenges. Despite the economic opportunities offered by the Philippines, it is a difficult market for business. In the World Bank's *Doing Business 2018* report on the freedom of economic activity, the Philippines is ranked 113th place. The main problems include the country's time-consuming business registration process and difficulties with enforcing contractual obligations. In addition, complex administration and unclear regulations are conducive to corruption. Transparency International's

Corruption Perceptions Index 2017 places the Philippines in 111th place among 180 countries, which indicates a high degree of risk despite the authorities' public commitment to tackle this crime. Poverty (over 20% of the population live below the national poverty threshold), income inequality and an economy based on the production of low-tech goods are also serious problems.

The above challenges are compounded by security threats, both domestically and internationally. The Philippines has been struggling for many years with the activity of communist guerrillas and separatist groups (in the southern, largely Muslim part of the country) and Islamic terrorist organisations, of which Abu Sayyaf is best known. The terrorist threat has increased in recent years, especially in the south of the country. A glaring example was the crisis on Mindanao, lasting from May to October 2017, where the terrorist group Maute (affiliated with Abu Sayyaf and the Islamic State) took the major regional city of Marawi. Despite the resolution of the crisis, clashes between the Philippine army and fighters associated with the IS continue on Mindanao. The activity of terrorist networks is also noticeable in other Muslim countries of Southeast Asia (mainly Indonesia and Malaysia), which may indicate a willingness to create "safe havens" for terrorists in the region, especially in the context of the elimination of IS members in Syria and Iraq. In addition, the national police "war on drugs" poses a challenge for the Philippines' internal stability. The methods used are criticised by the EU, among others, due to suspicions of extrajudicial killings and violations of human rights.

The destabilisation of the region, especially the possible escalation of territorial disputes in the South China Sea, poses another challenge. The Philippines claims the rights to its part of this territory and is therefore of interest to the U.S. and China, great powers involved in the region which each try to drag the Philippines into their camp. Since Duterte took office in June 2016, rapprochement with China (including the promise of greater investment commitment) has been noticeable. On the other hand, relations with the United States, which has been bound with the Philippines by a military cooperation agreement for many years, have deteriorated, though in practice the alliance still exists (for example, the U.S. army supported Filipino troops in the battles on Mindanao). The ability to balance relations with superpowers will be a major factor in determining the Philippines' position in the region, as well as its external security.

Conclusions for Poland. In 2017, the value of trade between Poland and the Philippines amounted to only around €420 million (of which exports from Poland accounted for only slightly more than €50 million), which was less than Poland's trade with Thailand or Malaysia. Investment cooperation is also rare; in 2016, the value of Polish investments in the Philippines amounted to €7.8 million, while Filipino investments in Poland reached only €900,000. A chance to revive bilateral relations is created by the involvement of Polish companies in the implementation of the infrastructure development plan in the Philippines, as well as in shipbuilding, transport, food, defence and environmental technologies. However, it should be taken into account that the large and absorbent Filipino market attracts more and more companies from around the world, which enhance the competition.

The opening of the Polish embassy in Manila in January 2018, as well as the use of the EU-Philippines Partnership and Cooperation Agreement, which entered into force in March 2018 (it is to be completed in the future by a negotiated trade deal) may contribute to the intensification of bilateral economic and political relations. It is also worth considering the launch of the PAIH Foreign Trade Office in Manila, and the intensification of activities promoting Poland in the Philippines as part of the government programme GoASEAN. However, administrative barriers, widespread corruption and threats related to internal security remain a challenge for Polish companies.

Poland's greater economic involvement in Southeast Asia, including the Philippines, will require preparations for the potential deterioration of the security situation in the region. Discussion on this subject, caused for example by the activity of terrorist organisations, may take place in the UN Security Council. Poland may advocate for increased EU support for the Philippines, contingent on progress in human rights protection. To this end, the EU Instrument contributing to Stability and Peace (under which projects worth only €3 million are currently implemented in the Philippines), or development aid in the Philippines to improve living conditions (especially the south part), can be used for this purpose limit the impact of the IS and other extremist groups. The above actions may have a positive influence on Poland's as a country engaging in international security issues, including the fight against terrorism (Poland is already a member of the coalition fighting against the IS in the Middle East). This activity could also strengthen relations with ASEAN countries, including the Philippines, contribute to maintaining their stability, and create a favourable atmosphere for strengthening cooperation in other areas, including the economy, education and culture.