



Engaging Philippines under the Act East Policy

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With the Philippines hosting the Asia-Pacific Economic Cooperation (APEC) Summit later this year and being one of the litigants against China in the Permanent Court of Arbitration at the UN on South China Sea, its importance has grown manifold. The Philippines also has been witnessing a sustained economic growth and its services sector has emerged as a viable competitor to India's Business Process Outsourcing (BPO) industry. Further, the relatively better political stability and the peace agreement between the Moro Islamic Liberation Front (MILF) and Government of Philippines has given a new dimension to the economic development of the country. However, splinter groups of Abu Sayyaf, a terrorist group operating across the Philippines have expressed allegiance to the Islamic State (Daesh) which is a matter of concern. Further, the Philippines has been hosting US ships and even reconsidering its decision to deny military bases to the US. Given these developments, the Philippines is destined to play a major role in the geo-politics of Southeast Asia.

In 2014, the US President Obama's visit to Japan, Malaysia and the Philippines has magnified the strategic outlook of US to assure its partners, engage its friends and court the future leaders of the region. With Japan, the US has an alliance relationship. However, there has been scepticism regarding whether the US would assure Japan with regard to its apprehensions or placate China in resolving the Senkaku/Diaoyu islands crisis. The US has

made it very clear that under the alliance obligations, these contentious islands would be protected by the US military command. With Malaysia, which is the current ASEAN Chair, the planning was to engage the country in such a way that it should not succumb to the Chinese charm offensive as has happened during the Cambodian chairmanship of ASEAN when the ASEAN Communiqué could not be released citing serious differences between the South China Sea claimant parties (primarily Vietnam and Philippines) and China. The Philippines has been raising the issue of China's assertive postures on the South China Sea in the recent past and clearly articulated it during the ASEAN Regional Forum (ARF) summit in Nya Uya Daw in August 2014. It has been seeking US attention to protect its interests. India has also calibrated its response to the South China Sea dispute and sought freedom of navigation and right for commercial exploitation of the resources in legitimate Exclusive Economic Zone (EEZ) of respective countries. The sentiment was echoed during the visit of the Prime Minister Narendra Modi to Japan in 2014, and subsequently during the Indian President Pranab Mukherjee's visit to Vietnam.

Within India, the Look East Policy has been rechristened as Act East Policy clearly signifying action oriented approach. The Philippines has been one of the countries which have been increasingly seen as left out of the coverage of first two phases of India's Look East Policy i.e, 1991-2000 and thereafter during 2001-2014. The lack of attention given to the Philippines has been because of few factors which included its Visiting Forces Agreement with US (Philippines was seen as a US ally), the outdated defence arsenal (the defence equipments that the Philippines possesses are primarily for defence purposes and more aimed at counter-insurgency) and a very modest economic growth ranging between 3-4 percent per annum. Moreover, among the major ASEAN economies, the Philippines was perceived as a slow mover both in terms of political participation and economic liberalisation.

India's initial engagement with ASEAN economies was primarily aimed at learning from the economic growth model adopted by the new tiger economies and the way to sustain the economic development through promotion of export oriented trade. Despite the fact that Philippines was the founder member of ASEAN, it has somewhat been left out of India's strategic engagement with the Southeast Asia. The Philippines has failed in raising

the profile of its military from a counter-insurgency force to that of a professional military, equipped enough to take on larger defence assignments. However, its success in counter-insurgency operations has been laudable and appreciated across the region. The Philippines in the last few years has shown promising economic growth trajectory, and is one of the countries in Southeast Asia having the necessary English language expertise and skilled workforce, suitable for the growth of the services industry.

India had signed the Defence Cooperation Agreement with the Philippines in 2006 when the former Indian President APJ Abdul Kalam visited the country. The Philippines is now keen on enhancing interaction with India at various levels including the peacekeeping efforts, multilateral institutions and increasing its defence engagement.

India and Philippines Ties: An Update

India and Philippines, the two predominantly English speaking countries, established their diplomatic relations in 1949. The two countries have also signed the Treaty of Friendship in Manila in 1952 which stressed on the peace and amity between the two nations. In Southeast Asia, Philippines was the first democracy while India is the largest democracy in the world. The two countries, apart from the diplomatic relations, have also strengthened their bilateral defence ties. However, the defence interactions have their limitations. Since 1998, Indian Navy and Coast guard ships have been visiting Philippines and also a sizeable number of Philippines military personnel receive training in Indian military establishments. However, in terms of defence equipment, the two countries use Russian and US equipment respectively. India has been diversifying its defence imports and has procured more US defence equipment such as heavy lift aircrafts, amphibious ship and maritime surveillance aircrafts, which shows the possibility of better cooperation between the two countries. The Philippines has also received few amphibious ships from US after the Scarborough Shoal standoff with China.

The relationship gained momentum when India- Philippines Joint Working Groups on tourism, agriculture and health were formed. The Joint Working groups have held regular meetings to discuss trade, investment, technical, education, scientific and technology issues. This process has further been strengthened with the establishment of

the India- Philippines Joint Commission on Bilateral Cooperation which holds regular talks on issues of mutual interests such as defence, security, and cultural, economic and technical cooperation.

The Philippine Economy

According to the World Economic Forum's Global Competitiveness Index since 2010, the Philippines has moved up from 85th to 52nd. This 33 point jump is the largest jump for any country. In ASEAN alone, it has leapfrogged Vietnam and gained over 30 places on Thailand, Indonesia and Malaysia. According to the survey, in case of Philippines, the drivers are: improvements in institutions, macroeconomic environment and innovation, as well as improvements in market efficiency, financial market resilience and technological readiness.

In the past few years, the Philippines performance is underpinned by its macroeconomic strength. The country grew by 7.2 per cent in 2013, and is still averaging around 6.5 per cent growth in 2014. For the last four years, the country has managed to raise revenue, pay down foreign debt, keep prices stable, and outgrow most of its regional neighbours, attracting strong foreign portfolio investment and raising the country's international profile . The Philippine Government anti-corruption campaign has been bearing fruits with changes in the procurement practices. The private sector in Philippines has been performing relatively well with better organised and well-managed companies. The Philippines has a thriving business process outsourcing industry, second only to India. Many of the foremost business conglomerates across Korea and Japan have begun considering overseas investments in Philippines.

As per the Global Competitiveness Index, the improvements (20 to 27 places) primarily in goods and labour market efficiency as well as financial market development projecting Philippines as a lucrative market. The growth in the private sector, motivated by consumption, real estate investments and remittances, has projected vitality and resilience of economy to withstand inflationary pressures. Despite incremental progress, in the government sector corruption remains inherent and disputes over distribution of fiscal

powers between the President and Congress, judicial independence, and weakness in infrastructure has been widely discussed.

According to the Associated Chambers of Commerce and Industry of India (ASSOCHAM) large number of voice and call centre businesses in India are facing increasing competition from Philippines due to Filipino workers' more "neutral" English accent. As per the ASSOCHAM estimates, India is losing 70 percent of all incremental domestic BPO businesses, particularly call centres to the Philippines. In India BPO centres earn estimated \$30 billion in foreign exchange earnings. In Philippines, IT-BPO sector witnessed an increase in revenues by 17 percent in 2013 as more companies chose to locate and expand their operations in the Philippines. The BPO industry in Philippines is estimated to hit revenues of up to \$25 billion by 2016, employing about 4.5 million Filipinos and may account for approximately 10 percent of the nation's Gross Domestic Product (GDP). In case there is an incremental shift of call centres from India to the Philippines in the next one decade, it will be responsible for \$30 billion in lost foreign exchange earnings. According to a report published by Gillian Virata, call centre-related industries now account for roughly 5 percent of the India's GDP, and is projected to hit 10 percent in this decade. As services sector is the biggest contributor to India's GDP (contributing nearly 60 percent); therefore Philippines is a significant competitor. As a result India would have to look to its niche areas as well as understand the dynamics of Philippines economy, particularly the services sector.

Possible Areas for Cooperation

The Philippines consists of more than 7,000 islands, and there are a large number of tourist attractions in the country which included Puerto Galera, Tubbataha Reef, Donsol Banaue Rice Terraces, Mayon Volcano, and the Chocolate Hills. India has given the option of visa on arrival for the Filipino tourists. Nearly 52,000 Indian tourists visited Philippines in 2013 and in 2014, 61,000 Indians visited the country. The Philippines expects to get nearly 70,000 Indian tourists in 2015. As a reciprocal gesture to India's visa on arrival facility for Filipinos, Philippines has eased visa for Indians in 2015 and those Indians holding AJACSSUK (Australia, Japan, Canada, Singapore, the US and UK) visa can enter Philippines without a visa for 14 days.

During the number of high level ministerial meetings, issues which have been raised included areas of cooperation in generic drugs, bio technology, and IT industry and defence sector. Both India and Philippines can work and can even explore joint ventures in the following areas:

- a) The Philippines would be hosting the APEC Summit in November 2015. Given the fact that US, Russia and China have assured India of support for its APEC membership, enhanced discussion with Philippines and interactions at Secretary Level would serve its interests. The next chairmanship would be that of Peru which might be keener on facilitating entry of a Latin American country to the grouping.
- b) The two countries can work in bio-diversity parks and in marine scientific research.
- c) India can assist the Philippines in hydrographical surveys as well as the mapping of the Ocean floor. India has recently embarked in the area of sea bed mineral exploration research and the two countries can share their respective expertise.
- d) The coastal communities in the two countries thrive on the fisheries and other ocean based resources. The incessant fishing along the coast has created problem for the local fishermen in both the countries. As a result, the two countries could work on a project on aquaculture, Ocean economy and promoting sustainable development for coastal communities.
- e) In terms of coastal security, the two countries are the vulnerable nations and as a result both India and Philippines can work on building a better framework for coastal security and maritime border management especially in their respective EEZ.
- f) The Philippines has recently resolved a three decade long standing conflict related to the Moro Islamic Liberation Front (MILF). India can commission a study to know the negotiations undertaken by the Philippine government and the 16 other countries which have assisted in the dispute resolution mechanism.
- g) The Philippines has been getting new military equipment from the US and is keen to develop its understanding on the naval warfare and critical deterrence. India, Japan and the US can join hands in assisting the Philippines in strengthening its training and other

logistical capabilities. Japan has already provided Philippines with coastal patrol crafts. The Philippines has expressed interest in procuring surveillance boats for its Coast Guard from India. The possibilities can be explored in this regard.

h) The Philippines jewellery industry is declining because the skilled persons in the sector are getting old and there is a need to infuse young skilled labour in the industry. India's jewellery industry is one of the most promising, and therefore skill training can be imparted to young Filipinos through a bilateral arrangement.

i) India does provide scholarships to scholars, young academics and students from the Philippines. However, the notification period given from Indian side is three months which is seen as short for applying for the scholarships and getting eligible scholars. As the scholarship distribution in the Philippines is centralised, therefore an early notification period of about 5-6 months would make it feasible for the academics and students from Philippines to avail these scholarships.

j) Export of Indian pharmaceuticals is another area which can be explored. As of date Philippines pharmaceutical industry has been dominated by the Western countries. These medicines particularly related to Cancer, AIDS and other life threatening diseases are very costly. A joint cooperation mechanism in research and development on generic drugs can be explored.

k) The Philippines which was once known as the 'sick man of Asia' is gaining economic weight as a result of sustained political stability and Foreign Direct Investment. India can look for cooperation in the Knowledge Process Outsourcing (KPO) and Business Process Outsourcing (BPO).

l) The two countries have weathered the scourge of terrorism. In India, Pakistan supported radical terrorist groups such as Hizbul Mujahideen, Lashkar- e-Taiba and Jaish-e-Mohammad has hogged the media attention due to their terrorist acts while in Philippines MILF, Abu Sayyaf and Raja Suleiman terrorist groups along with transnational regional terror group Jemaah Islamiyah have been seen as dreaded terrorist organisations. Interestingly, the name of Abu Sayyaf has been taken from the name of the Afghan trainer who had trained the Filipino terrorists. Abu Sayyaf terrorists also have an Afghanistan

connection and it would be fruitful to share the intelligence and information relating not only to these groups but also transnational groups working across South and Southeast Asia. Last year, Bangsamoro Islamic Freedom Fighters (BIFF) which is located in Southern Philippines, and few factions of Abu Sayyaf rebels have pledged support to the Islamic State (IS).

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Notes

¹ Philippines Competitiveness at <https://www.gov.uk/government/publications/philippines-competitiveness/philippines-competitiveness>(Accesed on 2.7.2015)