

ASEAN Regional Integration: The Philippines' domestic constraints to Physical connectivity

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ABSTRACT

The ASEAN Master Plans for ASEAN Connectivity pursue the easement on the flow of goods, services, and people in the region as it endeavors to create a globally competitive single market and production base. However, data shows a substantial infrastructural gap among member-states with a significant constraint on physical connectivity at the regional level. This stark reality on the infrastructure gap is relevant to the Philippines as it continued to lag behind other ASEAN members on the infrastructure pillar of the World Economic Forum's Global Competitiveness Index (World Bank, 2018). This paper looks into the domestic affairs of the Philippines in terms of financial capacity, governance scheme, and stability-security situation - and its implications on the country's infrastructural gap in the ASEAN Region. Content analysis is used in exploring the literature, including ASEAN papers, academic essays, international organizations, government reports, and other related documents. Findings revealed that the Philippines exhibit wide infrastructural gaps that have long compromised its competitiveness. Specifically, the Philippines faces severe domestic problems such as reduced spending on infrastructural development, coupled with critical institutional challenges and issues on stability and security. This paper argues the primacy of good governance as the precondition for a well-connected and sustainable infrastructure. Hence, reforms should focus on structuring domestic politics to address the infrastructural gaps. Changes may include the adaption of mechanisms to control corruption, ensures effective coordination among agencies, and improves the absorptive capacity in managing and implementing infrastructural projects. Keywords: ASEAN Connectivity, domestic challenges, physical connectivity, infrastructure development, ASEAN Integration

ABSTRAK

Rencana Induk ASEAN untuk Konektivitas ASEAN mengupayakan kemudahan arus barang, jasa, dan manusia di kawasan dalam upaya menciptakan pasar tunggal dan basis produksi yang berdaya saing global. Namun, data menunjukkan kesenjangan infrastruktur yang substansial di antara negara-negara anggota dengan kendala signifikan pada konektivitas fisik di tingkat regional. Realitas nyata tentang kesenjangan infrastruktur ini relevan dengan Filipina karena terus tertinggal dari anggota ASEAN lainnya dalam pilar infrastruktur Indeks Daya Saing Global Forum Ekonomi Dunia (Bank Dunia, 2018). Makalah ini membahas urusan dalam negeri Filipina dalam hal kapasitas keuangan, skema pemerintahan, dan situasi stabilitas-keamanan -

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dan implikasinya terhadap kesenjangan infrastruktur negara di Kawasan ASEAN. Analisis digunakan dalam mengeksplorasi literatur, termasuk makalah ASEAN, esai akademik, organisasi internasional, laporan pemerintah, dan dokumen terkait lainnya. Temuan mengungkapkan bahwa Filipina menunjukkan kesenjangan infrastruktur yang luas yang telah lama mengkompromikan daya saingnya. Secara khusus, Filipina menghadapi masalah domestik yang parah seperti pengurangan pengeluaran untuk pembangunan infrastruktur, ditambah dengan tantangan kelembagaan yang kritis dan masalah stabilitas dan keamanan. Makalah ini berargumen bahwa keutamaan tata pemerintahan yang baik sebagai prasyarat untuk infrastruktur yang terhubung dengan baik dan berkelanjutan. Oleh karena itu, reformasi harus fokus pada penataan politik dalam negeri untuk mengatasi kesenjangan infrastruktur. Perubahan dapat mencakup penyesuaian mekanisme untuk mengendalikan korupsi, memastikan koordinasi yang efektif antar lembaga, dan meningkatkan kapasitas penyerapan dalam mengelola dan melaksanakan proyek infrastruktur.

Kata kunci: Konektivitas ASEAN, tantangan domestik, konektivitas fisik, pembangunan infrastruktur, Integrasi ASEAN

INTRODUCTION

The Hanoi Master Plan for ASEAN Connectivity (MPAC) highlighted a three-pronged approach for the envisioned ASEAN Community 2015. The strategy focuses on the physical, institutional, and people-to-people connectivity that would further facilitate trade, promote economic growth, narrow individual states' development gap, and contribute to the overarching goal of regional integration. This document was succeeded by the MPAC 2025, adopted in Vientiane last 2016, outlining the strategies on all future connectivity endeavors in the region.

The discussion on the fundamental catalysts of regional integration often overlooks the essence of a physical connection. Physical connectivity stimulates a cascade towards effective economic, political, and socio-cultural integration ([Tomassian, 2009](#)). Physical connectivity thus is crucial for successful regional cooperation and economic integration ([Hanson, Owusu, & Pupilampu, 2015](#); [Holst, 2009](#); [Kuroda, 2006](#)). In this vein, the ASEAN physical connectivity plan seeks the easement on the flow of goods, services, and people in the region as it endeavors to create a globally competitive single market and production base.

The development taking place at the national, sub-regional, and regional levels shapes regional physical connectivity ([United](#)

[Nations Conference on Trade and Development \[UNCTAD\], 2016](#)). In building up such infrastructures, member-states should utilize their national resources. ASEAN is not a supranational government. Hence, its role is on facilitating coordination and cooperation among each state's project ([Bhattacharyay, 2010](#)). The MPAC 2025 document reported on the mixed progress on infrastructure build-up. There are notable developments on the ASEAN Highway Network (AHN), a regional land transport corridor linking member-states and neighboring countries. The synergistic efforts at the sub-regional level: Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area, Indonesia-Malaysia-Thailand Growth Triangle, and the Greater Mekong Sub-region (GMS), are essential in achieving the envisioned ASEAN ([Bhattacharyay, 2010](#)). At the outset, ASEAN states exhibit huge infrastructural gaps needed to reinforce land, maritime, and air connectivity. Improving physical connectivity requires the construction and development of transport infrastructures, liberalization of land, and marine and aerial transport markets. Physical connectivity also requires regulatory reforms and institutional harmonization for fast and seamless project implementation ([Chia, 2016](#)).

The costs of transportation and logistics among member-states remains high ([Trajano, 2013](#)). World Bank data on logistics performance showed substantial infrastructural gap among member-states that poses a significant constraint on physical connectivity at the regional level. This stark reality on the infrastructure gap is relevant to the Philippines as it continued to lag behind other ASEAN members on the infrastructure pillar of the World Economic Forum's (WEF) Global Competitiveness Index ([World Bank, 2018](#)).

The Global Competitive Index (GCI) infrastructure data of the Philippines showed domestic backsliding despite the developments of other ASEAN states. Also, from a geographical and spatial vantage, the Philippines showed inherent and relative physical connectivity disadvantages such as the unfeasibility of

land transport. The development of an integrated and efficient maritime transport system is thus essential to connect archipelagic ASEAN members like the Philippines.

The prospects and challenges of physical connectivity in the context of ASEAN Integration are well written ([Furuichi, Kumazawa, & Shishido, 2017](#); [Jetin, 2018](#); [Chia, 2016](#); [Bhattacharyay, 2009](#)). Nonetheless, the individual constraints of each member-states, especially the Philippines, got little attention. Aguja (2016) and Aguja (2018) discussed the challenges of the Philippines, focusing on the institutional connectivity (three-pronged approach) of the Philippine polity vis-à-vis the ASEAN regional architecture and have found significant dissonance between the country's constitutional provisions and the institutional integration architecture. On the other hand, Llanto (2016), Navarro, and Llanto (2014), Lee (2017) studied the domestic challenges and reforms of the Philippines on its infrastructure development. The lack of studies focusing on the internal constraints of the Philippines in terms of financial capacity, governance, and stability, in the context of ASEAN Integration is where this paper derives its relevance. Thus, this paper looks into the domestic affairs of the Philippines in terms of financial capacity, governance scheme, and stability-security situation - and its implications on the country's infrastructural gap in the ASEAN Region.

LITERATURE REVIEW

Regional integration constitutes the new global trend among states in an area of globalization, changing market conditions, more celebrated competitions, and the uncertainty of international political and economic relationships ([Bolanos, 2016](#)). The primacy of whether politics or economics is the prime catalyst for integration has been the subject of theoretical discussions. However, the importance of integrations' physical dimension is apparent in the paradigm of the Union of South American Nations (Unasur) ([Bolanos, 2015](#)). In this fit, the strategy has three dimensions: economic, political, and physical integration

[\(Hanson, Owusu, & Pupilampu, 2015\).](#)

The literature discusses the essential role of infrastructure in fostering and sustaining economic growth. It enables and promotes regional integration and broader economic participation for rapid and sustained growth ([Oyedele, 2016](#); [UNCTAD, 2016](#)) and eventually reduce local poverty ([Ndulu, Niekerk, & Reinikka, 2005](#); [Holst, 2006](#)). Thus, sufficient and quality infrastructure fosters regional integration and sustainable economic development ([Hanson, Owusu, & Pupilampu, 2015](#); [WorldBank, 2009](#)).

In this vein, Kessides and Benjamin (2012) stressed that the poor state of infrastructure in developing countries impedes their chance of achieving their development goals without first embarking on its improvement. However, the nature of the problem is cyclical and paradoxical. Poor infrastructure in developing countries impedes development; however, the developing world face myriad constraints and challenges in the event of its foundations.

In the context of infrastructural development, Alter, Ghilardi, and Hakura (2017) argued that efficiency in public investments depends on institutional factors. Despite the abundance of natural resources, the developing world often has a low absorptive capacity and institutional inefficiency in managing these investments. In the same fit, the United Nations Human Settlement Programme, as cited in Arimah (2005) identified the macroeconomic environment, urban growth rate, quality of governance, and financial capacity of municipal governments as crucial factors that explain the variation in expenditure on infrastructures across cities in the developing countries.

Another research focusing on the challenges of rural construction in Ghana (2013) presented the lack of social amenities, institutional problems, economic challenges, inherent challenges, and engineering challenges as pressing constraints ([Badu et al., 2013](#)). In the context of transport infrastructures in China, Nie, and Ye (2015) identified five critical factors in its development: financial condition, governmental administration, planning, tech-

nology, and environment. Further, Bhattacharyay (2009) posited that many factors affect infrastructure development and regional integration. These factors are geographical diversity and unequal levels of economic and infrastructure development, asymmetry on the distribution of local infrastructure costs and benefits, coherence on the planning and financing at the national and sub-regional level, and the enormous need for finances ([Bhattacharyay, 2009](#)).

Henckel and McKibbin (2017) outlined the infrastructural development challenges of developing countries. First, there is a budget constraint in the public sector. Second, the private sector that is supposed to complement the public sector is not that resilient, manifested in the example of the Asian Financial Crisis, where it took almost a decade for the industry to cope up with its effects. Third, public-private partnerships, though it offers a solution, are associated with risks on inefficient procurement policies and contracting arrangements. Fourth, Henckel and McKibbin (2017) opined that developing countries would benefit from the spill-over of infrastructure services, most notably in transport, if only it would facilitate greater inter-state coordination.

Given the enormous infrastructure demands, developing states face substantial financial constraints. In the South Asian Region (SAR), closing its infrastructure gap estimated value is \$1.7-\$2.5 trillion. However, there is a lack of available financial resources. Hence, it is not feasible for the governments in the SAR to fund the gap utilizing only its public resources ([Andres, Biller, & Dappe, 2014](#)). Nonetheless, as argued, it is not the availability of resources alone that matter but also the absorptive capacity of states to utilize such resources into public goods ([Horvat, 1958](#); [Rosenstein-Rodan, 1961](#); [Collier & Cust, 2015](#)).

Hence, in various literature, the failure of infrastructure development was seen as an issue of governance ([Henckel & McKibbin, 2017](#); [Ayogu, 2006](#); [De, 2010](#); [Collier et al., 2015](#)). De (2010) argued that countries (and regions) that have higher

income, more influential institutions, better governance, and more open economies have more likely more elevated levels of regional infrastructure. Towing within thisline, Ayogu (2006) argued that politics and management are crucial factors in infrastructure development because of the magnitude of expenditures involved that often became the confluence of political interests, compromising its fundamental purpose. Collier et al. (2015) reinforced the argument averring that political considerations, in many cases, have created myopic planning and implementation of infrastructure projects. Thus, greater selfishness leads to severe political myopia that results negatively ([Collier et al., 2015](#)).

In Africa, most governments face difficulties in securing finances and creating a political and regulatory environment that will attract and protect investments. Domestic financial constraints are present because these fragile democracies are hungry for consumption. The inflow of international public finance, on the other hand, is constrained by its unattractive fiscal setting for possible creditors. Foreign private investment is similarly deterred on the array of risks often perceived to be at unacceptable levels ([Collier&Cust, 2015](#)). Unfortunately, countries that need the most investments often face the most significant barriers. States affected by conflict and corruption have higher infrastructural unit cost ([Collier et al., 2015](#)).

Along with the fit on the confluence of finance and institutions, coordination between national and local authorities is also significant. Without such, under or over investment occurs, wasting both opportunities and resources. Local-level lobbying lacking coordination for airports in Thailand has resulted in its oversupply, with many airports already in the state of abandonment. In contrast, local authorities in Indonesia and the Philippines do not have sufficient mandate and resources ([Jones, 2006](#)). Corruption has also played a significant role in undermining infrastructural developments. It does raise not only the costs of investment but also compromised its quality and benefits. In Nigeria, corruption levels are unbearable for active infrastruc-

ture development that discourages potential foreign investments ([Oyedele, 2016](#)).

In another study, Olaseni and Alade (2012) posited that rapid urbanization, poor governance, inadequate funding, corruption, and poor management undermined the goal of Nigeria Vision 20: 2020. There has also been a bias for new construction rather than maintenance because of the relatively more significant corruption opportunities presented by construction contracts and partly to the aid bias toward new construction ([Briceno-Garmendia et al., 2008](#)). In Sub-Saharan Africa, \$13 billion worth of road had eroded because of a lack of maintenance. As such, poor governance characterized by a high incidence of corruption and rent-seeking compromise infrastructure development as it wastes both public and private resources and, at the same time, discouraging potential and future financing ([Henckel & McKibbin, 2017](#)). Hence, institutions and governance must play a coherent role in strengthening infrastructural build-up, be it on the national or regional level ([De, 2010](#)).

Generally, there are overarching themes emerged. First, infrastructure development entails investments, finances, macroeconomic setting, economic landscape, resources, financial capability, expenditures, and costs leaning to the commercial side of such endeavor. Second, infrastructure development depends on institutional factors, absorptive capacity, governance, partnerships, interests, risks, coordination, corruption, management, and other related things suggesting its political nature.

Infrastructure development grows in an environment with acceptable risks or stability. Instability and conflict resulted in the pillage of public assets ([World Bank, 2010; Ayogu, 2006](#)). In Africa, civil wars led to the destruction and neglect of infrastructure provisions and facilities ([Oyedele, 2016](#)). Conflict in the Democratic Republic of Congo, for instance, has caused the need for rehabilitation of almost half of its infrastructure assets. Also, civil wars in Africa have continuously undermined the continent's capacity and have perpetuated the vicious cycle of poverty ([Elu,](#)

[2000](#)). Stability, from an economic vantage, is crucial because weak political, legal, and social institutions are risks that discourage private sector and foreign direct investments ([Mardirosian, 2010](#)). At the same time, armed hostility destroys social, political, and economic institutions necessary for the governance of infrastructures ([Gates et al., 2015](#)). Hence, stability is crucial, approached from both economic and political vantage—Furthermore, high levels of military expenditures during conflict drain necessary and scarce financial resources. Hence, conflict impedes development ([Braddeley, 2011](#)).

Therefore, we can approach the infrastructure development constraints of the developing world into the dimensions of economics, politics, and the environment. Hence, crucial to infrastructure development of such countries are finance, good governance, and political stability. In juxtaposition, weak governance characterized by high corruption, rent-seeking, and instability discourages investments hence hampering the flow of financial resources. Various literature also supports the direct link between poor management and conflict ([Hegre & Nygard, 2012](#); [Karimi-Sayed & Shafee, 2018](#)). At the same time, conflict destroys infrastructures and institutions and has discouraged the flow of investments ([Mardirosian, 2010](#); [Gates et al., 2015](#)).

THEORETICAL FRAMEWORK

ASEAN Integration is undoubtedly the most advanced integration scheme in Asia ([Kim, 2014](#)). The three pillars of ASEAN Community – ASEAN Political-Security Community (APSC), the ASEAN Economic Community (AEC), and ASEAN Socio-Cultural Community (ASC) are crucial areas to be developed for the progress of ASEAN and its people ([Heng Keng, 2009](#)).

Nonetheless, the ASEAN brand of integration undoubtedly differs from a more legalistic and institutions-based European Integration. The ASEAN brand embarks on an ASEAN Way of doing things. The ASEAN way stresses informality and personal

relations over institutionalization and favors flexibility over legalization. Also, the ASEAN way prioritizes state sovereignty over the authority and legitimacy of supranational institutions ([Kim, 2014](#)).

Hameiri (2013) stressed the fragmented and insufficient theoretical and conceptual ground in the study of regionalism. Nevertheless, Kim (2011) posited a theory of ASEAN Integration grounded on the individual members' strategic preference. The strategic-preference approach (SPT) asserts that two factors shape the ASEAN members' strategic choices: economic interdependence and domestic politics. The theory emphasized that ASEAN members' preferences for integration are not fixed (exogenous) but somewhat fluid and changing over time (endogenous) depending on circumstances. Member-states are careful to choose an integration scheme that fits their preferences. Such strategic preferences nonetheless change over time, depending on domestic and international environments ([Kim, 2011](#)). Integration has far been more intergovernmental rather than supranational.

In essence, the theory averred a flexible type of integration grounded on individual states' national considerations. There are criticisms on the ASEAN Way as slow and time-consuming and on its inability to set well-defined goals to further the integration process ([Masilamani & Peterson, 2014](#)). In the context of infrastructure development, the theory thus asserted that the Philippines should primarily undertake the initiatives of physical connectivity given the facilitative role of ASEAN, hence, domestic solutions towards the goal of regional physical integration.

In general, the Philippines exhibits significant gaps in its infrastructural landscape. Bridging these gaps entails the coherence of financing, good governance, and political stability to achieve to streamline physical connectivity and eventually create seamless integration of the Philippines in the ASEAN Regional Architecture.

RESEARCH METHOD

This study employed a qualitative research design. Content analysis is used in exploring the literature, including ASEAN papers, academic essays, international organizations, and government reports, and other related documents. It also utilized indicators such as the Logistics Performance Index, Global Competitiveness Index, and World Governance Index and numerical data such as the government spending on infrastructures to establish comprehensiveness further.

FINDINGS

FINANCE: SOURCES AND INFRASTRUCTURAL EXPENDITURE

The literature revealed under-spending on infrastructures in the Philippines ([Komatsuzaki, 2016](#); [Joint Foreign Chamber, 2010](#); [Navarro & Llanto, 2014](#); [Diokno, 2017](#); [Lee, 2017](#); [Rosales, 2017](#); [Monsod, 2016](#); [PIA, 2017](#); [Llanto, 2016](#)). In the previous administration, for example, infrastructure spending accounted for only 2-3 percent of the GDP ([Lee, 2017](#)). For the last 30 years, the Philippines have not reached the 5 percent GDP threshold for infrastructure spending ([Diokno, 2017](#)). Nonetheless, the current administration has affirmed its commitment towards infrastructure development through the Build, Build, Build Program that is the “boldest and most ambitious infrastructure program in the recent Philippine history” ([Diokno, 2017](#); [PIA, 2017](#); [Lee, 2017](#)). The program is the highlight of the administrations’ aim in reducing poverty and the modernization of the country’s infrastructure backbone through 75 flagship projects ([Francia, 2018](#)). The World Bank has identified 15 PPP projects worth of P496 billion key infrastructure projects to realize the MPAC ([Rappler, 2015](#)).

According to the former budget Secretary Diokno (as cited in [Rosales, 2017](#)), a total of P9 trillion is needed from 2017-2022 to plug the country’s infrastructure gap. The report of the Organization for Economic Cooperation and Development (OECD)

last 2018 estimated that the government needs to spend P24 trillion until 2030 to bridge its infrastructure gap. This substantial financial requirement shows the enormous infrastructure needs of the country. As such, the Department of Public Works and Highways (DPWH) had the second-largest share of the 2019 National Budget, having a 25.8 percent increase from the 2018 budget. Further, the government has claimed that it is planning to spend at least P8 trillion to usher this golden age ([Arcalas, 2018](#)).

In high light, the Philippines have a promising economy that captured global investors' interests. The DBM stressed that sound macroeconomic fundamentals, robust Overseas Filipino Workers (OFW) remittances, and healthy domestic consumption and investment activities have consistently undergirded the country's economy as one of the fastest-growing over the past few years. With these robust economic growth and development funding, Lee (2018) averred that the country is more capable of financing these projects than in the past. Philippine infrastructure financing comes from three sources: public budget, Official Development Assistance (ODA), and private sector participation. Nevertheless, the general budget remained to be the most significant source of financing ([Rosales, 2017](#)).

A tax reform broadening the tax base, given that the public budget is the primary source of financing, and is necessary to fund projects ([Komatsuzaki, 2016](#); [OECD, 2018](#); [Madrio, 2018](#); [Diokno, 2017](#)). There is a necessity of the Comprehensive Tax Reform Program (CTRP) to fund and implement the country's infrastructure and social services ([Madrio, 2018](#)). Thus, the Tax Reform for Inclusion and Acceleration (TRAIN) law, which is one of the packages attached to the CTRP, is necessary to ensure the feasibility and sustainability of the project ([Diokno, 2017](#); [Francia, 2018](#); [Madrio, 2018](#)). The additional taxes from the TRAIN law will fund 25 percent of the Build, Build, Build.

As for the ODA, infrastructure accounted for the largest share

in the 2017 portfolio, having a share of 52 percent (\$6.42 billion) ([National Economic Development Agency \[NEDA\], 2017](#)). Japan remained to be the biggest provider of ODA, followed by the World Bank and the Asian Development Bank (ADB). The ODA will fund 25 of the 75 government flagship infrastructural projects. Another significant development in the domain of Philippine foreign relations is the surge of Chinese ODA from virtually nothing in 2015 to a combined ODA portfolio of \$11.7 billion in 2017, making it the largest ODA source for infrastructure projects as of March 2017 ([Rosales, 2017](#)). China thus offers opportunities for infrastructure development ([Lee, 2018](#)). However, Chinese loans were met with concerns domestically and from the international community over some onerous deals that potentially threaten the country's sovereignty through a debt trap ([IBON, 2018](#); [Katigbak, 2018](#)).

The ASEAN affirmed the critical role of the private sector in the region's physical connectivity plan. In the Philippine context, private sector participation's main gauge is through the government's Public-Private Partnership (PPP) Program. Eventually, there were "hybrid PPPs" where infrastructure costs come from the public budget or ODA while the private sector handles the operation and maintenance ([Rosales, 2017](#)).

Foreign investments are also a source of finance. At the end of 2017, the country registered the highest rate of foreign direct investments (FDI) progress in ASEAN ([ASEAN Briefing, 2018](#)). However, the country is currently facing an investment paradox. Lack of public expenditure on infrastructure discourages the flow of investments.

Moreover, the ASEAN Infrastructure Fund (AIF) also offers a financing opportunity ([Lazo, 2013](#); [Rosales, 2017](#)). As a financial infrastructure, the AIF is a gauge where member-states and the ADB can work together to foster infrastructure development in realizing the MPAC and aims to finance projects that would promote infrastructure development in the ASEAN region ([World Trade Organization \[WTO\], 2015](#)). It is also an integral

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part of the Community’s effort to foster and strengthen connectivity to finance projects in three sub-regional programs: the GMS, BIMP-EAGA, and the IMT-GT ([ADB, 2016](#)).

Hence, stronger macroeconomic footing and a relatively high level of economic growth registered in the past years facilitate infrastructure development. The economic factor, although there is a deficit, is manageable and has an improved revenue base after the passage of several tax reforms. The creditworthiness of the country for foreign loans has also improved. Standard & Poor’s Global Ratings (S&P) upgraded the status of the country from ‘stable’ to ‘positive,’ citing the overall improvement of the country’s macroeconomic fundamentals, relatively low-level of general government indebtedness, and the consistent robust growth ([DeGuzman, 2018](#)).

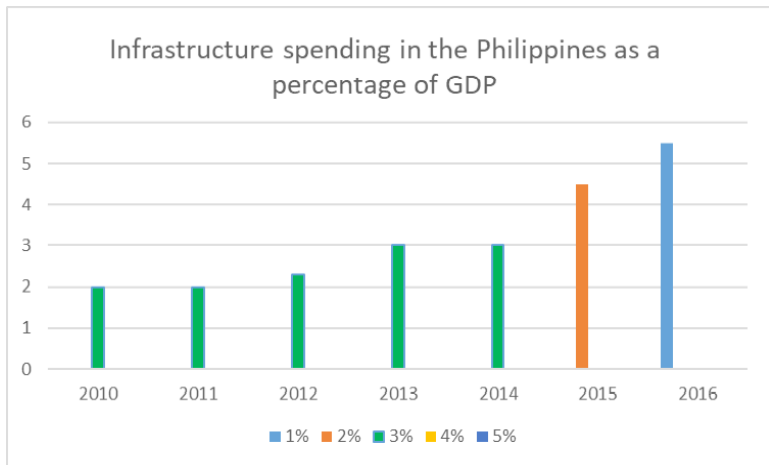


Figure 2: Infrastructure spending in the Philippines as a percentage of GDP.
Source: Department of Budget and Management (2017). The Philippines - National Study: Infrastructure Financing Strategies for Sustainable Development. Published by the United Nations Economic and Social Commission for the Asia and the Pacific. <https://www.unescap.org/>

Generally, the Philippines did not have significant financial constraints in pursuing infrastructure projects vis-s-vis the overarching regional physical connectivity commitment. The only challenge is to improve public expenditure on infrastructure to facilitate the flow of investments and economic growth. In do-

ing so, it is imperative to look into constraints that impede infrastructural developments in the country.

GOVERNANCE: CORRUPTION AND INCAPACITY TO ABSORB FUNDS AND IMPLEMENT PROJECTS

Financial resources do not guarantee the realization of the program. Llanto (2016) averred the Philippines need improvement in the governance of infrastructures. Arguing in the same vein, Rosales (2017) contended that the focus on infrastructure development must not only be on finance but also on the institutional requirements, capacity building, and governance outcome.

Like most developing countries, the Philippines has different issues in governance, including corruption, rigid and excessive rules resulting in red tape, overlapping functions, and lack of coordination ([Brillantes & Perante-Calina, 2018](#)). The GCI 2018 reported that inefficient government bureaucracy, inadequate infrastructures, and corruption were the key factors hindering the country's overall competitiveness. Rosales (2017) posited that the infrastructure quality of the country is affected by the weak institutional capacity of line agencies, manifested in the frequent delays and failures in procurement and the poor coordination in the implementation phase. The government also lacks public administration capacity to manage its infrastructure projects ([Lee, 2017](#)). Bureaucratic corruption ([Brillantes & Perante-Calina, 2018](#); [Patalinghug, 2017](#); [Mendoza, Olfindo, & Poco, 2017](#); [Parrocha, 2019](#); [Romero, 2019](#); [ADB, 2009](#)), and weak capacity especially in absorbing financial resources ([Rosales, 2017](#); [Llanto, 2016](#); [Mendoza, Olfindo, & Poco, 2017](#); [Brillantes & Perante-Calina, 2018](#); [Navarro, 2014](#)) hinder the country's infrastructure developments.

Infrastructure spending in the Build Build Build program has been massive, thus addressing corruption as a precondition is necessary ([Patalinghug, 2017](#)). In the Philippines, the task of providing infrastructure is the function of two-line

agencies –DPWH and the Department of Transportation (DOTr)– complemented with other agencies ([Llanto, 2016](#)). Nonetheless, corruption is rampant in the Philippines, affecting all sectors and levels of government ([Mendoza, Olfindo, & Poco, 2017](#)). The Philippines is estimated to lose \$450 billion on illicit financial flow from 1960-2011. This considerable sum is 25 times more than the national budget for infrastructure for the same period ([Kar & Spanjers, 2015](#)).

A report by the Presidential Anti-Corruption Commission (PACC) identified the DPWH as one of the most corrupt government agencies ([Depasupil, 2018](#)). Deep-entrenched and widespread corruption happens in the procurement subjected to elite capture and the informal bureaucracy ([Jones, 2013](#); [Johnston, 2010](#)). Along with crime, red tape is also prevalent ([Parrocha, 2019](#); [Romero, 2019](#)) and has consistently compromised the competitiveness of the country ([ADB, 2009](#)). Bureaucratic red tape is a massive constraint because it becomes the fertile ground of corruption and has continuously delayed the implementation of projects at the expense and detriment of the public and the country's overall economic performance.

Low capacity among agencies to deliver public services is salient manifested on the low levels of spending despite the increase of allotted resources ([Mendoza, Olfindo, & Poco, 2017](#)). It appears that the challenge is not on the input side of the equation (support) but the weak capacity of implementing agencies to absorb more funds and implement projects. Local governments have also developed a function for infrastructure development; however, they also have the low ability ([Llanto, 2016](#)). To address this fundamental problem of absorptive capacity, the Philippines established the National Connectivity Coordinating Committee of the Philippines (NCCC-PH) to coordinate and oversee the implementation of critical actions and priority projects of the MPAC 2025 .

Mainly, corruption and absorptive capacity are two of the significant institutional problems the country has to address. The

existing mechanism has not yet proven to control corruption or improve the country's capabilities to absorb funds and implement projects. Hence, the country's chances for infrastructural development remain weak as long as no effective mechanisms installed to control corruption as it adds to the national concern on stability and security.

STABILITY: SECURING TERRITORIES AND MAINTAINING PEACE

Political stability is also crucial to infrastructure development. From a geopolitical perspective, the Philippines can be further connected by proximity through the maritime corridor in the BIMP-EAGA seas. Hence, security in this maritime corridor is essential. Encomienda (2017) argued that the Philippines must concentrate on addressing non-traditional maritime security challenges and concerns being the "strategic marine geological microcosm embodying all maritime concerns."

However, there has been a growing concern that the Sulu-Celebes sea route would become the "new Somalia" as a hotbed of piracy ([Koh, 2017](#)). There have been reported pirate attacks in the seas of Southern Philippine Islands targeting tugs, barges, fishing vessels, merchant ships, and other types of sea vessels. Records show a total of 23 actual and attempts of ship crew abduction in the Sulu-Celebes region from March 2016 to June 2017 ([Quintos, 2017](#)). The Abu Sayyaf Group (ASG) is pointed as the perpetrators of most attacks in the area apart from the other illegal activities and atrocities in the islands of the Sulu archipelago ([Hastings, 2017](#)). Skirmishes with government forces, killings, and kidnapping of tourists and seafarers have earned the whole Mindanao a lousy reputation in both the national and international arena. Several states imposed travel advisory and bans to their citizens in some select areas in Mindanao. Ships were to avoid Philippine waters amid the surge of piracy. Thus,

the Philippines must secure this maritime route as it hinders the projected connectivity plans, incur indirect economic losses, and discourages economic activities and people mobilization in the area.

Stability in the country is not bereft of challenges. Another is the Mindanao conflict, which has caused underdevelopment in the island. The conflict has caused economic losses of P5 billion to P10 billion annually from 1975 to 2002 ([Human Development Network \[HDN\], 2005](#); [Schiavo & Judd, 2005](#)). On the other hand, economic losses due to communist insurgency are elusive to put into accurate numbers but also enormous ([HDN, 2005](#)). However, indirect financial losses in terms of opportunity costs are even more significant, ranging from overall security threats, lost investments due to bad international reputation, damages to infrastructure, and damages to the social fabric, aside from the losses of lives and property ([Schiavo & Judd, 2005](#)). The Philippines could have been in a better development footing without the conflict ([Molato, 2015](#)).

Stability and security are relevant to the overall framework of physical connectivity. Sea piracy discourages maritime transport. War caused to the pillage of public assets ([Ayogu, 2006](#)) and drained away valuable financial resources through military and rehabilitation expenditures that could have been productive infrastructural assets. War and conflict consume not only current financial support but also potential finances through capital flight ([Schiavo & Judd, 2005](#)) and opportunity costs in investments caused by negative reputation.

Nonetheless, the passage of the Bangsamoro Organic Law (BOL) and the current political transition of the new governmental entity is a positive outlook to usher lasting peace in Mindanao ([United Nations High Commissioner on Refugee \[UNHCR\], 2018](#)). Government forces were also able to keep the communist insurgency on its strategic defensive posture through sustained military campaigns that have led to high-value arrests and insurgent surrender. However, despite the advances of the

security sector, there is a need to examine the structural (social, economic, political) drivers of these conflicts ([DeLeon, Rufo, & Pablo, 2018](#)).

The government has also embarked on domestic measures in securing its maritime borders ([Quintos, 2017](#)) and through regional cooperation such as the Trilateral Cooperative Arrangement (TCA) with Indonesia and Malaysia ([Koh, 2017](#); [Quintos, 2017](#)). Participation in the ASEAN was also manifested and reinforced at the height of the Marawi siege through trilateral border patrols to prevent the spread of the conflict ([Franco, 2018](#)).

DISCUSSION

The confluence of under-spending on infrastructure, poor governance, and political instability has caused huge infrastructural gaps in the country. The Philippines has better macroeconomic footing and robust growth to support its infrastructure program. Although there is a substantial financial requirement, data shows that there are enough funds to realize the infrastructure needs of the country. The GDP share of the country's infrastructure program has been increasing, surpassing the 5 percent GDP level threshold. Subsequently, there is a broader tax base through the CTRP, of which TRAIN Law is a part. Findings suggest that the country's infrastructural programs are part of its commitment to economic development and regional integration in ASEAN. These findings confirm the notion of Kessides and Benjamin (2012) that the poor state of infrastructure in developing countries impedes their chance of achieving their development goals. Meanwhile, findings suggest that funds in the public sector for infrastructural development, in the context of the Philippines, is sufficient. This finding opposes the assertions of Henckel and McKibbin (2017) that one of the infrastructural challenges among developing countries is the budgetary constraints in the public sector.

Along with the sound economic landscape is a good credit rating of the country to secure finances through foreign borrow-

ings. Flagship projects to promote more excellent physical connectivity has been financed through PPP projects and is on the implementation phase with still other plans to go. The efforts and commitment of the government to realize the infrastructure program strengthens the claims of Oyedele, (2016), Ndulu, Niekerk, & Reinikka (2005) and Holst (2006) on the essential role of infrastructure in sustaining economic growth and eventually reducing the incidence of local poverty.

Second, various issues on governance haunt the Philippines. Rampant corruption has continuously drained away valuable resources causing repercussions in the form of a cycle of underdevelopment such that: corruption causes infrastructure gaps, and infrastructure gaps are unsuitable conditions to attract investments for infrastructure development. Bureaucratic red tape also posed a threat to infrastructure projects. In the World Governance Indicators, the Philippines have low scores on government effectiveness, control of corruption, and regulatory quality, which are necessary conditions for infrastructure development. Findings are consistent with the researches of Badu et al. (2013); Alter, Ghilardi, and Hakura (2017); Nie and Ye (2015); and Bhattacharyay (2009) that institutional problems and lack of coherence on the planning and financing at the national and sub-regional level, hinder infrastructural development. Moreover, the findings support the findings of Horvat (1958), Rosenstein-Rodan (1961), Collier & Cust (2015), that institutional challenges weaken the absorptive capacity of developing countries to utilize such resources into public goods perpetuates.

Lastly, instability continues to impede development. Security threats in the Sulu-Celebes sea route, if left unresolved, would hamper the utilization of this essential maritime route vis-à-vis physical connectivity in the BIMP-EAGA sub-region. Nonetheless, the trilateral cooperation with Indonesia and Malaysia is a significant development towards security. In the domestic setting, the current implementation of the BOL is a considerable development to end the long withstanding Mindanao conflict.

Nonetheless, there are still several threats to the Philippine government, such as the communist insurgency and the presence of extremist groups. Meanwhile, the long history of conflicts in the Philippines is suggestive of the overarching structural problems. Findings suggest that poor governance offers a fertile ground for the occurrence of conflict, as opined by Hegre and Nygard (2012), Karimi-Sayed & Shafee (2018), Ogundiya (2010), Walter (2014), and Rasool (2012).

CONCLUSION

The Philippines exhibit wide infrastructural gaps that have long compromised its competitiveness. In the context of the MPAC and the goal of regional integration, the domestic infrastructural buildup is a precondition towards physical connectivity. The Philippines faces severe internal problems such as reduced spending on infrastructural development, coupled with institutional challenges and issues on stability and security. Reforms should focus on structuring domestic politics to address the infrastructural gap. Improvements may begin in the adaption of a better scheme to control corruption, ensure effective coordination among agencies at the national and local government, and improve the absorptive capacity of the bureaucracy in managing and implementing infrastructural projects. In doing so, good governance enables physical connectivity and stimulates a cascade towards effective economic, political, and socio-cultural integration in the ASEAN region ([Tomassian, 2009](#)).

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