

# INTERNATIONAL MILITARY MARKETS ASIA, AUSTRALIA & PACIFIC RIM

## SAMPLE



22 Commerce Road, Newtown, CT 06470 USA • Phone: 203.426.0800 • Fax: 203.426.0223  
Toll-Free 800.451.4975 (U.S. & Canada) • Email: [sales@forecast1.com](mailto:sales@forecast1.com) • Website: [forecastinternational.com](http://forecastinternational.com)











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The first involved the arrival of President Benigno Aquino to office in June 2010. On December 11, 2012, President Aquino signed into law the New AFP Modernization Act (Republic Act 10349), which extended the modernization process of the military out another 15 years and allocated PHP75-PHP85 billion (\$1.65-\$1.88 billion) in capitalization funding across the first five years (medium term: 2013-2017). The act itself covers three phases, or "horizons," the first of which ended in 2017. The second – Horizon Two – covers the period 2018-2022, and the third, 2023-2028.

A second impetus was the steady economic growth that began under Aquino's predecessor, Gloria Macapagal-Arroyo, and which by 2012-2013 had reached the country's highest levels in 60 years.

Finally, China's aggressive claims and maritime forays in the South China Sea have served to ensure that the latest AFP Modernization Act remains on track. China's island-building campaign and maritime militia buildup in the area with the aim of de facto control over the resources and territory of the South China Sea continues apace.

The Philippines has four core security concerns: Territorial Integrity, Maritime Security, Natural Disaster Response, and Cyber and Internal Security. The motivation behind the latest AFP Modernization Act is largely twofold: first, to overhaul and replace the armed forces' outdated, Vietnam War-era legacy systems; and second, to improve the country's air-sea capabilities in the face of a territorially assertive and ambitious China.

Despite grand ambitions for military modernization, the reality is that despite the strong uptick in funding from 2009 through 2013, financial allocations have remained insufficient to rapidly overhaul an aging, somewhat threadbare AFP.

Several issues have served to hinder the AFP upgrade effort.

First, in 2011 the government altered theretofore standard budgeting practice and reallocated retirement pensions for defense personnel from the Special Purpose Fund to the defense budget. Naturally this had the knock-on effect of squeezing the proportion of the budgetary pie available for modernization.

Second, due to a clause in the 1987 Constitution, the government is prohibited from allocating more toward defense than to education. Thus, when natural disasters forced the government to dig into the budget to handle crisis relief/rebuilding efforts, etc., little by little the funding for defense dried up.

Added to these factors is the ongoing struggle in Filipino political circles to move past a mindset that the country's key strategic ally, the United States, will provide a security umbrella that by and large will underwrite Manila's sovereign claims over the disputed Spratly Islands and Scarborough Shoal. While Washington has indeed placed increasing strategic emphasis on the Asia-Pacific region – and containing China's pursuit of hegemonic control over that region, it nonetheless is reluctant to involve itself in shooting wars stemming from territorial disputes in the region.

Thus the AFP must have at its disposal the bare minimum of air-sea military assets that would afford it the ability to "show the flag," in diplomatic-military parlance. To that end, the AFP's goal is to acquire jet fighters, tactical transport aircraft, anti-submarine/surface warfare (ASW/ASuW) and attack helicopters, and short- and medium-range surface- and air-launched missiles on a limited scale.

For 2016, President Aquino promoted a national budget that included a record PHP25 billion (\$552 million) earmark for the country's ongoing military modernization effort. Yet, as in many other years, the Department of National Defense (DND) put forth a large budgetary request only to see it pruned sharply during the budget ratification process. This was the case in 2016, as the DND initially requested a budget allocation as high as PHP202 billion, but it was then trimmed to PHP172 billion by the Aquino administration before plummeting to PHP111.5 billion (\$2.35 billion) after being capped by the Department of Budget and Management through the budget approval process. Thus the FY16 budget ended up representing a 3.5 percent year-on-year reduction at a time when the AFP was seeking to build upon the ongoing modernization process.

The incoming administration that took power in the summer of 2016 brought a shift in security focus. New President Rodrigo Duterte, when he was mayor of Davao City, had developed a reputation as a tough-talking, crime-fighting, anti-narcotics leader. During his presidential campaign, Duterte had made clear that he viewed China as less of a national security threat than internal concerns such as crime, terrorism, and insurgency. Under his leadership, the Philippines' previous national security approach and defense procurement plans are slowly being altered.

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The air-sea emphasis of previous years thus appeared likely to give way to internal measures to counter terrorism and drug trafficking.

In its first budgets, the Duterte administration appeared to continue the plans of its predecessor, but in its 2017 defense budget, the largest service earmark was allocated for the Philippine Army and not the Navy or Air Force. The budget grew by 9 percent year-on-year for 2018, and then by 22.5 percent under the 2019 allocation. Yet despite these increases, the topline defense budgets continue to represent less than 1 percent of GDP. The logical conclusion is that while the year-on-year nominal increases are noteworthy, they also fall within government budgets that are experiencing larger expenditure infusions. In both the 2018 and 2019 defense budgets, the earmark for force modernization amounted to PHP25 billion (\$480 million).

For the "second horizon," or Horizon Two, modernization program under the longer-term (Revised) Armed Forces of the Philippines Modernization Program, the Duterte administration has earmarked PHP289 billion (\$5.53 billion) to fund projects during the five-year stretch between 2018 and 2022, an average of PHP58 billion (\$1.11 billion) per year. The Army will receive PHP47.4 billion (\$890 million), the Navy PHP76.81 billion (\$1.44 billion), and the Air Force PHP139 billion (\$2.61 billion), with the remainder going to the General Headquarters and government arsenal.

The Horizon Two programs include the acquisition of multirole jet fighters, transport aircraft, maritime patrol aircraft, and heavy-lift helicopters for the Air Force; artillery, light tanks, and multiple rocket launchers for the Army; and two corvettes and two multirole offshore patrol vessels, additional anti-submarine warfare helicopters, and amphibious assault vehicles (the latter for the Marine Corps) for the Philippine Navy.

Of particular interest is that the modernization programs within Horizon Two include the acquisition of an unspecified number of diesel-electric submarines – originally slated to be acquired in Horizon Three but brought forward by the Duterte administration. Funding, however, will likely remain an issue once the final monies for modernization are approved by the government. This means that the submarine project may move forward with a program outline, a design review period, and the launch of a tendering process but with an eye on actual contract signing during the Horizon Three (2023-2028) timeline.

Also important to note is that the Duterte administration has introduced a directive (Executive Order No. 18) aimed at accelerating DND reforms that seek to streamline and improve efficiency in the national military procurement process. The order empowers the defense secretary to implement measures that will promote transparency and accountability in military procurement in an effort to overcome bureaucratic impediments and avoid unnecessary delays.

Defense Spending, 2014-2018 Actual; 2019-2024 Projected											
	Historical					Plan	Forecast				
	2014	2015	2016	2017	2018		2019	2020	2021	2022	2023
Defense Budget	89.5	115.5	111.5	137.2	149.7	183.4	204.5	224.0	247.1	264.9	282.1
Defense Budget (USD)	\$2.0	\$2.5	\$2.3	\$2.7	\$2.9	\$3.4	\$3.8	\$4.2	\$4.6	\$4.9	\$5.2
Defense Budget % Chg	-26.4%	29.1%	3.5%	23.0%	9.1%	22.5%	11.5%	9.5%	10.3%	7.2%	6.5%
Real Defense Budget*	98.5	126.2	120.4	144.0	149.7	176.4	-	-	-	-	-
Real Defense Budget (USD)*	\$1.9	\$2.4	\$2.3	\$2.7	\$2.9	\$3.4	-	-	-	-	-
Real % Chg	-29.0%	28.2%	4.7%	19.6%	4.0%	17.8%	-	-	-	-	-
% of GDP	0.7%	0.9%	0.8%	0.9%	0.8%	0.9%	-	-	-	-	-
% of Nat. Budget	3.9%	4.4%	3.7%	4.1%	4.0%	4.9%	-	-	-	-	-

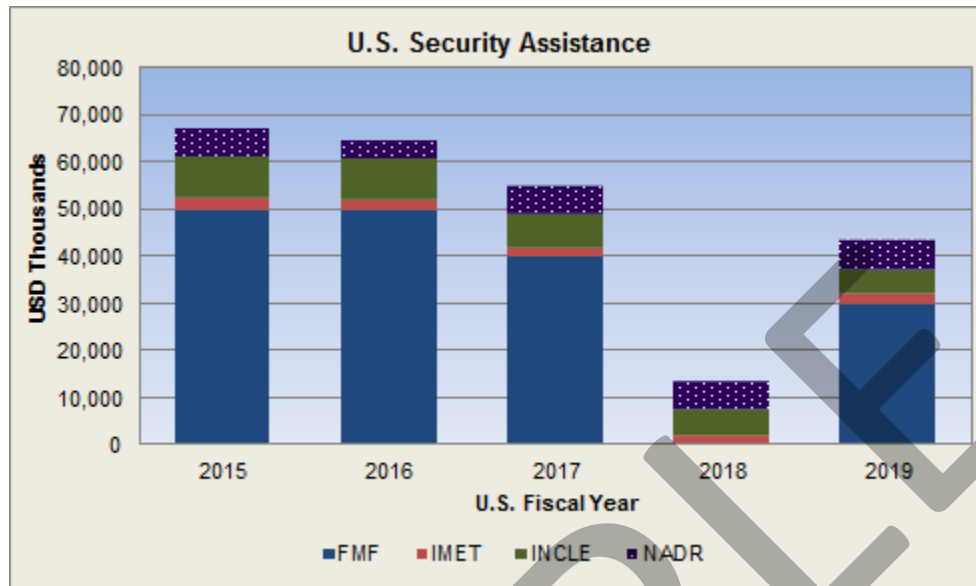
Local currency scale: billions; USD scale: billions

\* Real figures are at constant 2018 prices and exchange rates.



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## Security Assistance



Along with Israel and Egypt, the Philippines was traditionally one of the major beneficiaries of U.S. security assistance. However, with the U.S. withdrawal from Philippine military bases in the early 1990s, drastic cuts were made in U.S. military aid to the Philippines.

Between FY50 and FY93, the U.S. provided \$622.064 million in grants under the Military Assistance Program (MAP) to the Philippines. MAP funds were discontinued after 1993.

From 1950 through 2017, the U.S. provided \$1.293 billion in Foreign Military Financing (FMF) credits to the Philippines.

The Philippines also received about \$105.630 million in grants under the U.S. International Military Education and Training (IMET) program between 1950 and 2017; over this period, 26,610 soldiers and officers went through the U.S.-sponsored program.

In response to Filipino pressure on the U.S. to withdraw its forces from Subic Bay Naval Base, the U.S. had eliminated military aid to the country. However, the advent of the global war on terror in the early 2000s led the U.S. to renew military cooperation, and the U.S. later resumed military aid to the Philippines, providing FMF credits and IMET funding.

The U.S. also began broadening its foreign assistance to Manila to include funding under the Maritime Security Program. A combined \$39 million in Maritime Security funding was earmarked under its FY16 and FY17 foreign operations budgets.

The Philippines has also received military assistance from Australia, Indonesia, New Zealand, and Thailand. This aid has largely consisted of donations of surplus military equipment and intelligence cooperation regarding the movements and activities of various terrorist groups.

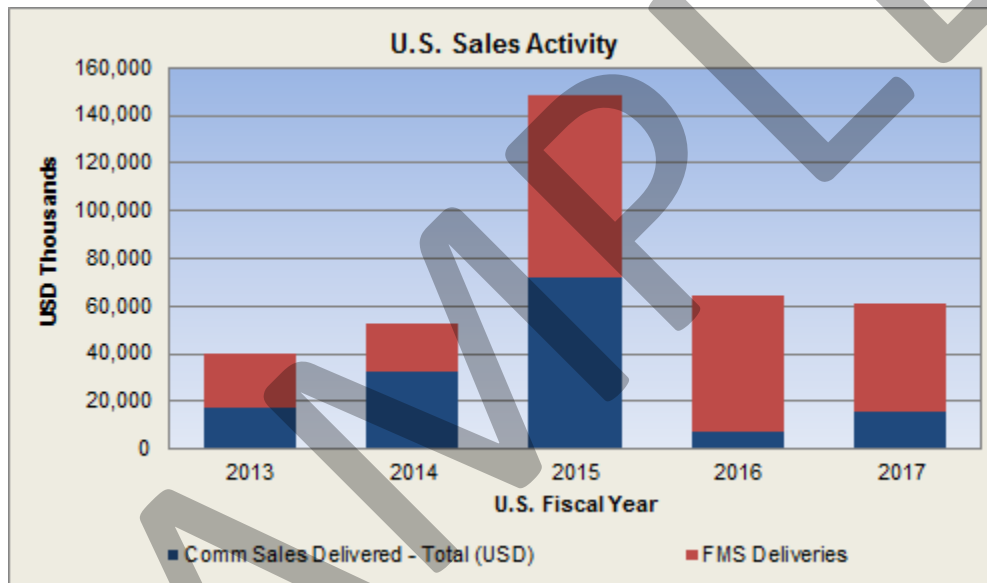
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Security Assistance, 2015-2019					
	2015	2016	2017	2018	2019
<b>FMF</b>	\$50,000	\$50,000	\$40,000	\$0	\$30,000
<b>IMET</b>	\$2,293	\$1,926	\$1,981	\$2,000	\$2,000
<b>INCLE</b>	\$9,000	\$9,000	\$7,000	\$5,250	\$5,250
<b>NADR</b>	\$6,100	\$3,590	\$6,090	\$6,090	\$6,090
<b>Total</b>	\$67,393	\$64,516	\$55,071	\$13,340	\$43,340

Currency scale: USD thousands

\* All years are U.S. fiscal years.

### Arms Trade



### Imports

Traditionally, the U.S. has been the primary arms supplier to the Philippines. Between 1950 and 2017, the Philippines' Foreign Military Sales agreements with Washington reached \$1.942 billion and FMS deliveries totaled \$1.656 billion.

The Philippines continues to expand the sources from which it gains its armaments. South Korea has benefitted from this trend, since it is seen as a supplier of high-quality equipment at relatively economical prices. The South Korean government has set up a program (similar to the U.S.'s EDA program) in which surplus ROK materiel is refurbished at cost to the Philippine government before being transferred to the AFP.

Italy signed an agreement with the Philippines on February 1, 2012, to fast-track purchased military equipment to Manila. And Canada signed an agreement with the Philippines on November 10, 2012, enabling Manila to purchase military equipment and expertise from the country worth \$12.6 billion. Under the agreement, the purchases are guaranteed by the Canadian government.

Finally, Spain, Brazil, the U.K., and Israel are all minor providers of military equipment to the Philippines.

Under the new administration of President Rodrigo Duterte, the Philippines is veering away from traditional U.S. dependence, instead seeking distinctly different suppliers, namely China and Russia. The Chinese government offered the Philippines a \$500 million credit line on December 20, 2016, for procurement of Chinese-sourced

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military hardware, and Russia donated surplus gear including military trucks and assault rifles to the Philippines in 2017.

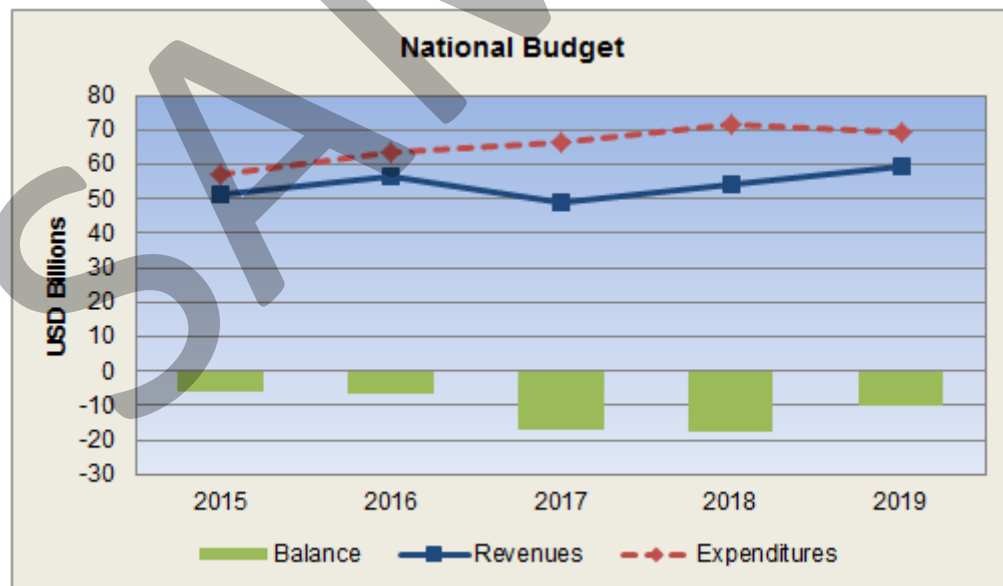
Despite U.S. legislation threatening importers of Russian-sourced defense materiel with sanctions (the Countering America's Adversaries Through Sanctions Act, or CAATSA), the Philippines has voiced its intention to procure military systems and hardware from a diverse range of suppliers, including Russia. A procurement of several hundred RPG-7 anti-tank rocket launchers from Russia for \$8 million was signed in October 2017 just two months after CAATSA came into effect.

U.S. Sales Activity - Philippines, 2013-2017					
	2013	2014	2015	2016	2017
<b>FMS Agreements</b>	\$21,118	\$51,727	\$98,263	\$142,303	\$64,946
<b>Comm Sales Auth - Articles (USD)</b>	\$45,673	\$64,236	\$128,726	\$27,911	\$1,408,256
<b>Comm Sales Auth - Services (USD)</b>	\$9,700	\$2,901	\$29,050	\$480	\$29,390
<b>Total Commercial Sales Authorized</b>	\$55,373	\$67,137	\$157,776	\$28,391	\$1,437,645
<b>Comm Sales Delivered - Total (USD)</b>	\$17,444	\$32,663	\$72,380	\$6,982	\$15,674
<b>Comm Sales % of Total Deliveries</b>	43.4%	61.6%	48.7%	10.9%	25.6%
<b>FMS Deliveries</b>	\$22,723	\$20,379	\$76,240	\$57,353	\$45,628
<b>FMS Deliveries % of Total Deliveries</b>	56.6%	38.4%	51.3%	89.1%	74.4%
<b>Total Deliveries</b>	\$40,167	\$53,042	\$148,620	\$64,335	\$61,302

Currency scale: USD thousands

\* All years are U.S. fiscal years.

## National Budget



**National Budget.** When he came to office in 2010, President Aquino made sound fiscal policy a cornerstone of his administration. Prudent fiscal and monetary policy subsequently helped curb the Philippines' inflationary problem and hold it under 5 percent. Pursuing tax evaders also helped the country eliminate lost revenues and uphold the rule of law.

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The goal of the Philippine government budget plan for 2012 was to reduce the national debt profile from 50.9 percent of GDP to 50.2 percent by the end of the year, but the state ledger ended the year in the red.

For 2013, the government budgetary plan forecast an overhang of PHP238 billion (\$5.22 billion), which would push the country's deficit as a share of GDP down to 2 percent. But a series of national disasters, starting with an earthquake on October 15, forced the government to double its Calamity Fund. Further, a PHP10 billion pork barrel scam related to the country's controversial Priority Development Assistance Funds (PDAF) was exposed during 2013. By the end of the year the budget deficit was being projected slightly higher at 2.3 percent, but the good news for the government was that the country's national debt had shrunk to 49 percent.

Through the remainder of its time in office, the Aquino administration drafted budgets with a deficit no higher than 2 percent of GDP in mind.

The May 2016 election ushered in a new government led by populist firebrand Rodrigo Duterte. His government's first budget – for fiscal year 2017 – was labeled by the president as a "pro people's budget" – suggesting increased government expenditures. As expected, the Duterte government's FY17 budget, signed into law in December 2016, featured an 11.6 percent rise in spending and a higher deficit. For FY18 the budget was increased a further 12.4 percent year-on-year, with much of the hike being spent on improving the nation's lackluster infrastructure.

The FY19 budget draft attempts to bring the budget back into greater balance.

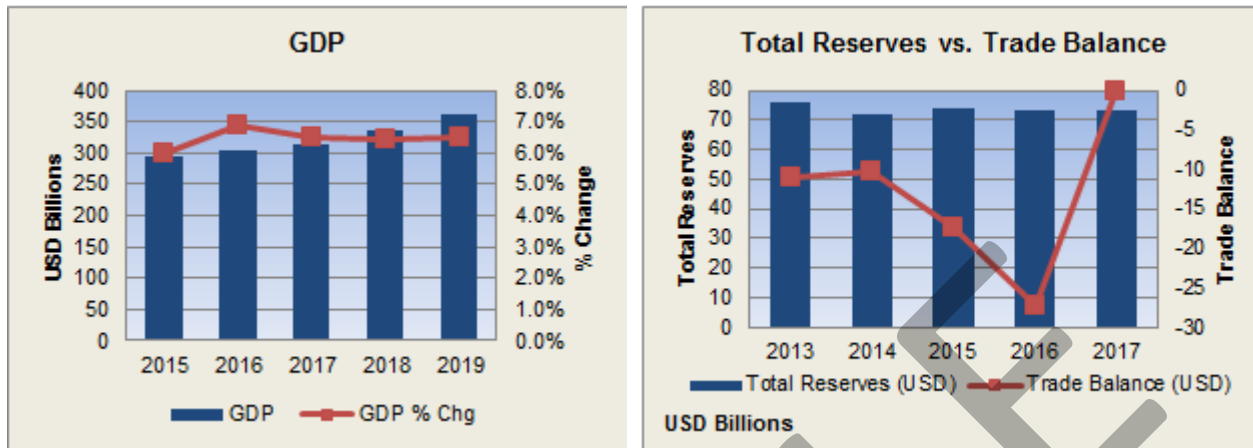
<b>National Budget and Public Debt, 2015-2019</b>					
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Gov't Revenues</b>	2,337.0	2,697.0	2,480.0	2,846.0	3,208.0
<b>Gov't Revenues (USD)</b>	\$51.4	\$56.8	\$49.2	\$54.3	\$59.5
<b>Gov't Expenditures</b>	2,606.0	3,006.0	3,350.0	3,767.0	3,757.0
<b>Gov't Expenditures (USD)</b>	\$57.3	\$63.3	\$66.5	\$71.8	\$69.6
<b>Budget Balance</b>	-269.0	-309.0	-870.0	-921.0	-549.0
<b>Budget Balance (USD)</b>	-\$5.9	-\$6.5	-\$17.3	-\$17.6	-\$10.2
<b>Gross Debt</b>	4,853.5	5,038.2	5,246.3	5,472.5	5,722.5
<b>Gross Debt (USD)</b>	\$106.7	\$106.1	\$104.1	\$104.3	\$106.1
<b>Gross Debt % of GDP</b>	35.9%	33.9%	32.0%	30.3%	28.8%
<b>Net Debt</b>	N/A	N/A	N/A	N/A	N/A
<b>Net Debt (USD)</b>	N/A	N/A	N/A	N/A	N/A
<b>Net Debt % of GDP</b>	N/A	N/A	N/A	N/A	N/A

Local currency scale: billions; USD scale: billions

N/A = Not Available

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## Economic Synopsis



**Economy.** As of 2014, the Philippines had the 40<sup>th</sup>-largest economy in the world, according to the World Bank.

A large boost to economic growth came from the 2010 election of President Benigno Aquino, who promptly undertook a rigorous anti-corruption reform effort as part of his greater "good governance" plan. The anti-corruption push was largely aimed at the highest reaches of the judiciary and sent a signal to the outside world that the Philippines was serious about the rule of law. Aquino's government also made efforts to attract foreign direct investment to aid the developing economy, root out tax evasion, and bring the country's fiscal situation under control.

The changes had the necessary effect, enabling the country to navigate a tricky post-global financial crisis economic environment and attract outside investment. Following a pattern of average annual growth in the low 3 percent range dating back to the 1990s, the economy has begun to expand at a 5-6 percent clip over the past decade, and in the third quarter of 2012 expanded by 7.1 percent, marking the 55th consecutive quarter of economic growth for the Philippines.

The recent uptick in annual growth is a welcome sign for a country often regarded as a regional laggard. With an English-speaking population of 100 million, a fairly functional democracy, and plentiful natural resources, the country was long seen as one that continually failed to live up to its potential, remaining dependent upon expatriate workers' remittances and a large agricultural sector for much of its economic base. (Some 33 percent of the population continues to work in agriculture, while remittances from the roughly 8-9 million Filipinos working abroad represent around 11 percent of total GDP.) Poverty – particularly in rural areas – remains a problem, with some 20 percent of the population living below the poverty line.

Recent growth has been heavily concentrated in areas such as real estate and services (outsourcing to the Philippines has been so strong that the country now outpaces India in terms of call center revenue). The country has also cultivated a large shipbuilding industry, becoming the fourth-largest shipbuilding nation worldwide in 2010 (mainly cargo vessels).

Mining is an area ripe for expansion, as the Philippines has large reserves of gold, nickel, copper, and chromite, as well as silver, coal, gypsum, and sulphur. Already home to a large electronics and semiconductor manufacturing base, the Philippine industrial sector is also growing in automotive and aeronautic parts production thanks to investments made by foreign companies.

Despite the upward trajectory of the Philippines' economy in recent years, the underlying problems – high rates of poverty and unemployment, poor infrastructure, and cumbersome regulations preventing foreign investors from owning land – present obstacles that could prevent the country from entering the world's 20 largest economies by 2050, as predicted by international bank HSBC.

Another problem has been a wave of natural disasters that hit the country beginning in late 2013. The first was an earthquake on October 15, followed by Super Typhoon Haiyan – one of the strongest typhoons ever to hit land – on November 8, followed by deadly floods caused by tropical depression Agaton, which dumped 46 inches of rain on

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the southern island of Mindanao during the last weeks of January 2014. The confluence of disasters in such a short timespan stretched Filipino and non-governmental aid agencies as they responded to the needs of millions of people displaced in the Philippines' central and southern regions.

Nonetheless, despite the spate of natural disasters, the Philippine economy has continued to grow at levels unseen since the 1950s. There was a slight dip to the 6 percent threshold in 2015, but growth has since eclipsed that level in successive years.

The Philippines' principal trading partners are Japan, the United States, China, Singapore, and South Korea. Worries persist that crucial trade relations with China could be disrupted over territorial disputes in the South China Sea, a breach that would greatly hamper the economy.

Economy, 2012-2019								
	2012	2013	2014	2015	2016	2017	2018	2019
<b>GDP</b>	10,561.1	11,542.3	12,642.7	13,322.0	14,480.7	15,806.4	17,659.5	19,487.2
<b>GDP (USD)</b>	\$250.1	\$271.9	\$284.8	\$292.8	\$304.9	\$313.6	\$336.7	\$361.3
<b>GDP % Chg</b>	6.7%	7.1%	6.1%	6.0%	6.9%	6.5%	6.4%	6.5%
<b>Total Reserves</b>	3,103.0	3,212.7	3,199.1	3,365.6	3,487.5	3,691.0	3,687.7	-
<b>Total Reserves (USD)</b>	\$73.5	\$75.7	\$72.1	\$74.0	\$73.4	\$73.2	\$70.3	-
<b>Exports</b>	3,252.7	3,223.1	3,652.9	3,782.9	4,049.5	-	-	-
<b>Exports (USD)</b>	\$77.0	\$75.9	\$82.3	\$83.1	\$85.3	-	-	-
<b>Imports</b>	3,580.4	3,692.8	4,113.6	4,568.7	5,348.3	-	-	-
<b>Imports (USD)</b>	\$84.8	\$87.0	\$92.7	\$100.4	\$112.6	-	-	-
<b>Trade Balance</b>	-327.7	-469.7	-460.7	-785.8	-1,298.8	-	-	-
<b>Trade Balance (USD)</b>	-\$7.8	-\$11.1	-\$10.4	-\$17.3	-\$27.3	-	-	-
<b>Inflation</b>	3.0%	2.6%	3.6%	0.7%	1.3%	2.9%	4.9%	4.0%
<b>Unemployment Rate</b>	7.0%	7.1%	6.8%	6.3%	5.5%	5.7%	5.5%	5.5%
<b>FX Rate (Local to USD)</b>	42.2	42.4	44.4	45.5	47.5	50.4	52.4	53.9

Local currency scale: billions; USD scale: billions

## Manufacturing Capability

During the 1980s, the Philippines rapidly developed its own domestic armaments industry. The fledgling industry was strengthened by foreign military technology received as part of arms contracts. During this period, the country made significant progress in other areas such as shipbuilding and the manufacture of light vehicles and trucks, and the cloned manufacture of a variety of U.S.-designed small arms, including .45-caliber M1911A1 semi-automatic pistols and copies of the M16, M14, and M1 (both carbine and Garand).

But further progress in building its defense industrial base has been uneven. Today much of the defense sector is limited to a few state-run industrials and some small and medium-size enterprises (roughly 30-40 in number). This sector is capable of meeting some of the more limited and conventional requirements of the AFP.

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## Major Companies

Company	Primary Activity
Aerotech Industries Philippines	Performs licensed assembly on aviation platforms.
ARMSCOR (Arms Corporation of the Philippines)	Private sector firm that produces basic firearms, ammunition and cartridges.
Bataan Shipyard and Engineering Company (BASECO)	Shipbuilding and repair company.
Government Arsenal	State-owned firm that produces basic firearms, ammunition and cartridges.
HMI Shipyard	Cavite-based shipyard specializing in building, repairing and servicing ships.
Keppel Subic Shipyard	Repairs and converts supertankers.
Philippine Aerospace Development Corporation (PADC)	State-owned aerospace and defense technology corporation that mainly performs maintenance, repair and modification of aviation equipment.



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## Political and Security Environment



Source: CIA World Factbook

**Background.** A Spanish colonial possession from the 16th century onward, the Philippines was ceded to the U.S. in 1898 following the Spanish-American War. The U.S. ruled the country as a territory while planning to grant it independence in 1946. In 1941, the Philippines was attacked and occupied by Japan. The U.S. drove the Japanese out in a series of amphibious operations during 1944 and 1945. The Philippines was then granted independence in 1946.

Philippine independence was followed by a prolonged civil war centered on the Huks, a communist guerrilla movement. Huk success reached a peak between 1949 and 1951, when the insurgency spread to large areas of Luzon and Mindanao. After this period, the movement went into a steep decline, and was largely suppressed by 1954. With the removal of this threat, the Philippines settled into a 10-year period of democratic rule.

In 1965, Ferdinand Marcos, representing the Nacionalista Party, was elected president. He was re-elected in 1969, by which time the communist insurgency was being revived. Marcos imposed martial law in September 1972, opening a 14-year period of dictatorial rule that ended in 1986 when a widespread popular rebellion forced him into exile. He was replaced by Corazon Aquino.

**Executive.** The Philippines has a representative democracy modeled on the U.S. system. The 1987 Constitution, adopted during Corazon Aquino's administration, established a presidential system of government with a bicameral legislature and an independent judiciary.

The president is both the chief of state and head of government, and serves as commander in chief of the military. The president and vice president are elected on separate tickets by direct popular vote for six-year terms. The elections for each office are held on the same day. Constitutionally, the president is limited to a single six-year term. However, a vice president who assumes the presidency more than two years into a term may complete the term and run for a full six-year term afterward.

The current president is Rodrigo Duterte of the Philippine Democratic Party (PDP).

The primary executive body is the Cabinet. Ministers are appointed by the president with the consent of the Commission of Appointments.

**Legislative.** The national legislature of the Philippines is a bicameral congress (Kongreso). The upper house is known as the Senado (Senate); the lower house is the Kapulungan Ng Mga Kinatawan (House of Representatives).



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The Philippine Senate, with a total of 24 seats, is elected at large. In the last Senate elections, held on May 9, 2016, seats won by party were as follows: the United Nationalist Alliance (UNA) – 4 seats; the Liberal Party – 6; the National People's Coalition (NPC) – 3; Nacionalista – 3; the Struggle for Democratic Filipinos (LDP) – 1; Akbayan (Citizens' Action Party) – 1; and the Philippine Democratic Party-People's Power (PDP-Laban) – 1. Five independents also won seats.

Of a possible 292 members of the House of Representatives, 234 are elected from single-member districts. The remainder of the House seats are designated for sectoral representatives elected at large through a complex "party list" system.

During the May 9, 2016, elections for the House of Representatives, the Liberal Party coalition won 41.7 percent of the vote, for 115 seats. The conservative NPC took 42 seats on 17 percent of the vote. Three other center-right parties – the National Unity Party (NUP), the Nacionalista Party, and the United Nationalist Alliance (UNA) – secured 23, 24, and 11 seats, respectively.

While Rodrigo Duterte's leftist, populist PDP-Laban only won three seats on 1.9 percent of the vote, some members of the Liberal Party abandoned their affiliation and sided with PDP-Laban. PDP-Laban also signed coalition agreements with all the major parties, thus ensuring they would have the necessary governing presence in the House when the 17th Congress, opened in July 2016.

## Military Posture

The Armed Forces of the Philippines serve primarily as a territorial defense and internal security force. Conducting counterinsurgency missions has been its principal role, with external defense traditionally underwritten by the United States. But under President Rodrigo Duterte, the Philippines is pursuing a broader relationship with China in an effort to balance Manila's foreign policy.

The Philippines has long been plagued by internal security concerns, primarily caused by pressures in its southernmost region and in its second-largest island of Mindanao, where insurgent movements continuously sprang up following the country's independence in 1946. As such, the Army and Marines undertake extensive deployments – with support from the Air Force – against elements such as the Abu Sayyaf group.

The principal territorial concern of the Philippines is a complex dispute over competing claims to the Spratly Islands with China, Malaysia, Taiwan, Vietnam, and Brunei. The Spratlys are a group of reefs, atolls, cays, and islands located in the South China Sea.

## Infrastructure

The Republic of the Philippines is the largest archipelago in the world, comprising more than 7,000 islands having a land area of 115,000 square miles and a combined coastline of about 14,000 miles. The largest of these islands are Luzon in the north and Mindanao in the south. The capital city, Manila, is located on Luzon. The country's population is 105.893 million (July 2018 estimate).

**Airfields.** 247 total; 89 with paved runways. There are two heliports

**Pipelines.** Gas, 567 kilometers; oil, 138 kilometers; refined products, 185 kilometers

**Railroads.** 995 kilometers (all narrow gauge). Only 484 kilometers are usable; the rest of the railway system is derelict

**Roads.** 213,151 kilometers total; 54,481 kilometers paved

**Waterways.** 3,219 kilometers, all restricted to vessels of draft less than 1.5 meters

**Ports.** Batangas, Cagayan de Oro, Cebu, Davao, Guimaras Island, Liman, Manila, Masao, Puerto Princesa, San Fernando, Subic Bay, Tandag, Zamboanga

**Major Exports.** Coconut oil, sugar, copper products, semiconductors and electronic products, transport equipment, garments, petroleum products, fruit

**Major Imports.** Electronic products, mineral fuels, machinery and transport equipment, iron and steel, textile fabrics, grains, chemicals, plastics

## Philippines: Section 1 - Data

## Directory

The following are the addresses of the Department of National Defense and individual armed services:

Department of National Defense  
Camp Aguinaldo  
Quezon City, Metro Manila  
Philippines  
Tel: + 63 02 786 921

Philippine Army  
Headquarters, Philippine Army  
Fort Bonifacio  
Rizal, Philippines

Philippine Constabulary  
Headquarters  
Roxas Blvd  
Camp Crame  
Quezon City, Metro Manila  
Philippines

Philippine Navy  
Headquarters  
Roxas Blvd  
Metro Manila, Philippines

Philippine Coast Guard  
Headquarters  
DND Bldg  
Metro Manila, Philippines

Philippine Air Force  
Headquarters  
Nichols Air Base  
Pasay City, Rizal, Philippines

**Procurement Organization**

Military procurement procedures within the Philippine defense establishment have no set guidelines and are very flexible. However, military requirements emanate from the Office of the Chief of Staff, Armed Forces of the Philippines (Attn: Deputy Chief of Staff, Logistics).

The following is the mailing address for this central military procurement authority:

Chief of Staff  
AFP Headquarters  
Attn: Deputy Chief of Staff, Logistics  
Camp Aguinaldo  
Quezon City, Metro Manila  
Philippines  
Tel: + 63 2 911 8131 or 911 7924

U.S. defense and aerospace companies should direct their initial inquiries to the following addresses:

Office of the Armed Forces Attaché  
Embassy of the Philippines  
1600 Massachusetts Ave NW  
Washington, DC 20036  
Tel: + 1 (202) 467-9300  
Fax: + 1 (202) 328-7614

Embassy of the United States  
1201 Roxas Blvd  
Metro Manila, Philippines  
Tel: + 63 2 521 7116  
Fax: + 63 2 522 4361

\* \* \*

# Analysis 1

## The Military Market for Asia, Australia & Pacific Rim

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## EVA Aviation

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