

Thank you Kim for the very kind introduction.

It is always a pleasure for me to come back to the Heritage Foundation. Through the years, when the US was thought to have been engaged in other areas of the world, the Heritage Foundation has constantly championed the cause of a strong US presence in Asia.

Over the past two years, the Asia Pacific region has invited renewed attention and focus from US policy makers. Analysts have attributed this shift to the push-pull factors of the US drawdown from the Middle East, and the challenges and opportunities in Asia and the Pacific. On our part, I believe Secretary Clinton says it best, when she said that Asia-Pacific has become a key driver of global politics. [\[1\]](#)

Indeed, the most dynamic of opportunities co-exist with the most vexing of challenges in Asia and the Pacific.

Economically, Asia's rise, and its resilience in the face of the global economic crisis, is nothing short of the most successful story of economic development in recent history. A recent study by the ADB posits that if the region maintains its current growth rate, Asia will be producing over half of global GDP by mid- century, and Asia could account for half of global output, trade, and investment, while enjoying widespread affluence -with no Asian country remaining poor. [\[2\]](#)

Asia is also home to several rising powers, China and India among them. It has been observed that the rise of China and India exemplifies Asia's resurgence in the global system. [\[3\]](#) Woven tightly into the dynamism that has characterized Asia are areas of continuing concern, such as the situation in the DPRK, and the competing claims over the West Philippine Sea.

The Philippines is proud to be part of the re-emergence of Asia. In 2010, President Benigno S. Aquino III was elected into office on the basis of a simple but ambitious idea: that we can end poverty if we eliminate corruption. In the two years since then, the Philippine government under his leadership has focused on inclusive growth, job generation, empowered enterprises, and solid investor confidence by instituting accountability in governance. President Aquino leveraged his vast political capital towards instituting a culture of good governance across all

levels of government.

He firmly demonstrated that actions have consequences: that those who have erred will be held accountable.

This commitment to good governance has been widely recognized, including by the US government. In 2011, the Philippines was invited as one of only eight members of the Steering Committee of the Open Government Partnership, which is composed of similarly-inclined governments who have demonstrated good practices and strong commitment to transparency, accountability and citizen participation in governance.

The dividends of good governance have also extended to clear economic gains. In 2011, investment promotion agency-approved foreign direct investments grew by 30.6 percent to \$5.91 billion (256.1 billion pesos) - the highest recorded level in sixteen years. We have also reached new heights in our stock market and bond markets. In January of this year, we issued 1.5 billion dollars in global bonds with a coupon rate of five percent-the lowest for an Asian sovereign for that tenor, and at better rates than several other investment grade sovereigns like Indonesia, Mexico, Brazil, and even some EU countries like Spain.

The economic dividends of good governance have not gone unnoticed. We are proud that the Philippines has received five credit upgrades over the past twenty two months. Moreover, the World Economic Forum ranked our country ten places higher in its latest competitiveness ranking, compared to the previous year. The Heritage Foundation's 2012 Index of Economic Freedom also raised the Philippines' ranking to 107 from 115<sup>th</sup> in 2011. The Japan External Trade Organization, in its survey of companies in Asia and Oceania, named the Philippines as one of the best places to do business in Asia, whether in manufacturing or in service. And HSBC has even predicted that, if we maintain our momentum, we will be the 16th largest world economy by 2050.

As a key mover in this very dynamic region, we warmly welcomed the US strategic pivot to Asia as a concrete response by the US government to the opportunities and challenges in Asia and the Pacific. In particular, we valued the assurances that the treaty alliances will remain the fulcrum for the US rebalancing towards Asia and the Pacific.

The Philippines and the US have been allies for over sixty years. At the ceremony following the signing of the mutual defense treaty in 1951, President Truman described the ties between the Philippines and the US as a "community of interest" [\[4\]](#) and the treaty as a natural development springing from the long association of our countries and the common sacrifices for freedom.

[\[5\]](#)

As reflected in the words of President Truman, our alliance was born as a response to a clear threat to the security of our peoples and the region. Two days ago, Secretary Clinton mentioned that our alliance was crafted in blood and sacrifice, and reiterated the US government's gratitude. The alliance has been tested by time, across various administrations in both countries. In the past sixty years, we have gone through periods of intense engagement, and periods of arms length relations. As we went through the various phases of our bilateral relations, we have learned that even the closest of allies do not agree on all things at all times. Our different levels of development dictate diverse, sometimes conflicting priorities.

In 1986 for example, following the first ever peaceful people's revolution, the President of the Philippines, President Corazon C. Aquino was very warmly welcomed to the US and honored by a joint session of congress. Less than five years after, the Philippine Senate voted against the extension of the military bases agreement, ushering in the beginning of the end of permanent US bases in the Philippines. It was during my term as Philippine Ambassador to the US, when relations again warmed, and we were recognized as a major non-NATO ally in 2003 after the Philippines joined the US led coalition in Iraq.

Looking back, I believe I can say that the story of the alliance has been one of continuous renewal, as we constantly try to find ways to ensure that the alliance remains relevant and mutually beneficial.

Indeed, the changing regional and global environment provides a very strong impetus to consider new ways of doing things. When we signed the Mutual Defense Treaty in 1951, for example, our soldiers were fighting side by side against the threat of communism. Today, the nature of the challenges has increasingly become more complex.

Internally, the demands of development have intensified the competition for limited natural resources. At the same time, the recent global economic slowdown has also compelled governments to find ways to make defense and security spending more efficient.

Externally, while the disputes on sovereignty are not any less fervent, countries need to contend on a daily basis with non-traditional security threats like terrorism, transnational crime, infectious diseases and natural disasters.

The rise of new powers has also added a new dimension to the geopolitics of Asia and the Pacific. For many years, the US has enjoyed uncontested leadership in the region, and has guaranteed the international system that has engendered the conditions for economic growth and development. However, China's growing economic network in the region, and the rapid modernization of its defense and security infrastructure, is often viewed as a challenge to US influence in the region.

Within this context, I believe there is mutual recognition that there are clearly congruent interests that may be served well by strengthening the alliance.

On the part of the US, it aims to build a more geographically distributed, operationally resilient, and politically sustainable defense posture, while reaffirming its role as a Pacific power. This will require the ability to be present in key areas of the region in a timely manner, without the necessity of maintaining politically unsustainable and costly permanent bases. A strong and consistent presence in the region is essential to ensure that the US is in a position to respond in a timely manner to natural disasters, as well as be able to guarantee freedom of navigation and access to the high seas.

On the part of the Philippines, we are developing a stronger external defense infrastructure, leveraging the strength of its regional partnerships and our treaty alliance.

Under the administration of President Benigno S. Aquino, we have approached this from an all of government perspective, and made available significant resources for the purpose. Consider the fact that since the Philippine modernization program began in 1995, the budget released for the 15 year program amounted to only \$740 million (P32 billion). But in less than two years that President Aquino has been in office, he has already authorized the release of \$647 million (P28 billion), or 85% of what was released in the previous 15 years.

In 2011, President Aquino ordered our Department of Budget and Management to release funds to enhance territorial defense capabilities, charged against the AFP Modernization funds and the proceeds of the Malampaya natural gas project. PH's first Hamilton Class Cutter was refurbished using this fund.

The initial funding of US\$465,116 (Php20 million) for the National Coast Watch System came from the special account in the General Fund of the PH Department of Energy.

The DND is planning to spend \$ 1.6 billion (Php70 billion) in the next five years for 138 projects to modernize the AFP through the acquisition of aircraft, vessels and radar systems.

It is also important to underscore that the new funds are over and above the regular budget of the Philippine military, and are specifically allocated to build up specific capabilities we need to address the present day challenges. To augment our domestic resources, we are expanding and strengthening our partnerships with Japan, South Korea, Australia and other partners on areas like maritime security and humanitarian assistance and disaster relief.

The US needs a stronger ally in the region who will be able to take on a bigger share of guaranteeing the stability of the region. It is therefore to the strategic interest of the US to invest in the development of the Philippines defense and military capability.

For the Philippines, the tensions in the West Philippine Sea are particularly challenging.

The West Philippine Sea remains a core national interest for the country and diplomatically we are working to ensure that "what is ours is ours."

Our approach to the West Philippine Sea is unambiguous: a rules-based approach is the only legitimate and viable way in addressing disputes in the West Philippine Sea.

In pursuing a political track, we continue to engage in regional dialogue, through the framework

of ASEAN China Dialogue relations. At the last ASEAN Summit in Cambodia, we underscored the centrality of ASEAN with respect to the drafting of the Code of Conduct for the West Philippine Sea incorporating key elements to include a dispute settlement mechanism and an administrative structure to implement them. We intend to continue using the regional mechanisms like the ARF and the EAS to build an environment which encourages the peaceful settlement of disputes. We continue to espouse that it is in the best interest of all claimants and the region to transform the area into a Zone of Peace, Freedom, Friendship and Cooperation (ZoPFF/C), and an actionable framework to define, clarify, and segregate, in accordance with the United Nations Convention on the Law of the Sea (UNCLOS), the disputed and non-disputed areas of the West Philippine Sea. We are thus focused on building the Philippines' capability to enforce a rules based framework, not just through a defense mechanism, but also politically, legally and diplomatically.

For the legal track, we are pushing for the availment of the dispute settlement mechanism under the UNCLOS. Following the most recent tensions after an incident of illegal fishing in our Bajo de Masinloc, we have extended an invitation to our Chinese friends to join us in the International Tribunal on the Law of the Sea. The ITLOS would provide an impartial venue for ascertaining who between the Philippines and China has sovereign rights over Scarborough Shoal, where Chinese ships are engaged in illegal activities within the Philippine Exclusive Economic Zone. At our meeting last Monday, Secretary Clinton also echoed the need for all claimants to clarify their claims on the basis of UNCLOS. A diplomatic solution would be desirable, but a legal solution would be durable. That is why we are most cordially inviting China to join us in the ITLOS. So why is China vehemently against the idea of validating its claims in accordance with international law?

Diplomatically, through the process of bilateral consultations, we continue to discuss how the situation in Bajo de Masinloc can be defused. We clearly recognize, however, that it is incumbent upon claimant states to find a durable solution to the conflicting claims. The issue clearly has far reaching implications to the international community, in terms of respect for the freedom of navigation and commerce, and the peaceful settlement of disputes. We believe all countries whether directly affected or not, have an interest and a stake in protecting these fundamental tenets of international law. The Philippines has taken the lead and put on the table concrete and actionable proposals, and we are encouraging others to join us.

We also recognize that there are those who say that considering the complexities of a dispute such as that in the West Philippine Sea, this can only be managed, but not resolved. I daresay that managing and resolving the dispute are not mutually exclusive concepts, and may and should be pursued in parallel.

We need to manage the incidents that arise, not just to maintain peace and order, but also to be able to create the environment that will encourage all parties to move towards a just, peaceful and enduring solution. We need to clarify principles and establish mechanisms that we can build on. There are available resources regionally and internationally that may be availed of. We know that this will not happen overnight, but we are buoyed by the conviction that the first step in this direction needs to be taken now. We need to make clear investments - in the political and legal track - towards resolving the conflicting claims, and these modalities are direct investments towards a peaceful and prosperous Asia Pacific.

The investments we need to make are not easy. These will require much thought, and will not always be politically expedient. At the outset, areas of agreement may be narrow - but we believe we can and should build on these areas of agreement, or risk living in a region where the possibility of confrontation is ever present.

Developments in Philippine-US relations also give us cause for some optimism. Indeed, a recent piece on Philippines-US maritime cooperation co authored by Walter Lohman and Dr Renato de Castro aptly puts it: "crisis has a way of reminding security partners of their mutual interest and the utility of their commitment." [\[6\]](#)

Two days ago, Defense Secretary Gazmin and I had very good meetings with our counterparts in the context of the first ever Philippines-US Two plus Two Ministerial Consultations.

Our discussions were marked by a manifest intent to enhance Philippine-US defense relations. Essentially, we agreed to enhance our defense and security engagements within the framework of the Mutual Defense Treaty that will allow us to more effectively address the current and emerging security challenges in a mutually beneficial manner. The focal point for our cooperation is to build a minimum credible defense posture for the Philippines, and increase our capacity for territorial defense, maritime security, maritime domain awareness, and humanitarian assistance and disaster response. Our joint military exercises, which are aimed to ensure interoperability of our forces, will continue to be priority activities in this effort.

I was impressed by the warmth and manifestation of support from of both Secretary Clinton and Secretary Panetta, as well as their very keen interest in working together in a mutually beneficial manner. In all our meetings, we heard not just reaffirmation of US support to the Mutual Defense Treaty and to our long standing alliance, but also to finding ways in which we can move forward to address common challenges as partners and equals. Following our meetings,

we expect to have more intensive and consequential dialogues at various levels to translate into actual undertakings our common commitment to enhanced defense and security relations.

It is important to underscore that the alliance does not aim to confront or contain anyone. The last thing the Philippines wants to do is to heighten tensions, and drag our allies into it. What we are trying to do is work together to build a rules based environment, and create the conditions that will shape the behavior of all parties towards the peaceful resolution of disputes. We want to highlight that there are dividends for taking the peaceful path, and consequences for resorting to aggression.

We also discussed opportunities to enhance our economic relations, noting that our trade ties have not kept up with growth of our defense and security ties and our people to people relations.

I have spoken on the common challenges of the alliance, as well as what we have been doing to respond to these challenges. Speaking among friends, I would like to add a few thoughts on some areas of the alliance that we can continue to work on.

While the Philippine government under President Benigno S. Aquino has made major investments in the upgrade of our defense equipment, supplementary foreign military financing from the US remains a very important component of our effort to develop our external defense capabilities. We fully recognize the constraints posed by recent Congressional limits placed on defense spending. However, we note with concern that in terms of the proportionate share of the FMF pie for East Asia and the Pacific, the allocation for the Philippines is shrinking. We note that in 2006, the State Department FMF request for the Philippines accounted for over 70% of the total US FMF request for East Asia. Looking at the FY2012 tables, it appears the FMF for the Philippines only accounts for 35% of the requested amount for East Asia. We hope this is not indicative of the priority placed on the Philippines as a regional partner, as even non-treaty allies appear to be getting a bigger share of the FMF allocation.

At the same time, a portion of the FMF allocation for the Philippines has been conditioned since 2008 on the issuance of a report from the State Department on the human rights situation in the Philippines. Specifically, the US Senate Report 112-085 states, and I quote:



"The Committee recommends \$30,000,000 for assistance for the Philippines. Of this amounts, \$3,000,000 may not be obligated until the Secretary of State Reports in writing to the Committee on Appropriations pursuant to section 7062(g) of this act that -

The Government of the Philippines is taking effective steps to prosecute those responsible for the extra-judicial executions (EJE) , sustain the decline in the number of EJEs, and strengthen government institutions working to eliminate EJEs;

The Government of the Philippines is implementing a policy of promoting military personnel who demonstrate professionalism and respect for internationally recognized human rights, and is investigating, prosecuting and punishing military personnel and others who have been credibly alleged to have violated such rights; and

The Philippine military does not have a policy of, and is not engaging in, acts of violence or intimidation against members of legal organizations who advocate for human rights." End of quote.

For the record, I wish to state the following:

The US Embassy in Manila alleged that the Philippines has not satisfied the criteria set forth by the US Senate Committee on Appropriations although the Philippines has "effectively taken such steps," as follows: a.) there has been a significant decline in EJKs; b.) there is a strong policy environment that institutionalizes respect for and sensitivity to human rights; c.) warrants of arrest have been issued against high profile suspects such as General Jovito Palparan and Governor Joel Reyes; and d.) at least 198 suspects have been charged in the Ampatuan case.

These steps taken by the Philippine government probably explain why there has been a significant decline in EJKs. Even our harshest critics acknowledge that there has been a significant decline in the number of extrajudicial killings. President Aquino's family itself was a victim of a most heinous human rights crime since his father who was then in the political opposition was assassinated in 1983. For this reason, President Aquino has taken bold and resolute action to break the culture of impunity and to institutionalize greater sensitivity and full respect for human rights.

Two weeks ago, the Philippines ratified the Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. This Protocol obligates the Philippines to create a National Prevention Mechanism (NPM) which will conduct independent and unannounced visits to places where people are deprived of their liberty.

This comes only a few months after our accession to the Rome Statute. By this, we undertook the legal obligation to bring to justice those responsible for crimes under international law.

The government also continues to pursue justice for victims of human rights abuses. Personalities who have previously been considered untouchable are now being held accountable, and all efforts are being exerted to bring these personalities to justice.

While there is no argument over the very significant strides we have taken in terms of the protection and promotion of human rights, the amount remains conditioned to date. Contrast that with the situation in some countries where despite widespread and continuing concerns on human rights, the US government chose to execute a national security waiver to release the conditioned funds.

Economically, we also note with a degree of concern the fact that we have not had any major trade initiative with the US in the past 40 years. The Trans Pacific Partnership offers great potential for revitalizing trade relations across the Pacific. However, there is also general agreement that pending completion of the negotiations among the original TPP members, there may be no opportunity for new participants in the short term. At the same time, the Philippines has to undertake requisite domestic preparations to ensure we are in a position to undertake the high quality commitments that will be required. However, this should not mean that our trade relations will remain at a standstill. We are challenged to explore other mechanisms that could serve as building blocks to our eventual participation in the TPP.

For instance, the SAVE Our Industries Act or SAVE Act is one such mechanism that will provide an essential bridge to TPP. This bill seeks to provide duty-free access for Philippine apparel made of US fabrics into the U.S. market. It will strengthen our struggling apparel industry, allowing it to compete more effectively while providing a meaningful and expanded export market for U.S. textile products. In the Senate, the SAVE Act was introduced by Senator Daniel K. Inouye and Senator Roy Blunt and in the House by Congressman Jim McDermott as well as

Congressmen Brian Bilbray and Bob Filner as co-chairs of the Philippine Friendship Caucus, and it now has bipartisan co-sponsors in both chambers of the US Congress. I would also like to underscore that this is neither purely preferential, nor unprecedented. The United States has a number of trade preference programs on garments that are more generous than the SAVE Act, both for developing countries, and for countries with more than twice the GDP of the Philippines. At the same time, the SAVE provides an opportunity for the US to develop new textile markets in the Philippines and the rest of Asia, in addition to the traditional markets in Mexico and Central America.

The strength of any alliance is best measured by the investments of time, focus and resources made by both partners. While our shared history and cultural affinity provide a very solid foundation, we need to continue nurturing this partnership to ensure we are able to remain responsive to the common challenges we are facing.

Early on in my remarks, I referred to the statement made by President Truman at the signing of the MDT 60 years ago. May I close with an excerpt from the reply of President Quirino, which in its continued relevance, reflects the fundamental character of the alliance. Sixty years after, the strength of the commitment and the ardor behind our common purpose remains, as reflected by what President Quirino said in 1951:

"We have no aggressive aim against anyone. Our purpose rather is to give notice that a potential aggressor must therefore give due account of our common purpose and united will to act in self defense. From the history of the Filipino people and our relations with the US during the past 50 years, nobody can have the slightest doubt about our devotion to freedom and readiness to share in its defense."

I wish you all a pleasant afternoon, and Mabuhay!

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[\[1\]](#) *Secretary of State Hillary R Clinton, America's Pacific Century, Foreign Policy, November 2011*

[\[2\]](#) *Asian Development Bank, Asia 2050 : Realizing the Asian Century, August 2011*

[\[3\]](#) *Ashley J. Tellis, Travis Tanner and Jessica Keough, Strategic Asia 2011-2012: Asia*

*Responds to its Rising Powers, The National Bureau of Asian Research 2011*

[\[4\]](#) *Remarks of president Harry Truman at the signing of the Philippine-US Mutual Defense Treaty, 30 August 1951*

[\[5\]](#) *Ibid*

[\[6\]](#) *Dr. Renato de Castro and Walter Lohman, US Philippine Partnership in the Cause of Maritime Defense, Heritage Foundation, August 2011*