TRANSNATIONALIZATION, THE GLOBAL CRISIS AND FOREIGN DEBT: THE PHILIPPINE EXPERIENCE*

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The decline in the terms of Third World trade has been the bane of the poor countries. Together with the increasing price of imports from the First World and the growing volume of such imports, poor export prices have produced chronic balance of payments deficits for the underdeveloped countries. One estimate places the loss to the non-oil-exporting developing countries at $10 billion in 1972 (constituting over 20 percent of the value of their aggregate exports), because of the decline in the terms of trade compared to the 1950s. In 1978, an UNCTAD study demonstrated that Third World export earnings were $45 billion lower than they would have been if prices were maintained at their 1969 levels.[1] The most drastic decline, however, occurred in the 1980s, when oil-importing middle-income countries registered a 10 percent decline in their over-all terms of trade.[2] The Philippine record shows that its terms of trade deteriorated from 100 in 1972 to 55.6 by 1982, which simply indicates that the country had to export double the amount of products it did in 1972 to buy the same value of imports.[3] The next result of these unfavorable trade terms has been the persistence of huge current account deficits, which, in turn, occasioned the massive borrowings that we recognize today as the Third World debt. This paper is an attempt to examine some of the crucial aspects of this situation from the perspective of the Philippine experience.

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The OPEC Rebellion

In 1973, however, a group of countries was able to radically deviate from this historic pattern of unequal exchange in international trade. By forming themselves into a solid bloc, these oil-producing and exporting countries managed to secure for themselves what they regarded to be a fairer price for their oil exports. The example of OPEC (Organization of Petroleum Exporting Countries) demonstrated to the Third World the viability of collective action in the world market as a countervailing force against the unilateral price-fixing power of the transnational monopolies. By demanding from the transnational oil firms more than four times the price they used to get for their oil, the OPEC countries forced, in a very real sense, a global redistribution of wealth, albeit on a limited basis.

The 1973 oil price increases, which were followed by a second round of upward adjustments in 1979, affected all the oil-importing countries, most especially those from the South, which did not have the fallback position of the rich North. The full force of the OPEC move was absorbed by the poor countries which were absolutely dependent on fuel imports. In contrast, the transnational oil companies, instead of assimilating the increased costs and taking a cut in their profits, were able to ride on the oil crisis and even managed to increase their own corporate earnings.

New Openings

The OPEC shock, however, also created new economic openings. The increase in oil prices resulting from the OPEC action not only triggered off a massive demand for First World goods and services but also produced an unprecedented liquidity in the world financial community. For many countries in the South, this meant a tremendous expansion in the volume and price of their exports, as well as the easy availability of low-interest bearing commercial loans.[4] It has been noted that the bulk of the loans being pushed by the internatioanl banks in the 1970s really consisted of petrodollars from the OPEC countries.[5] Whether this is true or not is not the important thing. What is important is that the rise in international liquidity which resulted from the oil price increases lowered interest rates[6] and permitted countries like the Philippines to pursue a frenetic development program aimed at improving the over-all productive capability of the country.

Alongside the soft loans being offered by the international commercial banks in the mid-Seventies, economic opportunities were also being opened up in the Middle East countries. The oil-price boom in these countries paved the way for a massive infrastructure development program which required the importation of construction equipment and technical services, as well as skilled and unskilled manpower for the building projects which were launched almost simultaneously and on a gigantic scale.

It was precisely during this period that the Philippine government began to think of the export of OCWs (overseas contract workers) as a steady source of foreign exchange.[7] In the early years of this Middle East building boom, Filipino construction companies had also aspired to participate in the highly competitive business of international construction. The smallness of their capital, however, and inadequacy of their equipment, compared to the giants from the US and Japan, prevented them from making any significant headway in this industry. Most of the time, therefore, they ended up being sub-contractors, assigned the peripheral responsibility of completing the odds and ends of large projects, or of simply supplying the semi-skilled and unskilled labor requirements of these projects. Still and all, the construction boom which came in the wake of the OPEC action constituted for the Philippines a much-needed injection into its ailing economy. The remittances made by both the contract workers and the Filipino construction companies came to represent a large chunk of the country's total foreign exchange earnings.

The Recrudescence of Authoritarianism

It will be recalled that the period of the early Seventies was marked by economic sluggishness and political instability in the Philippines. The Marcos goverment, which was elected in 1969 to an unprecedented second term, had proved unable to pull the country away from the low gear in which it appeared to the trapped. Meanwhile, the popularity on which it rode in the 1969 elections was quickly being eroded. Massive student demonstrations protesting its policies were attracting enough attention to scare away potential foreign investors. At about this time, the great strides being taken by its neighbors in the region, especially South Korea and Taiwan, instilled in the Marcos government, and in the country as a whole, the attitude that what the nation needed was a political will to develop. That political will, in the view of many, had no chance of emerging from the framework of the existing liberal democratic policy. Thus, the authoritarian option, whose developmental effectiveness was being abundantly demonstrated elsewhere in the Asian region, became an increasingly attractive one.[8] Seen from this angle, the declaration of martial law would appear as a political imperative that was in search of a regime. That regime was formed by Marcos in September 1972.

Dictatorship and Transnationalization

The Martial Law regime of Marcos went about transnationalizing the Philippine economy with astonishing determination. Bent on maximizing its imagined comparative advantages, it aggressively advertised its cheap, docile English-speaking labor (aimed at labor-intensive firms specializing in intermediate processing), the lavish tax incentives to foreign investors, the laxity of its environmental laws (addressed to foreign firms which were being forced by strict environmental law to relocate their plants abroad), and the hospitality of the people, the warmth of its women, the low prices of its hotels and the natural beauty of the country as a whole (aimed at foreign travel operators looking for tourist destinations).

Loan-Fuelled Development

The new export-oriented outward-looking thrust necessitated large investments in infrastructure - ports, highways, bridges, hotels, office buildings, transport equipment, power generators, etc. - which could not be financed with domestic savings.[9] These had to be funded from foreign borrowings. In an unabashed way, the Regime saw the availability of cheap foreign credit as a rare chance to finance an ambitious development program which could not otherwise be launched at all were the country to rely solely on its own savings. Thus, from 1975 to 1983, the Philippines came to borrow at the average of US$2.5 billion a year. International conditions in the second half of the Seventies encouraged this vicious habit. International banks, flushed with petrodollars, were practically pushing dollar loans to Third World countries. Given the easy terms, practically any business firm, with a little influence in government, could obtain a foreign loan. The creditor banks lent freely for as long as they were assured of government guarantees on these debts. As in Latin America, they showed little concern for the feasibility or economic wisdom of individual projects.[10] Money deposited with these banks must earn interest, and so they had to put it to work by lending it as fast as they accumulated it. On the other hand, debtors from the underdeveloped world were enticed by the low interest rates at which such funds were being lent.

Instant Development

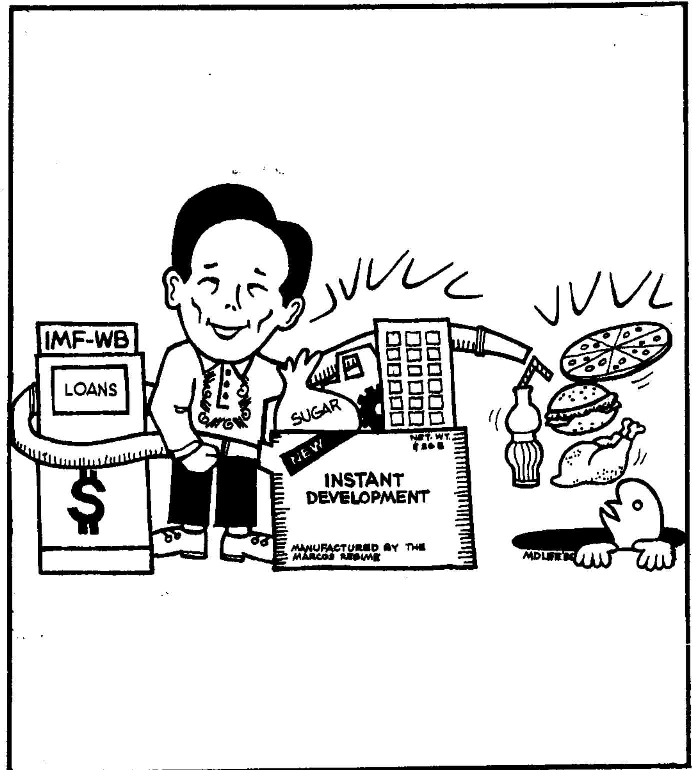
The ensuing availability of large amounts of foreign exchange within the country promoted the impression of instant development. Hotels, office buildings, and convention centers were built one after the other. New sugar mills, oil mills, mining and logging equipment, as well as cement factories were imported. A large portion of the borrowed money went into the purchase of power-generating plants - diesel, hydro-electric, geothermal, dendro-thermal, and nuclear. The government had begun to feel paranoid about oil prices that it practically went on a spending spree to acquire alternative power generating plants. Transport equipment was also brought in as if with vengeance; with almost unlimited funds in its hands, the government came to dominate the transport industry by bringing in large commuter and tourist buses from Japan and Europe, ships and new airplanes.

Accelerated Consumerism

Simultaneously, Filipinos found themselves swimming in imported consumer goods: cars, electronic goods, American pizza, hamburger and fried chicken. Foreign travel for many became easy. More important perhaps, international credit, which was under the control of the government, became a large source of corruption. Money flowed out of the country almost as quickly and as easily as it came in. What was constant was the quiet but rapid accumulation of foreign debts.

Estimated of the Total External Debt of the Philippines (US $ billion, unless stated otherwise)

Source : I.P. David, "Estimates of the Total External Debt of the Developing Member Countries of ADB: 1981-1983", Statistical Report Series No. 1, Asian Development Bank Economics Office, September 1984.



In the early Eighties, this problem was aggravated by the phenomenal rise in interest rates in the international financial market, largely as a result of US government borrowing to cover its deficits. The easy loans that could be obtained in the decade of the Seventies have turned out to be a trap. Caught in the vicious cycle of the international capital market, the Marcos government had no other option but to keep on borrowing just to be able to service its mounting indebtedness. In time, loans came to replace investments, and short-term commercial borrowings took the place of long-term official credit.

The Crisis

As many borrowing countries, especially from Latin America, found themselves increasingly unable to adequately service their foreign obligations because of the phenomenal increase in interest rates and the collapse of their own export prices, the lending spree which the international commercial banks had instigated also came to an end. The world economy entered another period of recession in 1982, a phase which many believe has now ripened into a full-blown crisis. The global slow-down in economic activity has also affected the demand for oil, the price of which has gone down progressively in the 1980s. In turn, this has triggered the rise of individualistic action by member countries of OPEC, which is threatening the dissolution of this once-solid bloc. For labor-exporting countries like the Philippines, this has meant lower demand for manpower in the oil-exporting Arab countries.

The global economic crisis has forced every country to adjust to its realities. Countries with strong economies could participate in the savage game of cut-throat international trade while at the same time effectively shield their own markets

from foreign interlopers. In such countries, the crisis is hardly perceptible at the everyday micro level. Countries with large amounts of financial surplus, on the other hand, like the oil-rich countries, could fall back on their accumulated past earnings to maintain their balance through the storm. But fragile dependent economies like the Philippines, saddled with large foreign debts, have had no choice but to absorb the full measure of IMF-imposed adjustment. For these countries, the mode of adjustment is not something that is voluntarily chosen. Rather, it is a bitter pill that one has to swallow because there is no alternative. At least, this is how the whole IMF adjustment package is presented to the debtor countries.

The Role of the IMF

As the general overseer of the world capitalist financial system[11], the IMF (International Monetary Fund) and its sister institution, the International Bank for Reconstruction and Development, also known as the World Bank, supervises the entire process of adjustment of the heavily indebted countries. This basically entails a carrot-and-stick approach to the problem. Indebted countries are offered assistance in the form of new loans to solve their balance of payments problem. A so-called "rescue package" is put together in collaboration with the leading international commercial banks and governments for the expressed purpose of putting a crisis-stricken indebted country on the path to recovery.

IMF Conditionality

The IMF package typically includes the following items: the grant of new commercial and official loans, restoration of revolving trade credits, and re-scheduling of existing obligations. This is the carrot. The corresponding stick is a whole bundle of punitive measures which, again, typically include the following: devaluation of the local currency, "excess liquidity mopping" or reduction of money in circulation, new taxes, wage and hiring freeze, reduction of government expenditures, dismantling of price controls and subsidies, dismantling of tariff barriers in imported goods, dismantling of public or private trading monopolies, and discontinuation of all industrial projects waiting to be financed with borrowed funds. The singular thrust of these IMF measures is to assure, first of all, that all debts, public and private, are effectively assumed by the government, and, second, that every single cent of the interest is duly paid, not to mention the regular amortization on the capital.

In the pursuit of these objectives, the IMF prescribes performance targets in the form of a desired exchange rate, permissible levels of money supply and budgetary deficit, export earnings, import levels, foreign exchange reserves, inflation rate, changes in the structure of specifically identified sectors (e.g., sugar and coconut, for the Philippines), level of remaining arrears (unpaid interest charges) for a given period, etc. A review of performance based on previously agreed indicators is undertaken at least on a quarterly basis, or oftener as the case may be. The release of new money as well as the progress of negotiations for rescheduling of maturing loans are then made conditional upon fulfilment of these targets. This is the essence of IMF conditionality.[12]

The whole point of this exercise is to prevent an open default on the part of the debtor country, or a public declaration of a simple inability to pay (i.e., repudiation). The latter is seen as viciously injurious to the health of the whole international financial system, and therefore it is something that must be prevented at all costs. Accordingly, we are witness to elaborate rituals by which the inability to pay (an outright default) is concealed through the grant of a 90-day moratorium on principal payments, renewable *ad infinitum.* The Philippine government has had to go through the ridiculous and humiliating motion of applying for an extension of the moratorium for at least nine times to date (October 1985). All

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IMF/World Bank: guardians of the world capitalist economy.

of this is meant to maintain the illusion of a smoothly functioning system.*

The Inevitability of Default

But the reality of default is very clear both in the minds of the debtors and of the creditors. The foreign debt in the case of countries like the Philippines is simply so big that it has become impossible to service it completely without having to borrow new money. With foreign borrowings amounting to more than $26 billion, the Philippines has to pay at least $2.8 billion per year in interest alone. This amount is more than half of the total export earnings of the country on a yearly basis. And this does not yet include the amortization on the principal loan. For countries where traditionally, imports exceed exports, there is logic in Peru's insistence that they commit only 10 percent of their annual export earnings to debt service. Otherwise, a debt of the size of the Philippine debt can only be serviced with new borrowings. But this is exactly what is happening at present.

The IMF expects the indebted countries to pay their debts by increasing their exports and reducing their own consumption. It glosses over the fact that many exports also depend on imported inputs, and that the ability to increase export earnings depends primarily on the demand for these products in the world market. That market is still reeling from the impact of a global economic contraction.

Furthermore, in response to the crisis, the economically advanced countries have instituted protectionist measures which have affected Third World exports. Consequently, in the face of mounting debt service, the underdeveloped countries have also been severely hit by historically unprecedented low prices for their products. Sugar, for example, on which the Philippines had traditionally depended for its foreign exchange, was quoted in the world market in the middle of 1985 at less than $0.03 per pound, when the cost of production was $0.14 per pound. Such a ridiculous and unrealistic price has been made possible by the dumping of excess sugar in the world market, notably by the EEC countries.[13] But even the so-called non-traditional exports, like garments, are also facing virtual exclusion from large markets like that of the US, as a result of congressional initiatives such as the Jenkins bill, which seeks to limit garments and textile imports into the US. Yet, just a few years ago, labor-intensive industries like garments and semi-conductors were being promoted as the essence of export-oriented industrialization. The conclusion is inescapable: that no matter how much Third World nations like the Philippines tighten their belts in an effort to generate enough surplus for debt service, there is simply no way by which outstanding obligations can be fully met without having to borrow anew. In the meanwhile, the foreign debt is like a monster that grows with every passing day, devouring everything that can be coughed up by the debtor countries.

Behind the Crisis, an Opening

But, as the saying goes, every cloud has a silver lining. Perhaps in this case, the silver lining in the cloud of mounting foreign debts has been the process of popular politicization which is now threatening to sweep aside the dictatorial regime that has ruled the country for 13 years now. The painful adjustment measures which the Regime has dutifully enforced since October 1983 in compliance with IMF conditions have brought to the fore not only the pernicious reality of transnational capitalist control but also the moral and political bankruptcy of the Marcos Regime. Unable to provide relief to the economic dislocation that workers, farmers and consumers have had to face in the last two years, the Regime has had to use greater repression to maintain itself in power. This repressiveness has generated, in turn, a greater determination to oust the Regime from power, and together with it, the remaining shred of American control of the country's economic and political life.

The Making of a Crisis

For over 10 years, this Regime had been able to hide from public view the shallowness and fragility of the development program it was pursuing. Unknown to most Filipinos, it had sought to maintain an illusion of prosperity through the massive infusion into the country of costly foreign borrowings, a large portion of which (nearly 50 percent) consisted of short-term commercial loans. Foreign loans had replaced direct investments as the favored mode of foreign capital entry. Thus, 87 percent of the capital that flowed into the country, from 1972 to 1981, was in the form of short and long-term loans.

Signs of an impending crisis had become evident as early as 1981, when the local financial community was rocked by the explosion of the Dewey Dee scandal. Dewey Dee was a prominent businessman who had borrowed enormous sums of money from almost all the major banks and financial houses in the country, and suddenly disappeared, leaving behind a trail of debts amounting to more than P600 million. This single event threatened to destabilize the entire financial community, and compelled the adoption of greater cautious-

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*More recent data show the following ominous trends:

1. The Philippine government recently sought its 10th extension of the moratorium on the repayment on principal loans which began in October 1983;

2. The total debt service for 1985 (interest and principal payments) amounted to $3.1 billion, which is approximately two-thirds of all export earnings of $4.7 billion for 1985;

3. The bulk of the 1985 debt-services went to interest payments totalling $2.8 billion, still a much lower amount than the $4.3 billion that would otherwise have to be paid if there was no moratorium on the bulk of principal repayments.

4. Debt-service Ratio for 1985 is estimated to be between 30-35 percent, which is lower than the 1984 ratio of 48 percent;

5. The debt-service for 1986 is expected to rise by about $300 million to $3.4 billion with the moratorium (without the moratorium on principal repayments, this will rise to $4.8 billion).

(Source: Rigoberto D. Tiglao, "RP's Debt-Service Hits $4.1 B", *Business Day*, 14 January 1986, p. 3.)

J. F. Bartolome

The real state of the country behind the facade of development and prosperity.

ness in extending loans. It also educated the depositing public in the risks entailed in money market transactions. It was during this time that public attention came to be sharply focused on the rapid growth of the so-called "crony" companies, corporations owned by known Marcos friends and associates. These companies had availed themselves of massive amounts of domestic and foreign loans as they expanded their operations at a dizzying pace. The most interesting representative of this new aggressive breed of Martial Law entrepreneurs was Herminio Disini who owned, at least in name, what were known as the Herdis group of companies. The "cronies" were notorious for "hijacking" successful corporations by forcing these to accommodate their participation, without having to contribute fresh capital. The instrument they used was political clout, which they deftly employed to favor, to protect, or to injure. Many entrepreneurs found it difficult, if not impossible, to operate under these circumstances and were thus induced to sell out and wait for more favorable times. Investors became progressively timid, and cynicism prevailed in the business community.

Borrowing Without Accountability

But the Marcos government exuded supreme confidence in the face of all these warning signs. International banks continued to lend the Regime more money, since the latter was willing to pay prevailing market interest rates. On the other hand, the IMF and the WB appear to have freely collaborated in this suicidal borrowing scheme. One proof of this is that they allowed, or at least tolerated, the Regime to radically exceed a legally-imposed limit of 20 percent on the debt-service ratio (i.e., interest + amortization/export earnings). In 1981, interest payments alone already totalled $1.4 billion, equivalent to 24 percent of export earnings for that year. The IMF itself estimates that the debt-service ratio went up from 21 percent in 1980 to 25.2 percent in 1981 to 38.1 percent in 1982. It was not until the early part of 1983 that the IMF began to insist on strict adherence to performance targets. By this time, the government was beginning to feel the marked slow-down in international lending.[14] Short-term borrowings to cover balance of payments deficits were increasingly difficult to obtain. Thus, when the BOP target set by the IMF for the whole year of 1983 was exceeded as early as during the first half of that year, the remaining balance from a 1982 IMF loan was withheld. As a remedial measure, the IMF also prescribed a 7.8 percent devaluation of the peso in June 1983.

The Aquino Assassination

The final blow came on August 21, 1983, the day former senator Benigno Aquino was assassinated at the Manila International Airport. His death sparked a series of spontaneous massive demonstrations throughout the country. Coming in the midst of widespread speculation concerning the state of Marcos' own health, these events served to reinforce the nervousness from which creditor banks were already suffering as a result of the Mexican default of August 1982. Almost immediately, revolving trade credits were suspended, new loans were recalled, intended investments were withheld, and creditors refused to renew maturing obligations. Worse, so much domestic capital flew out of the country. As panic gripped the entire nation, large amounts of money were withdrawn from the local banks and converted into US dollars. The official exchange rate of P11 to $1 was totally ignored as

the black market was offering as much as P25 to $1. Since essential imports had to be paid for in cash, the Central Bank reserves, which stood at more than $2 billion in December 1982, went down to $600 million one month after the assassination. In an effort to salvage an impossible situation, the Marcos government opened negotiations for a new loan from the IMF. But to demonstrate good intention, it had to agree to another round of devaluation, this time to P14 to $1, in October 1983. This, however, failed to dampen the black market, which continued to quote the dollar at P24 to P25.

Impact of the Crisis

The effect of all these on the whole economy was simply disastrous. Inflation rose to inconceivable heights, reaching up to 70 percent in October 1984. Credit became tight. With two successive devaluations, one in June and another one in October, the peso price of imported oil, of electricity, of transport fares and everything else that needed imported inputs had to go up. In a dependent economy like that of the Philippines, this meant practically everything - including rice, which was dependent on imported fertilizer and pesticides.

The negotiations with the IMF which involved SDR 615 million proved to be difficult and took more than one year to conclude, from October 1983 to November 1984. This was an interesting period. The IMF was dealing with a regime that enjoyed neither popular support nor respect at home or abroad. It had to deal with it anyway, not only because it was still in power by virtue of its control of the military, but also because the alternative to it was uncertain as far as the IMF and the banks were concerned. Such a situation encouraged the IMF Board to unleash its harshest conditionality.

Satisfying the IMF

First, the government was forced to devalue the peso further to P18 to $1, and later to P20 to $1, thus rounding off to 100 percent the devaluation began in June 1983. Prior to this, the government had to launch a "demand-management" program which involved essentially bringing down the amount of money in circulation. The most effective of these anti-inflationary moves was the issuance of treasury bills which paid very handsome interest rates compared to the interest earned by normal bank deposits. At their peak, these treasury bills were paying as much as 43 percent interest to depositors. Having mopped-up this "excess liquidity", the government managed to bring down the rate of inflation to manageable levels. The price paid for this achievement (if it is to be called that), however, has been the collapse of many businesses which were left out of the credit market. They simply could not afford the high interest rates at which peso loans were being offered. On top of this, with devaluation, the peso cost of imported inputs also went up. To further aggravate the situation, consumer demand remained low because people could not afford the new prices. Small and medium-scale enterprises were therefore left with no other option but to scale down their operations or to close shop altogether. In either case, this has meant increased unemployment. From the beginning of the crisis in October 1983 to the present - exactly two years - more than 600,000 Filipinos are estimated to have lost their jobs. This figure does not take into account the 700,000 new entrants into the labor force every year.

Meanwhile, new tax measures were implemented in October 1984, all aimed at generating additional revenues which would lower the government budget deficit, another requirement of the IMF. These tax measures embodied a characteristic IMF thrust: the tax burden must be shifted away from international transactions and towards domestic transactions. Accordingly, the government must lift the existing 1 percent tax on all foreign exchange transactions and the 5 percent surcharge on all imports as well as taxes on the use of vehicles (doubling of the road tax), on corporate income, on sales, on travel, on petrol, cigarettes and alcohol, etc. All these must be absorbed by the consuming public in the form of higher prices of goods and services, in the final analysis.

At the same time that taxes are being increased on almost all fronts, strict limits have been placed upon government expenditures. Limitations on wage increases and cut-back in operating outlays have been unequivocally prescribed by the IMF. This means basically that government institutions like schools and hospitals will have to make do with substantial reductions in their annual budgets, while the military, which the regime needs to smoothly implement these painful adjustment measures, will not be subjected to such drastic cuts. Equally important is the IMF condition that government financial transfers to public corporations be stopped, with the exception of those that are to be used to pay for the maturing foreign debts of these corporations.

A notable example of this self-serving exception is the National Power Corporation which owns the Bataan Nuclear Power Plant. The government has had to keep up its contributions to the NPC to enable it to service the interest payments on its $1.7 billion foreign debt, which amount to an overwhelming $350,000 per day. Yet all other government corporations have been asked to raise their own revenue. These include the MWSS (Metropolitan Waterworks and Severage System) which supplies clean water to Metro Manila, the NIA (National Irrigation Administration) which provides irrigation to farms, the National Electrification Administration, the National Housing Authority, the Philippine National Railways, the National Development Company, the Philippine National Oil Company, etc. Without any exception, all of these public corporations deliver goods and services to the population at large. The IMF expects them to be self-suffient henceforth through the simple expedient of raising the price of these goods and services. Beyond this, they are expected to sell all their non-performing assets, which were valued at approximately P60 billion in 1985.

IMF-Imposed Adjustment

Whether it is devaluation, or increased taxation, or excess liquidity mopping, or budgetary restraints - the IMF has given the country only one message: adjustment means tightening your belts and contracting your economy. Whatever gains may have been achieved by way of improved productivity in the preceding period have been eroded in only two years. Installed

capacity has been literally dismantled. The dismal sight of foreign merchants carting away entire sugar mills, mining equipment, lumber mills, tractors, bulldozers and construction equipment is replayed everyday. It is not the humiliation of literal foreclosure that is particularly disconcerting; rather it is the thought that the country, in the name of adjustment, is being reduced to what it was during the colonial times: a supplier of raw materials and agricultural cash crops. The country has now also become a manpower supplier of all kinds - prostitutes, entertainers, domestic servants, nurses, construction workers, and even mail-order wives.

Up to this point in time, the Marcos regime has played the game dutifully according to IMF rules, in spite of occasional outbursts of nationalist fervor. In the process, it has practically allowed the visiting mechanics of the IMF to supervise the entire adjustment program. But a year has passed and the program has not yielded even a glimmer of recovery; only further deterioration in the economy. Consequently, almost all the performance targets set by the IMF have not been met. The most difficult of all were the targets on export earnings, additional taxes, and ceilings on budgetary deficits. Like a stern father, the IMF has responded by withholding the release of the third installment of its loan, itself a condition for the release of the commercial loans and the signal for the start of rescheduling talks. Yet, as if in spiteful surrender, the regime seems to be telling the IMF: you created this problem, solve it your own way. In all probability, the Regime will eventually be bailed out by the IMF and the creditor banks. Outstanding obligations will remain unpaid, but the banks will have no choice but to reschedule them. Export earnings will never be enough to service the burgeoning interest charges. Therefore, as in a complex charade, new money will be made available so that interest arrears may be satisfied. The national debt will, of course, multiply, and the banks will continue to hope that the future generations of Filipinos will honor and repay their ancestral debts. The IMF may save the international financial system in this manner, but it will not be able to save the regime from political demise. The adjustment process has meant plainly the destruction of livelihoods for millions of Filipinos. But for how long can any regime preside over the systematic dismantling of an entire economy?

The People Fight Back

On September 20, 1985, the eve of the 13th anniversary of the declaration of Martial Law in the Philippines, 6000 people, mostly displaced workers from the sugar haciendas, were holding a rally in the town of Escalante, Negros Occidental, the country's largest sugar-producing province. Negros has been most severely hit by the collapse of sugar prices in the world market and as a result many sugar planters have refused to plant. In 1984, for instance, the whole country exported 2.2 million metric tons of sugar; for 1985, the government had deliberately cut back production to 1.6 million because of low prices. The Escalante demonstrators were among the workers who had been idled by this decision. Unarmed and totally defenseless, they sought to ventilate their grievances before the municipal hall of the town. What greeted them was something no one expected: the rapid fire of an M-60 machinegun perched atop the municipal building. This brutal assault against a helpless crowd produced 27 dead people, most of them shot while they were lying face down.

Elsewhere, workers have gone on strike or picket to protest dismissals and terminations. In 1984, 282 strikes were called, which is nearly double the number for 1983. Strikes from January to April 1985 increased by 51 percent from the comparable period of 1984. In September 1985, public school teachers in Metro Manila walked out of their classrooms to demand the unpaid portion of their salaries. In almost all of these instances, the response has been to employ repression and intimidation. In the cases of the school teachers, since it has bound itself to the IMF condition of wage freeze for government employees, the Regime threatened the striking teachers with suspension and termination. A mammoth march by farmers from Central Luzon is coming to Manila in October 1985 to protest against the removal of government subsidies for fertilizer, the increase in irrigation costs, and the dismantling of credit subsidies for the purchase of farm inputs. On the other hand, the opening of the second semester in November will likely revive university students' long simmering protest against increased tuition fees. What we have in all these examples are people desperately resisting the consequences of adjustment policies imposed by the IMF.

Regime Accounts of the Crisis

But the arrogance of the regime is unmatched. To account for the popular agitation all over the country, it has pointed to the subversive communist movement as being responsible for exploiting current difficulties. The crisis itself is cavalierly explained as nothing more than a result of the global recession. While periodically announcing bright prospects for the months ahead, the Regime has also encouraged opposition preparations for the coming local elections in 1986 and presidential

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Escalante victims.

elections in 1987, in an obvious attempt to divert popular attention from the impact of the crisis.

On the other hand, the US Establishment is actively promoting the view, in alliance with the anti-Marcos bourgeoisie, that the crisis is mostly the product of "crony capitalism", graft and corruption in government, misuse of public funds, mismanagement, profligate lifestyles of government officials, and unabated capital flight led by the friends and associates of the Regime. These accusations are all so patently obvious that they hardly need documentaton. However, they do not tell the full story, for they completely ignore the international dimension of the present Philippine crisis, a dimension that it shares with many other indebted countries in the Third World today. Consequently, it has not been possible for the US-leaning opponents of the Regime to give a full account of the problems of the sugar industry, other than to assert that the government has created the problem by monopolizing the international marketing of the commodity. Yet no amount of de-regulation in the industry, no amount of private entrepreneurial initiative, can possibly resuscitate an industry which has been killed by the terrible dumping practices of the developed capitalist countries.

Between Crises, Can Democracy Last?

Caught in the grip of a debilitating crisis, the Filipino people are probing the limits of economic resiliency. Interestingly, it is not so much the economic problem that consumes their attention now as the political prospect of terminating the dictatorial rule of the Marcos Regime. The economic crisis has created a political crisis for this Regime. And the Regime's crisis has spawned a new politics which challenges not only the validity of authoritarian rule but also the legitimacy of pre-martial law elite democracy. The rise of the so-called "cause-oriented" movements, of autonomous popular organizations that are challenging the supremacy of electoral politics, can only strengthen the Filipino nation. It cannot be denied, however, that the structures of the old political culture cannot be replaced overnight. Many people, especially from the rural areas, continue to look to the traditional ward leaders for political guidance. But it is clear that the demise of authoritarian rule will not spell an easy return to oligarchical politics. In short, barring a US-instigated intervention by the Philippine military, the probability is high that the next government after Marcos will be democratic.

Just how long such a democracy can last, without concrete changes in the world economic order, is a problem that needs to be seriously addressed. The situation of those Latin American countries in which democratic regimes came into being in the wake of the withdrawal of the generals has not been very encouraging. Argentina under Alfonsin and Peru under Alan Garcia may not last very long, though it is doubtful whether any general would come forward now to propose new economic solutions. At the same time, the IMF is aware that adjustment is not quickly implemented when the regimes they are dealing with do not bother to consult the people.

Yet the more important point is that even if a substantial portion of existing debts were cancelled, and interest rates considerably lowered, it remains uncertain whether the fragile and dependent economies of the South, regardless of whether they are led by democrats or dictators, can ever see an end to their persistent balance of payments problems if no radical restructuring of international economic relations were undertaken. We are not referring to First World protectionism alone or the declining terms of trade for Third World commodities. We are also referring to the international monetary system which assigns higher values to currencies like the American dollar than they deserve. We are referring to the vicious practices associated with TNCs, like transfer-pricing, the dumping of commodities, and the control of patents. We are referring to the present system which permits the IMF and the WB to enforce free market rules on developing countries that are barely able to compete in the open market, while turning a blind eye on developed countries like Japan, the US, and the EEC countries who erect impenetrable barriers to the products of the Third World. Finally, we are referring to

those practices by which governments employ official aid to corner markets for their own nationals, or to secure economic and political footholds in the recipient countries. For as long as such circumstances obtain, the future of the dependent South must remain bleak.

The Need for Self-Reliance

In the post-World War II period, the US dominated the world economy from a position of unequalled strength. Today, it continues to rule over the same world economy from a position of bankruptcy. This is an ironic fact, a scandal that becomes even more glaring when seen in the light of the pain that the global crisis is inflicting upon Third World countries like the Philippines. In this country, we are not permitted the luxury of choosing between devaluation and protectionism as a way of confronting our balance of payments problem. The IMF has simply decreed that what is best for the country is devaluation coupled with further liberalization of imports. In short, a crisis-stricken country, hobbled by foreign exchange scarcity, is being asked to buy more goods from the developed countries. What we are simply being told is that in the final analysis, the costs of global adjustment must ultimately be borne by the poor countries. Up to this point, we have had little choice but to pay the costs, a burden that we must carry while we await liberation from transnational subordination. But the lesson from the past four decades is inescapable: the developing nations can participate, meaningfully and confidently, in the world economic system only when they have become self-reliant.

What a self-reliant strategy of development exactly means in concrete terms must soon occupy the minds of Filipinos who are presently obsessed with the problem of getting rid of the Marcos dictatorship. Two problems must clearly be faced sooner or later. The first is the question of economic justice and what this implies in terms of a restructuring of property relations within Philippine society, as well as the role to be assigned, if any, to private enterprise in the development of the economy. The second is the question of economic autonomy, the mode of participation in the world economy that this implies and the significance of South-South alliances to a strategy of national self-reliance. These are vital questions that cannot be ignored. It is perhaps a measure of the Filipino people's impatience for change that up to now, they have simply clung to a version of apocalyptic or millenarian politics, a dangerous attitude which assumes that things will automatically fall into place after the great leap is made.

Notes:

[1] Third World Network, *Third World: Development or Crisis?* (Penang, July 1985), p. 17.

[2] Shahid J. Burki, "Debt and Adjustment: The Experience of South Asia & Sub-Saharan Africa", in Khadija Haq & Carlos Massad (eds.) *Adjustment With Growth* (Islamabad: North South Roundtable), 1984, p. 129-145.

[3] Emmanuel S. De Dios (ed.), *An Analysis of the Philippine Economic Crisis* (Quezon City: U.P. Press) 1984, p. 3.

[4] The rate of increase of the outstanding debt of the developing countries in nominal terms since 1972 has been estimated at 20% per year. The increase in the debt-to-GNP ratio sums up the picture graphically: from 14% in 1970 to 27% in 1983 (Burki, p. 130).

[5] See De Dios, 1984, p. 4, for example. On the other hand, Cheryl Payer dismisses the commonly accepted view which associates the debt crisis with the accumulation of petrodollars. Payer notes that: (a) while the private commercial banks did increase their lending after the oil crisis, the bulk of the money did not go to the countries most severely hit by the oil price increases, (b) the money went to the governments and the multilateral institutions who then lent it to the impoverished oil-importing countries, and (c) the oil exporters interestingly tended to borrow more relative to their export earnings than the oil importing countries. See Cheryl Payer, "Repudiating the Past", *NACLA Report on the Americas*, vol. XIX, No. 2, March-April 1985, p. 18.

[6] As it turned out, the enticingly low interest rates were illusory. The bulk of these loans were contracted at variable interest rates which permitted the banks to increase the interest charges in order to realize their guaranteed spreads. Burki (p. 131) notes, for instance, that "short-term interest rates increased from less than 5% in the early Seventies to over 20% a decade later".

[7] See, for example, Arnel de Guzman, "A Preliminary Analysis of Filipino Labor Outmigration", *KASARINLAN* vol. 1, No. 1 (Third Quarter, 1985). See also Katherine Gibson, "Situating Migrants in Theory: Some Conceptual Issues Posed by Filipino Contract Workers", paper presented at the Institute of Australian Geographers' Conference, Brisbane, May 1985.

[8] This is a thesis that the present author develops at length in his paper "Dictatorship and Development: The End of the Illusion" *New Asian Visions*, vol. 2, No. 1, 1985.

[9] Government and private constructing expenditures alone grew from an average of P6 billion during the first half of the 1970s to P25 billion during the second half (De Dios, 1984, p. 11) See also Leonor M. Briones, "The Debt Burden: Magnitudes, Costs and Problems", *Philippine Journal of Public Administration, vol. XXVII, No. 4 (Oct. 1983)*.

[10] As Alfred J. Watkins put it: "First, what matters to banks is not the economic feasibility of any individual *project* but the economic prospects of a *country*, that is, whether a nation can earn enough dollars by exporting goods and services to repay its loans. If it can, even loans for unproductive purposes, like luxury condominiums in Miami, are perfectly sound." (Alfred J. Watkins, "Going For Broke", NACLA Report, vol. XIX, No 2, p. 36).

[11] For an excellent discussion of recent crucial changes in the role of the IMF in maintaining the global capitalist system, see Ron Phillips "The Role of the International Monetary fund in the Post-Bretton Woods Era", *Review of Radical Political Economics*, vol. XV, No. 2 (Summer, 1983).

[12] See Maria Teresa Diokno. "The Impact of the IMF on the Filipino People", *The Philippines in the Third World Papers*, 1984.

[13] Coconut oil exports, a major dollar earner, suffered a decline of 80% during the period January-August 1985, compared to 1984. On the other hand, semi-conductor exports went down by 13.5% during the same period. See *Business Day*, Nov. 15, 1985.

[14] IMF estimates show that without the much-needed rescheduling, the Philippines would have to shoulder a debt-service obligation of approximately 48.1% in 1984, 48.8% in 1985, and 48.4% in 1986. These figures are taken from an unpublished document of the IMF Executive Board, dated Nov. 5, 1984.