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APPENDIX 1.4

Intelligence Assessment, "Philippine Economic Decision Making: The System and the Players" by the Central Intelligence Agency, United States of America, March 1983

A profile of Cesar E.A. Virata as a member of the "Gang of Four" economic technocrats—the other three being Central Bank Governor Jaime C. Laya, Minister of Industry and Trade Roberto V. Ongpin, and National Economic Development Authority Director General Placido L. Mapa Jr.—is included in this United States Central Intelligence Agency (CIA) assessment. The CIA generally had a negative view of Virata's influence, even though he was already at the height of his career in public service as prime minister/minister of finance. Laya's office was accorded more influence. Excerpts: "Even though he heads the technocracy, Virata's record suggests that he is among the least dynamic of its members;" "We believe the budget process has become unwieldy under Virata and Budget Minister Manuel Alba, who have yet to adapt the process to the recent growth of public-sector investment spending;" "On balance, we believe the strength of Virata's political position—and perhaps eventually his ability to make economic policy independently of political pressure—has eroded since early 1982."

Directorate of
Intelligence

Secret

Philippine Economic Decision Making: The System and the Players

An Intelligence Assessment

This assessment was prepared by
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Philippine Economic Decision Making: The System and the Players[1] [redacted]

The Economic Decision Making Apparatus

Question: "What three parties run the Philippines?" Answer: "Ferdinand Marcos, Imelda Marcos, and the International Monetary Fund."

(Joke making the rounds in Manila)

Balance-of-payments strains and sluggish growth since 1980 have rapidly shifted the process of economic policy formulation in the Philippines in favor of two groups: the technocrats—led by Prime Minister (and Finance Minister) Cesar Virata—who collectively run the key government policymaking agencies, and international financial institutions—headed by the International Monetary Fund and the World Bank—that require changes in economic policy in exchange for continuing balance-of-payments support.[2] The sponsorship of the Fund and the Bank and the advocacy of the technocrats account almost exclusively for recent trends in economic policy. [redacted]

Three other institutional interests influence economic policy. The most important are the politically well-connected—especially business interests close to President Marcos—who collectively manage most processing industries for primary commodities. Government ministries and state enterprises outside the control of key technocrats also have numerous policy responsibilities and comprise the rest of the government decisionmaking patchwork. Outside of government, several private think tanks and lobbying groups are prominent advocates of various approaches to economic strategy. Although they have been especially active during the past few years stimulating a lively public intellectual debate about policy, they hold widely divergent views and do not present a united front. [redacted]

[redacted]

How the Marcos System Works

Manila's actual policymaking is the product of interaction among the individual players. US Embassy and intelligence reporting since the early 1970s shows that Marcos favors a collegial style of decisionmaking in which he reads numerous position papers prepared by his staff. Though it is often difficult to tell how actively he is involved in the economic policy process, we are certain that all major decisions require his approval. Less critical decisions are determined by the relative influence Marcos awards key coordinating agencies in the decisionmaking system. [redacted]

The current decisionmaking framework is the product of constitutional amendments of Marcos's own design that closely followed the dismantling of martial law in January 1981. The executive branch was reorganized along the lines of the French-style strong presidential system. Marcos's choice of Virata as Prime Minister was dictated, we believe, largely by economic events at the time—especially the ongoing financial crisis.

[redacted]

Assessing the Technocrats' Performance. Aside from its managerial competence, the gang of four's chief strength is its reputation for being apolitical and

Table 1
The Philippines: Institutional Interests in Economic Policy Formulation

Institution	Remarks
Decisionmakers within government	
Key ministries	
Central Bank	Most powerful institution in influencing the direction of the economy. Generally favors conservative monetary policies and exchange rates that somewhat overvalue the peso. Philippine equivalent to the US Federal Reserve. Along with other ministries, advocates free market policies with selected price-distorting mechanisms that favor domestic entrepreneurs.
Ministry of Finance	Has supported expansionary spending policies. Equivalent to the US Treasury.
Ministry of Energy	Among the most favored ministries in the budget.
Ministry of Agriculture	Least influential ministry.
Ministry of Labor and Employment	Manages overseas employment programs and domestic industrial relations. Industrial relations policy debated by tripartite government, business, and labor groups in a highly publicized manner atypical of other policy issues.
Ministry of Human Settlements	Run by Imelda Marcos. The Philippine equivalent to the US Department of Health and Human Services.
Ministry of Trade and Industry	Functions sharply expanded in recent years.
Selected state enterprises	
National Power Corp.	Handicapped by artificially low electricity rates.
Philippine National Oil Company	Charged with refining and distributing petroleum, mostly imported.
Philippine Air Lines	Among the least sound financially of the state firms.
NASUTRA (National Sugar Trading Corp.)	Responsible for export marketing.
PHILSUCOM (Philippine Sugar Commission)	Responsible for domestic management of sugar industry; among better run of state firms. Administered by Roberto Benedicto, a close associate of President Marcos.
UNICOM (United Coconut Oil Mills)	Semiprivate, controls processing of raw coconut. Run by Eduardo Cojuangco, a close associate of Marcos, and Defense Minister Juan Ponce Enrile.
PCA (Philippine Coconut Authority)	Oversees enormous coconut industry, including research, marketing, finance.
State financial organizations	
United Coconut Planters Bank	Finances coconut trade and price stabilization scheme administered by the PCA.
Philippine National Bank	Largest bank in the Philippines. Provides corporate finance and equity. Headed by Gerardo Sicat, formerly director of NEDA and longtime advocate of economic policy reform.
National Development Company	Holds equity stakes in 40 private firms. Expanding rapidly.
Development Bank of the Philippines	Holds equity stakes in 122 private firms. Recently referred to by one US banker as the "financial junk heap of the Philippines," as a result of the poor financial condition of the firms it has acquired.
Coordinating bodies	
The Monetary Board	Financial coordination: foreign and domestic government borrowing, monetary and exchange rate policy. Chaired by Virata.
NEDA (National Economic Development Authority)	Coordinates long-term planning. Weaker institution than several years ago. Advocate of high interest rates and small budget deficits as a technique of balance-of-payments management. World Bank and IMF restructuring program advocated for a decade by NEDA before implemented as policy in 1980.
Overall policy design	
Office of the President	Decides all matters of consequence, channels issues to other institutions via Executive Committee.
Office of the Prime Minister	Has acquired much of palace's decisionmaking machinery since 1981. Incumbent an advocate of market-oriented economic policies, but strongly nationalistic.
The Executive Committee	Considers largely technical matters according to agenda forwarded from President through Prime Minister.
The National Assembly	Essentially a rubberstamp, completely dominated by ruling party apparatus. Nonetheless plays more active role in discussion of policy than several years ago.
Influential interests outside government	
International institutions	

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Table 1 (continued)

Institution	Remarks
The IMF	Provides short-term balance-of-payments support, requiring suitable monetary, fiscal, and exchange rate policy as precondition. Despite occasional criticism, the Fund and other official lenders have few fundamental disagreements with Manila over policy design. With other official creditors, advocates market-oriented economic policy.
The World Bank	Provides long-run development finance generally without preconditions on domestic economic policy. An exception is the $650 million balance-of-payments structural adjustment program.
The Consultative Group	The Philippines' consortium of foreign aid donors; examines the economy in detail at annual meetings while coordinating aid flows.
Domestic think tanks and lobbying groups	
The Center for Research and Communications	A privately funded policy analysis and forecasting group without formal ties to the government. Exercises some influence on government through its ties to private investors and informal links to the technocrats, but under political pressure has reportedly tailored some of its judgments to what the government wants to hear. Headed by Harvard-trained economist Bernardo Villegas.
SGV Accounting (SyCip, Gorres, and Verrano)	A financial consulting and accounting firm; trained Laya, Virata, Ongpin, and other technocrats in the practicalities of financial management. Not an active advocate of a particular economic strategy, we believe its alumni nonetheless are imbued with a bias against multinational corporations.
The Makati Business Club	A loose conglomeration of business interests, including several opposed to Marcos. During the summer of 1982, conducted a public reexamination of economic policy, calling for far-reaching changes amid charges of a "crisis of confidence" in government. Headed by Enrique Ayala-Zobel, an oligarch whose wealth predates the Marcos era.
The Philippine Chamber of Commerce and Industry	Key lobbying group of local business interests. Vigorously opposed to economic restructuring program. Advocates discretionary assistance to the private sector. Headed by Fred Elizalde, an industrial oligarch with ties to the President.

honest. Several are extremely wealthy, but none has vested interests that compromise policymaking. Marcos has even claimed he is grooming Virata for a possible role as successor, though most astute political observers doubt the Prime Minister's political acumen.

Their record indicates that the technocrats bring to policymaking a healthy pragmatism and the will to resist tailoring their judgments to what the President would like to hear. Virata and Ongpin, unlike many other presidential advisers, are candid with Marcos,

They are also willing to confront entrenched economic interests when they believe the integrity of policy is at stake and are thus ideally suited to the role of engineers of economic and social policy reform. They have long been advocates of overhauling government trade and industrial policy, for example.

The technocrats are adept at using their excellent international reputations to bolster confidence in the government's policies. Laya, for example, is credited by international bankers with saving the country from financial calamity with ad hoc measures in 1981. We believe the lynchpin of his strategy was successfully shifting blame for the crisis onto a financier who had fled the country, while Manila defended the peso in the face of an estimated $800 million in capital flight. As a result, the government's international credit rating remained unblemished, and Manila bought valuable time in which to implement a financial rescue operation.

Though their prominence has unquestionably improved policymaking, in our judgment the gang of four has weaknesses that prevent them from living up to the image Manila has created in the eyes of private foreign bankers. We believe the formulation and execution of policy are slow, so the policy response lags changes in international economic trends. In addition, uneven administrative performances impair policy coordination. Even though he heads the technocracy, Virata's record suggests that he is among the least dynamic of its members. Meanwhile, Ongpin in our judgment has developed into an empire builder, reflecting his training as a manager rather than as an

A Profile of Interest Groups

The Technocrats

Manila's present staff of technocrats rose to positions of prominence during the financial crisis of 1981, when the collapse of the domestic commercial paper market left the private sector without short-term financing and the existing government decisionmaking apparatus with severely damaged credibility both at home and abroad. Best known among them is a group respectfully referred to within government as "the gang of four"—Prime Minister and Minister of Finance Virata, Central Bank Governor Jaime Laya, Minister of Trade and Industry Roberto Ongpin, and Planning Minister Placido Mapa (see appendix A for personal profiles). Through their individual ministries, they are jointly responsible for budget management and fiscal policy, exchange rate and trade policy, investment regulation and industrial policy, money supply control and financial regulation, development planning, and economic policy coordination. Except for Virata, the technocrats are young and less tradition bound than their predecessors.

A background of training in US graduate schools and a strong inclination towards nationalism mark the technocrats' intellectual makeup. We believe all recognize the strength of market forces in designing policy, but all are essentially Keynesian in philosophical outlook. Thus, fiscal policy designed to boost domestic spending is consistently an element in their policy design along with a preference for prices set by market forces. According to many Philippine government officials, the technocrats see this approach as a way of reducing the role of influence and corruption in the daily running of the economy, thereby increasing economic efficiency.

In our judgment, nationalism rather than laissez faire, however, rules the technocrats' decisions on financial planning. We believe Manila's current corporate rescue program is designed largely to keep management in Filipino hands while improving corporate efficiency, because the technocrats regard foreign investment as competition for indigenous entrepreneurs. When the investment treaty governing US investments expired in 1974, for example, Virata as Minister of Finance successfully lobbied for a foreign borrowing program to fuel development rather than to liberalize foreign investment regulations. The country's foreign investment procedures remain among the most complicated in Southeast Asia, as a result, according to US Embassy officials.

The Official Creditors

Though executed by the technocrats, the most far-reaching changes in domestic economic policy since 1979 have been undertaken at the insistence of the International Monetary Fund and the World Bank, the country's two leading creditors. The Philippines is among several developing countries engaged in a jointly sponsored IMF–World Bank industrial restructuring program requiring adjustments in tariffs, interest rates, foreign exchange controls, and exchange rate policy—combined with limits on growth of the money supply and on foreign borrowing. Professional journal articles and academic treatises by technocrats less influential than the current group show that they advocated similar measures during the early 1970s. In exchange for policy reform, initially resisted by the government because of anticipated objections from the politically powerful private sector, Manila is receiving credits from the Fund and up to $850 million in World Bank loans covering 1981-85 to modernize key industries.

The Well Connected

Economic oligarchs have run key sectors of the economy—ensuring operational control and policy influence for the well connected. Through control of state enterprises, personal associates of Marcos set policy in two critical agricultural sectors, the sugar and coconut industries, which provide income for an estimated half the population. Sugar production, processing, financing, and marketing are controlled by former Ambassador to Japan Roberto Benedicto, and similar activities in the enormous coconut industry are controlled by National Assemblyman Eduardo Cojuangco and Defense Minister Juan Ponce-Enrile. The Ministry of Agriculture has no role, even as a coordinating agency.

Marcos has relied on other political allies to develop the domestic construction, finance, and heavy industries, thereby constraining, in our judgment, the latitude of important government ministries in setting financial and industrial policy. This intensifies the charges by political opponents of cronyism and corruption. Manila's decision to provide up to $650 million in financial assistance to failing private firms in early 1981 was criticized by less influential businessmen who claimed that financial policy was compromised to bail out friends of the President. Most businessmen, however, according to US Embassy officials, believed Manila had little choice but to intervene to prevent the economic dislocation that would have resulted from a string of corporate bankruptcies. Moreover, the government required streamlining and management reorganizations as preconditions for financial assistance and injections of public-sector equity capital. As a result, one prominent US banker told US Embassy officials in July 1982 that cronyism had been reduced.

Key Players in the Public Debate Over Economic Policy

Best known of the research groups is the privately funded Center for Research and Communications (CRC). Largely a consultant to investors, the CRC nevertheless publishes widely on national policy matters and economic trends, providing the government an informal indicator of the private sector's expectations and preferences on policy. The CRC's publications show that it has been supportive of the technocrats and their policies and has occasionally criticized Marcos. It has advocated limiting the role of government and avoiding the development of an industrial policy it refers to as "lemon socialism"—keeping inefficient firms afloat with public funds. The CRC has told US Embassy officials that the role of cronyism in diluting policy formulation is on the wane.

The CRC's only direct ties to the government are informal contacts with presidential assistant Alejandro Melchor. Some US Embassy officials believe, moreover, that the CRC has succumbed to political pressures recently by altering the conclusions of its research to make them more acceptable to the government. For this reason, we believe the CRC's value in the policy debate is declining.

A group of leading businessmen known as The Makati Business Club has tried to develop its own dialogue with the government. Established in mid-1982, the club's chief purpose is to persuade Manila to improve the integration of the private sector in national development as a way of defusing political instability and halting the country's economic slide. Its plan calls for the adoption of a labor-intensive growth strategy, deregulation of key industries, accelerated land reform, and a halt to state capitalism. The club, which includes businessmen with ties to Marcos's political opposition, has been critical of government corruption and inefficiency, cronyism, limits to free expression in the media, and even the technocrats because of the current trend toward larger government. US Embassy reports and press coverage reveal that the government has been tolerant—if not always receptive—to the club's views, which have been repeated with increasing frequency as the economy performs poorly and the rural Communist insurgency expands.

Among several persuasive lobbying organizations is the Philippine Chamber of Commerce and Industry (PCCI), a group of manufacturing interests heavily oriented toward the domestic market. The PCCI takes positions reflecting its own interests on a wide variety of issues, ranging from domestic energy prices to interest rate policy. Most of its recent energies have been focused on opposing the IMF– and World Bank–sponsored economic liberalization program. It has taken its case aggressively and persuasively to the press, and we believe it is taken seriously by government officials.

Table 2
Assignment of Policy Responsibility to Leading Economic Problems

Economic Problem	Policy Instrument	Responsibility
Short-run balance-of-payments instability	Exchange rate	Central Bank
Long-run balance-of-payments instability	Exchange rate and industrial policy	Central Bank and Ministry of Trade and Industry
Foreign debt service	Ceiling on new loans, refinancing	Central Bank via Monetary Board and debt management office
Central government dissaving	Spending and revenue management	Ministry of Finance
Short-run growth instability	Short-term credit to the private sector, pump priming	Central Bank via state banks, Ministry of Finance
Slow long-run growth and lagging productivity in:		
Agriculture	Exchange rate policy, land reform, input subsidies, credit to farmers	Central Bank, Ministry of Agriculture, Ministry of Human Settlements
Manufacturing	Exchange rate policy, commercial policy, investment regulations	Central Bank, Ministry of Trade and Industry
Low return investment bias	Interest rate	Central Bank via money supply growth and capital controls
Low risk investment bias	Capital market development, public-sector investment	Central Bank, Ministry of Trade and Industry via NDC
Capital-intensive investment bias, unemployment, and skewed income distribution	Exchange rate, capital equipment subsidies	Central Bank, Ministry of Trade and Industry
High population growth rate	Family planning	National Economic Development Authority
Inefficient land utilization	Land reform, infrastructure investment	Ministry of Agriculture
Energy import dependence	Investment in hydro, geothermal, and nuclear power. Pricing of gasoline, electricity. Promotion of oil exploration.	Ministry of Energy, National Power Corp.

economist. A "doer" rather than a designer of policy, many government officials say that Ongpin's Americanized style is out of place in the traditionally nonconfrontational environment of Filipino policymaking.

Policy planning and coordinating mechanisms headed by the technocrats perform inconsistently, in our judgment. The Monetary Board, chaired by Virata with representation from most ministries, independent agencies, state enterprises, and financial organizations, meets weekly to plan financial policy. We believe its management of the foreign borrowing program is well above Third World standards, but the expansion of foreign borrowing since 1980 has sometimes placed too many loans in the international capital market at once, making potential lenders nervous and occasionally aborting the borrowing plans of state agencies. The board's efforts to develop local capital markets by reforming financial regulations have sometimes been at odds with growing government deficits, which have soaked up an increasing share of national savings even as reforms in financial regulations were implemented to stimulate savings. Last year, for example, the public-sector deficit reached 4.2 percent of GNP, and the sector accounted for over half the economy's net credit creation. In our judgment, economic nationalism has also compromised financial planning by limiting the role of foreign investment in tapping new sources of capital.

We believe the budget process has become unwieldy under Virata and Budget Minister Manuel Alba, who have yet to adapt the process to the recent growth of public-sector investment spending.[3] Last year implementing ministries and state corporations prepared individual capital budgets that exceeded available resources by over 65 percent, according to reports published by the World Bank. As for the long-term planning process, we believe the National Economic

[3] In the early 1970s capital expenditures constituted only 10 percent of the national budget and the role of the state enterprise sector was relatively small; capital spending took 30 percent of total government outlays in 1981, according to the World Bank.

Development Authority (NEDA), which resets development priorities every five years, and Planning Minister Mapa, who is the only formally trained economist among the technocrats, have lost influence recently to the Ministry of Trade and Industry because of Ongpin's aggressiveness. NEDA's chief role is that of coordinator between the Central Bank and key ministries. The coordination process is described by NEDA officials as "consensus seeking" and nonconfrontational, and, for this reason, we believe the chain of planning authority is weak. [redacted]

Recent Developments. Even at the height of Virata's authority, economic policy has emerged only after continued battles between the technocrats and well-connected interests that control key sectors of the economy. [redacted] The outcome of recent policy battles, however, suggests to us that the technocrats are prevailing over crony interests more frequently than they did during the 1970s. [redacted]

The most widely reported and controversial contest over the past several years has concerned the coconut levy—a tax on processed coconut that finances a price stabilization scheme for farmers. Several financial institutions run by Eduardo Cojuangco administer the program, and the scheme has financed industry consolidation under an umbrella organization controlled by Cojuangco and Enrile. Worried by the rapid growth of the Communist insurgency in the coconut-growing regions in late 1981, Virata persuaded Marcos to drop the levy in favor of higher prices for farmers. Industry management prevailed several months later to have the levy reinstated, however, [redacted] Virata threatened to resign. In January 1982 he persuaded Marcos to "float" the levy on a sliding scale dictated by international prices, and later in the year succeeded in suspending the levy completely when prices fell further.[4] [redacted]

[4] The suspension is temporary, and we believe the debate is certain to be rekindled when international prices again rise. In the meantime Marcos has chosen to help the severely depressed coconut industry with other policies, including a privately administered but publicly funded investment program. [redacted]

The President has also allowed the technocrats to have their way recently on a variety of other matters. The business empires of Marcos allies Herminio Disini, Rodolfo Cuenca, and Ricardo Silverio have been reorganized, despite their objections, under technocrat management to achieve economic efficiency. Ongpin was also successful in 1981 in a bid to scale back the controversial and publicly financed gasahol program to be directed by Roberto Benedicto. There remain limits to the technocrats' power, however. For example, Virata's $2.4 billion ceiling on the country's foreign borrowing for 1982 was breached by government guaranteed foreign loans secured by private corporations receiving government financial assistance. [redacted]

On balance, we believe the strength of Virata's political position—and perhaps eventually his ability to make economic policy independently of political pressure—has eroded since early 1982. His relationship to Imelda Marcos, a political power in her own right, is tenuous. [redacted] When Marcos appointed his wife to the Executive Committee in August 1982, against his pledge to Virata that he would not do so, Virata's prestige suffered considerably, [redacted] The Executive Committee under Virata's leadership, moreover, has yet to consider its first sensitive political or economic issue. [redacted]

The Decade Ahead: A Notional View of Economic Policy

The Necessity for Choosing Wisely. In our judgment, Manila's economic policy making during the coming decade will depend critically on the degree of urgency Marcos attaches to the economy's problems and the potential political fallout they may produce. We believe that the outlook for the economy over the next several years is poor and that the most formidable tests of Marcos's economic decision making system are just beginning. As a result, the technocrats are