

Development Crisis in the Philippines

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TWO YEARS AFTER THE FEBRUARY 1986 Uprising which toppled the Marcos regime, the Philippine economy under the Aquino government continues to suffer from the same development crisis which afflicted the previous regime. This stems from the fact that the Aquino government has chosen to adopt the same economic model for development followed by the Marcos regime. Such an economic model subsists on the belief that heavy reliance on foreign investments and export markets would spur economic growth, and thus engender development in the periphery. This calls for no less than the maintenance of the peripheral economy's integration within the global capitalist economy.

The pursuit of a dependent form of capitalist development under the authoritarian regime of Marcos led not to the development of the economy, but to the development of a crisis. It is doubtful therefore to assume now that the liberal democratic regime of Aquino would be capable of taking the economy on the road to recovery by using the same development path used by the Marcos regime in plunging the country into crisis.

Crisis in the Periphery

According to Samir Amin, tying up the fortunes of the peripheral economy to the world capitalist system courts inherent inequalities. He pointed out that historically speaking, worldwide capitalist expansion is accompanied by a growing inequality in the social distribution of income in the periphery, while at the system's

core, it effectively creates the conditions for a lesser degree of social inequality.¹

Indeed, the ability of the capitalist centers to export crisis from its domain into the periphery, and accumulate surplus in return, could be greatly appreciated by looking at the debt issue. The debt problem currently facing many Third World countries could, in fact, be viewed as an outgrowth of the general crisis which confronted the advanced capitalist countries in the 1970s. This crisis of late capitalism was reflected in a remarkable decline in investment growth in the advanced nations. Given the rapid expansion in liquidity that could not be absorbed in the center, the international banks thus came to play the role of pushing funds out into the periphery of the world system in the form of loans.² The financial centers of the capitalist world had benefitted heavily from the heavy borrowings in the 1970s made by many Third World regimes, many of which were authoritarian in nature. In 1977, Citibank came out with a brochure entitled *The Emerging Role of Private Banks in the Developing World* which pointed out the endless opportunities open for international banks to realize handsome profits by lending, at high interest rates, to Third World countries which are constantly in need of loans due to their chronic current accounts deficits.³

With the explosion of the debt crisis in the 1980s, many debtor countries resorted to the practice of borrowing to service maturing loans. In the Philippine case, it is estimated that 70% to 80% of the foreign debt incurred since the early '80s have been used to pay interest on old loans.⁴

The Philippine Debt Crisis

The Philippine foreign debt ballooned from about \$2.1 billion in 1970 to more than \$25 billion in 1983.⁵ As of December 31, 1987, the Philippine debt stood at \$28.629 billion.⁶

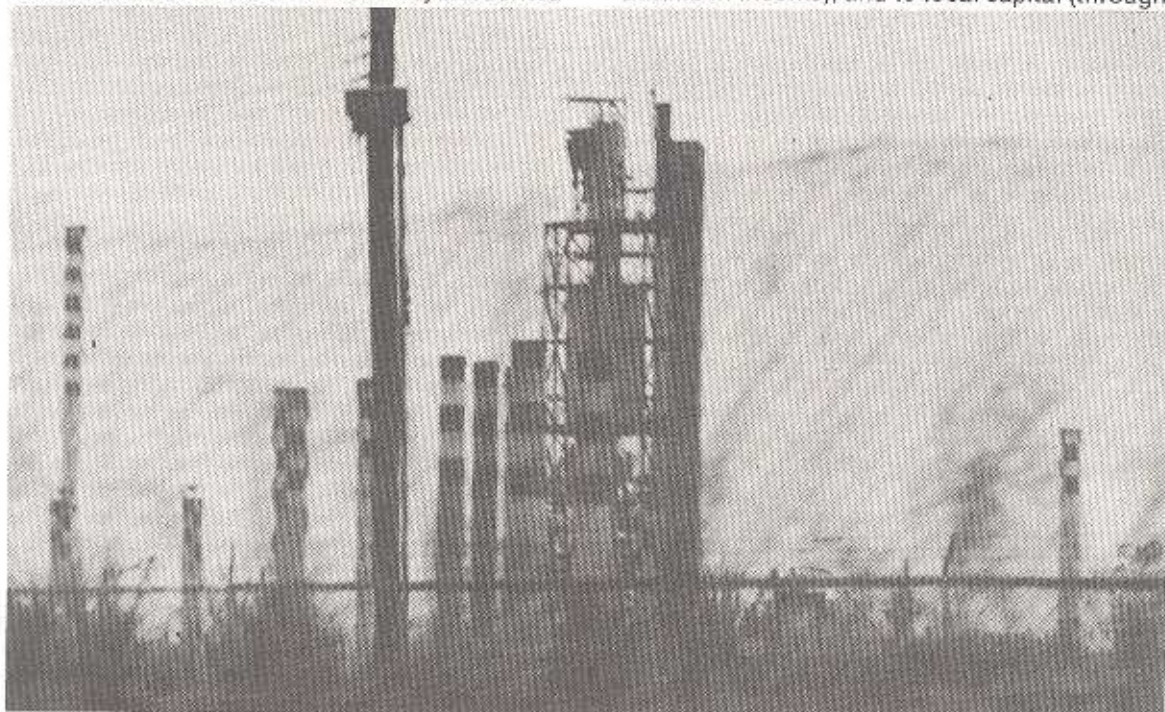
The Aquino government so far has taken a very conventional approach to the debt problem. Despite the fraudulent character and onerous terms of a substantial portion of the foreign loans incurred under the Marcos regime, the Aquino government has decided to honor all existing debt commitments.⁷

As a result of this debt policy, a large slice of the national budget, which could have been utilized for development projects and social services, is being allocated by the Philippine government annually to service the debt burden. In 1986, the debt service burden already accounted

and natural resources.¹⁰

In this regard, the IMF-World Bank as guardian of the interest of lending institutions in particular, and the world capitalist system in general, exerts tremendous efforts to ensure that the national market of the peripheral economy remains open to foreign capital and foreign goods.¹¹

Due to the lack of political will and the heavy indebtedness of many Third World regimes, the IMF-World Bank has often been a crucial force in the restructuring of Third World economies to make it conform to its stabilization and austerity measures. In the observation of Petras and Brill, what is called stabilization by the IMF is, in fact, destabilization to the peripheral economy (through transfer of surplus to the center), to the working class (through unemployment and decline in income), and to local capital (through



for 48% of the national budget. For 1987 and 1988, the share was 42% and 40% (more than P60 B) respectively.⁸

The enormity of the Philippine debt problem is encapsulated in a Central Bank study which showed that the debt service burden of the Philippine government for the next five years (from 1988 to 1992) would reach up to \$16.907 B. Interest payments alone will constitute \$11.741 B or 69.44% of the total debt service.⁹

However, the prospect of collecting hefty interest payments does not exhaust the plethora of reasons why creditor nations and institutions in the capitalist centers are more than willing to lend money to the periphery. As Magdoff would put it, the extension of loans serve as a door-opener for markets, investment opportunities

credit squeezes and resulting bankruptcies.)¹²

Continuities in Economic Policy

Immediately after she assumed the reins of government, President Aquino reappointed Jose Fernandez as Central Bank Governor, as if to emphasize the new regime's unwillingness to break away from the economic policies of the past. In June 1986, President Aquino's Cabinet approved the *Policy Agenda for People-Powered Development* which shares a very close affinity to the 1984-87 development plan prepared by former Finance Minister Cesar Virata and NEDA (National Economic and Development Authority) Director-General Vic-

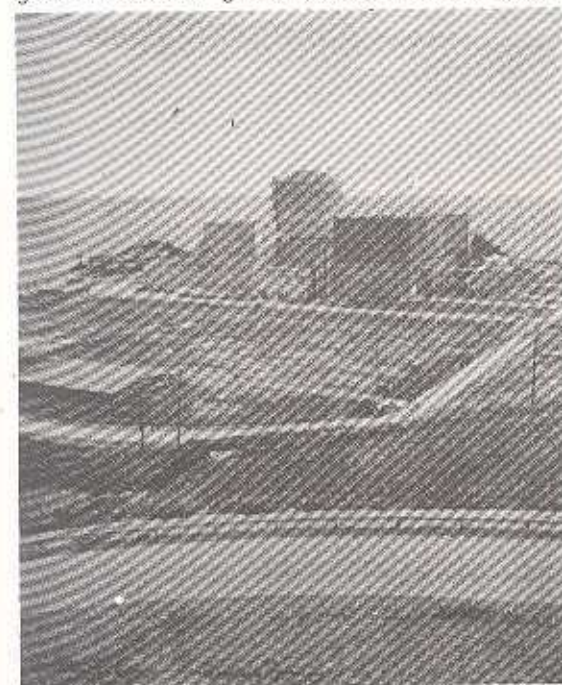
ente Valdepeñas based on the policy guidelines set by the IMF-World Bank.¹³

In general, the economic program of the Aquino government, which hewed closely with the IMF-World Bank's idea of economic development, could be characterized by the following features: (1) commitment to pay all foreign debts; (2) encouragement of foreign investments; (3) debt-to-equity conversion scheme; (4) privatization thrust; (5) export promotion; (6) import liberalization; and (7) wage policy based on market determination.

Reliance on Foreign Investments

The Aquino government's efforts to showcase the existence of political stability in the Philippines is in large measure part and parcel of its efforts to entice foreign investors to come to the country, as if political stability exists for foreigners rather than for Filipinos. By virtue of this policy to encourage foreign investments in the country, the Aquino government is forced to abandon its rhetorical centrist posturing and take a clear stand favoring big business at the expense of labor. In a speech before prospective foreign investors, President Aquino promised to look into the possibility of forging a strike moratorium between labor and management.¹⁴ A ban on strikes would in fact violate the Constitution which recognizes the right of workers to unionize and strike for their common welfare.

Even if there is political stability, it remains doubtful whether foreign investments would really spill into the country in substantial amounts, considering the slackening of the growth rate on a global scale. This has been



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"The Philippine economy continues to suffer the same development crisis... (because) the Aquino government has chosen to adopt the same model followed by Marcos."

attributed to the crash of stock markets worldwide which was precipitated by the collapse of the American stock market on the Black Monday of October 19, 1987.¹⁵

Debt-to-Equity Conversion Scheme

One of the mechanisms devised for alleviating the Philippine debt problem is the so-called debt-to-equity conversion program (Central Bank Circular No. 111) which was first implemented in August 1986. The debt conversion scheme operates in such a way that investors are allowed to buy at a discount the country's debt papers from the secondary market. The debtor country then officially retires the debt and the buyer of the debt papers uses the peso proceeds to make an equity investment in the country.¹⁶

Once again, this set-up opens the economy to greater control by foreign entities. Since its implementation, approved transactions amounting to \$280.9 M have raised foreign investment by \$15 M in 1986 and \$166 M in 1987, or a total of \$181 M.¹⁷

However, it has been observed that debt-to-equity swaps have been discovered to be very expensive for the countries which undertook such programs since they do not elicit any additional foreign fund inflows. At the same time, the program endangers the stability of the money supply and the exchange rate.¹⁸

Privatization Thrust

The privatization policy is meant to emphasize the "free enterprise" ideology guiding the Aquino government. The economy is supposed to function more efficiently through the market mechanism when government is taken out of the backs of business. In line with this policy, the



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Aquino government has started selling government-owned and controlled corporations (GOCCs) to the private sector. Some 108 GOCCs, with assets amounting to \$7.65 B, have been laid on the block.¹⁹

The implementation of Proclamation 50, which creates the Asset Privatization Trust, has harbored fears that the privatization policy would lead to the massive retrenchment of government employees and the further tightening of foreign control over the economy. Such fears have been proven correct in the case of Cebu Plaza Hotel which was sold for P328 M by the Development Bank of the Philippines and the Philippine Tourism Authority to Pathfinder, a foreign-owned company. The sale did not only result in the transfer of ownership to foreign entities; the turnover of hotel management which followed in its wake likewise led to the termination of 592 employees. Such incidents have encouraged assessments within the labor ranks that the privatization program is an effective instrument for union-busting.²⁰

In the past, the IMF-World Bank has voiced its strong opposition over the establishment of government corporations and monopolies by Marcos crony capitalists. It should be clarified, however, that the financial institutions were opposing the government monopolies during that time not because they were genuinely interested in seeing through the democratization of the Philippine economy. The IMF's main line of opposition to crony capitalism centers on the fact that the domestic monopolists closely linked to Marcos stood in the way of foreign penetration of the economic sectors under their control. With the privatization policy of the Aquino government, such problems have been erased.²¹

Export Promotion Strategy

Instead of endeavoring to develop a domestic market, the Aquino government has instead chosen to continue with the Marcos regime's export-oriented industrialization strategy. By relying on the export market as the engine of growth, the government thereby professes its wish to follow the footsteps of the so-called newly-industrialized countries (NICs) like South Korea, Taiwan and Singapore. However, prospects for Philippine development along NIC lines is relatively bleak considering the severe competition for shrinking markets, rising protectionism and stagnating world trade existing at present.²²

Moreover, it should be pointed out that unlike in the Philippine case where export promotion is anchored on agricultural development prioritized over the development of basic industries, in the Taiwan and South Korean cases, agricultural and industrial development proceeded simultaneously. The remarkable growth of the economies of these two countries, with particular reference to its export sector, could therefore be attributed to their relatively well-developed domestic industries with backward and forward linkages, which is something the Philippines obviously lacks.²³ At the same time, industrialization becomes more feasible with the implementation of a genuine agrarian reform program. This is imperative for the development of a viable domestic market since 10 million or 45% of the country's total work force belong to the agricultural sector.²⁴ At the rate the discussions are going on in the Senate-House Conference Committee, the prospects for the passage of a land reform program which meets the ends of justice and equity appears to be bleak.

Import Liberalization Program

The Aquino government has likewise committed itself to continue with the Marcos regime's import liberalization program, which is in perfect adherence with the IMF's free trade ideology. Under the previous regime, the liberalization program which was ushered in 1981 delisted 1,027 items. The current program under the Aquino government targets 1,232 goods for deregulation.²⁵

Given the inherent weakness of the protectionist section of the local bourgeoisie, considering their historical dependence on state intervention to protect domestic industries, the continuation of the deregulation policy would be expected to further wreak havoc on their fortunes. At the same time, labor would also be affected by the collapse of domestic industries. In such an event, the Philippine Chamber of Commerce and Industry estimates that around 110,500 workers could lose their jobs.²⁶



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Aquino's Wage Policy

The priorities of the Aquino government are evidently lopsided in favor of big business and transnational interests at the expense of the lower classes, especially the workers. While the government has taken great pains in coming out with all sorts of incentives for foreign investors, the plight of the laboring class appears to have remained unheeded. In her 1988 Labor Day speech, President Aquino refused to accede to organized labor's demand for a P10 wage increase and instead claimed that "wage increases are not the only means to improve workers' incomes."²⁷

At present, the employment situation is not very encouraging. According to the Department of Labor, out of a total work force of 23.3 M in 1987, 2.4 M were jobless. The NEDA placed the

unemployment rate at 11.3%, which is higher than the statistics of the Labor Department. The underemployment rate, on the other hand, was placed at 7.8M which is about 33.6% of the Philippine labor force.

Change in Regime, Maintenance of State

When Aquino stepped into the corridors of power two years ago, much hope was pinned on the ability of her government to break away from the technocratic economic policies of the Marcos regime. To get out of this cloud of confusion, it is important therefore to point out the fact that while the February Uprising of 1986 led to a change in the political regime, from an authoritarian to a liberal democratic form, the Philippine state has remained basically capitalist in nature. According to Jessop, state power is capitalist to the extent that it creates, maintains, or restores the conditions required for capital accumulation in a given situation.²⁸ More specifically, the Philippine state could be characterized as dependent capitalist in essence because it is sustained by a process of internal accumulation which is highly dependent on the state of accumulation, finance, markets and technology in the capitalist center countries.²⁹

Cardoso made a useful distinction between the concepts of *regime* and *state*. A *regime*, according to him, refers to the rules of the game which link political institutions and administer the relations between the people and the political leadership. On the other hand, he defined the *state* to be the pact of domination that exists among the dominant classes or class fractions which guarantee their domination over the subordinate strata.³¹

It is to be kept in mind, however, that while the dependent capitalist state has persisted (which explains the technocratic and elitist economic program of the Aquino government); the change in regime form has allowed for the restoration of democratic procedures which would open up these very same programs for wider scrutiny by the public. Within the context of popular struggles, a democratic regime offers greater possibilities for popular challenges to the dominant system of dependent capitalism within and outside the state structures.

"However, while the state... has persisted, the change in regime form... offers greater possibilities for popular challenges within and outside the state structures."

With respect to the debt issue, for instance, the cause-oriented group *Freedom from Debt Coalition* has been meeting relative success in getting the support of legislators for the formulation of a progressive approach to the foreign debt problem in the country. In the Senate, the Committee on Finance has responded favorably to the coalition's proposal to limit debt servicing to a certain percentage of export earnings, considering that in 1986 alone, total debt service at \$3.8 B amounted to 78% of the country's export receipts for that year.³² The Committee has already come out with a consolidated bill, drawn from Romulo's Senate Bill 13 and Gonzalez' Senate Bill 14, which would direct the Department of Budget and Management to allocate only 10% of yearly receipts from commodity exports for foreign debt payments.³³ On the other hand, more than 20 solons belonging to the House of Representatives co-signed with the *Freedom from Debt Coalition* a press statement demanding for alternative approaches to the debt problem.³⁴

In this regard, the debt crisis, as part of a larger development crisis afflicting Philippine society could in fact be used as an issue to galvanize the efforts of people to build a self-reliant economy. Indeed, the debt issue would prove to be a veritable testing ground for the popular movements to make use of the available democratic space in the painstaking effort to build a regime of democracy based on social justice and popular participation.

NOTES

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³Harry Magdoff, "Third World Debt: Past and Present," *Monthly Review* 37 (February 1986) 9: 1-10.

⁴Alberto Romulo, "The Philippine Debt Problem," *Manila Chronicle*, November 17, 1987, p. 14.

⁵Charles Lindsey, "The Philippine Economy," *Monthly Review* 36 (April 1985) 11: 28-41.

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CDCP (Rodolfo Cuenca), \$556 M; Planters' Products (Alfredo Montelibano), \$159 M; Nasutra and Philsucom (Roberto Benedicto), \$265 M; Landoil Group (Ferdinand Marcos and Jose de Venecia), \$165 M.

Meralco/First Holding Group (Benjamin Romualdez), \$317 M; PNOC (Geronimo Velasco), \$123 M; Nobel Philippines (Geronimo Velasco), \$14 M; Republic Glass Corp. (Geronimo Velasco), \$2 M; NPC (Herminio Disini), \$795 M; NIDC (Roberto Ongpin), \$157 M; PAL (Roman Cruz), \$321 M; PLDT (Eduardo

Cojuangco), \$654 M; Bataan Nuclear Power Plant (Geronimo Velasco), \$1.2B.

⁸Alberto Romulo, "The Philippine Debt Problem," p. 14.

⁹Lilian Karunungan, "Interest Servicing Exceeds Principal," *Daily Globe*, February 18, 1988, p. 9.

¹⁰Harry Magdoff, "Third World Debt: Past and Present," p. 3.

¹¹Cheryl Payer, "IMF-World Bank are Culprits in Filipino Economic Crisis," *CALC Report* 12 (May-June 1986) 3: 24-27.

¹²James Petras and Howard Brill, "The IMF, Austerity and the State in Latin America," *Third World Quarterly* 8 (April 1986) 2: 425-448.

¹³Rene Ofreneo, "The Gathering Economic Storm," *Manila Chronicle*, November 19, 1987, p. 17.

¹⁴Cory Assures Investors; Government Pushing Strike Ban," *Manila Chronicle*, October 20, 1987, p. 1.

¹⁵Manuel Montes, "Involuntariness is the Name of the Debt Game," *Kasarinlan* 3 (1st Qtr. 1988) 3: 65-71.

¹⁶Rosa Ocampo, "Debt Swap: Boon to Investors but Bad for the Stability of Peso," *Malaya*, March 14, 1988, p. 9.

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¹⁸Manuel Montes, "Involuntariness is the Name of the Debt Game," p. 71.

¹⁹Clarence Pascual and Jessica Reyes-Cantos, "Philippines: Reviving the Economy," *Third World Network Features*, No. 96, 1987.

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²²Walden Bello's speech at the Asian Institute of Management, Makati, April 28, 1988; quoted in *Philippine News and Features*, "An Alternative Economic Development Plan for RP," *Philippine Daily Inquirer*, May 7, 1988, p. 7.

²³Germelino Bautista Jr., "Alternative for a Peripheral Economy in Transition," *Kasarinlan* 3 (4th Qtr. 1986) 2: 33-38.

²⁴Eduardo Tadem, "A Dream Deferred," *Katipunan*, May 1988, p. 11.

²⁵Letizia Constantino, *Debt-to-Equity, Privatization and Import Liberalization* (Education Forum/TAP, 1986), pamphlet.

²⁶*Ibid.*

²⁷"Oil Price Slashed by P0.50; Workers' Benefits Increased," *Malaya*, May 2, 1988, p. 1.

²⁸Lito Zulueta, "A Million Jobs for 1988," *Manila Chronicle*, January 7, 1988, p. 1, 6.

²⁹Bob Jessop, *The Capitalist State* (New York: New York University Press, 1982), p. 221.

³⁰Clive Thomas, *The Rise of the Authoritarian State in Peripheral Societies* (New York and London: Monthly Review Press, 1984), p. 84.

³¹Fernando Henrique Cardoso, "On the Characterization of Authoritarian Regimes in Latin America," David Collier (ed.), *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979); quoted in Kenneth Roberts, "Democracy and the Dependent Capitalist State in Latin America," *Monthly Review* 37 (October 1985) 5: 12-26.

³²Rigoberto Tiglao, "Debt-Service for 1986 at \$3.8 B, or 78% of Exports," *Manila Chronicle*, April 16, 1987, p. 7.

³³Senate Panel Lowers Debt Payment Ceiling," *Manila Chronicle*, May 12, 1988.

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