

The Changing Global Economy: Implications for the Philippines

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We live in a time of rapid change. It may seem trite to repeat this oft-heard phrase, but the pace today is more rapid than ever. In this new era, social scientists will be asked to develop new models and new explanations which are as dynamic as the times in which they live. Until now, the regnant paradigms for Southeast Asian politics have tended to emphasize the (relatively) unchanging nature of the region's culture and social structures. We have models which reflect a bias for stability and the status quo, which focus on administrative function rather than on social change, and which tend to divorce domestic politics from the international context.

In contrast, it is contended here that if we are to adequately understand the domestic politics of the Southeast Asian nations and if we are to be prepared for the continued evolution of these polities in the future, then we must be alert to the changes in the international political economy and very conscious of the ways in which this international context shapes domestic politics.

Developing new models of Southeast Asian politics which dynamically incorporate the international context is a massive undertaking. This case study on the Philippines hopes to stress the importance of such a task. The initial focus will be on documenting some of the changes which are taking place in the international political economy and suggesting how they are linked to the domestic political economy. Further empirical research would be necessary to fully explore and substantiate all of the potential linkages.

In some ways, using the Philippines as a case study to argue the need for new models of Southeast Asian politics may be unfair. It is arguably the most open of the Southeast Asian economies and societies, although not in the traditional economic sense of international trade being a high percentage of the nation's gross national product. On this criterion, Singapore is the most open economy in the region. For purposes of this article, however, openness may be considered in other ways.

For example, to point out only the most obvious, the Philippines is one of only a handful of nations worldwide and the only nation in Southeast Asia to host a major military basing complex of an international superpower. Second, among the lower middle-income countries of Asia, the Philippines is one of those relatively more dependent on foreign aid. Official development assistance (ODA) equalled 2.8 percent of the nation's GNP for 1986 to 1987. [1] Third, the Philippines is relatively more sensitive to changes in the international economy because of its heavy debt load. Its public debt service ratio is 47.9 percent, the highest among the major market economies of Asia. [2] Changes of only a percentage or two in the international interest rates, therefore, can have an impact measuring in the hundreds of millions of dollars on the Philippines' debt service payments.

Many might still argue that although the Philippines, given its unique situation, is indeed vulnerable to the winds of change in the international environment, this does not prove the argument that we need new models to explain politics in the rest of Southeast Asia. There may be some validity to this criticism, yet political pundits and their traditional models have been less helpful in predicting or even explaining the outbreak of political unrest

in Burma last year or in China just recently -- two nations which are considerably less open and influenced by the international political economy. The entire region is undergoing a process of urbanization and industrialization. Old barriers are breaking down as more people travel abroad and new technology allows for greater international linkages to the international marketplace. All these changes make Southeast Asia less isolated, perhaps less stable, but certainly more likely to change than ever before. Thus, it is contended here that this argument, if true for the Philippines, will also be true for many other parts of the region.

The above argument may be tested and new models of Philippine politics developed by starting with the international context. This is the approach proposed here -- that we examine the directions of change in the international political economy and its likely impact on the Philippines. Among the many topics worthy of discussion, the following developments and their implications will be concentrated on:

- 1) changes in the patterns of investment and organization of the transnational corporations;
- 2) changes brought about by the debt crisis of the 1980s; and

- 3) the relative decline of the United States as a world power.

The International Business Environment

If the 1960s and the 1970s were the decades of US-based multinationals, then the next decade is likely to see the rise of truly transnational corporations. The United States has changed from being the leading source of foreign investment to being their leading recipient. Outflows from the United Kingdom surpassed those from the United States in the early 1980s, and in the last year or two it is believed that Japan has become the world's largest foreign investor. [3]

Coupled with this change is another of almost equal significance -- the gradual transformation of the organizational nature of the leading TNCs. The world's global-scale corporations went through a phase in the 1970s and early 1980s which was characterized by the growth of massive conglomerates. These conglomerates swallowed up corporations with little concern for how the latter may fit into their overall organization. Thus, Mobil Oil owned the Montgomery Ward department store chain, steel companies invested in the

Table 1. The Largest Foreign Acquisitions.

ACQUIRER	TARGET	YEAR	VALUE (billions)
British Petroleum Co. (UK)	Standard Oil Co.	1987	\$ 7.6
Champeau Corp. (Can.)	Federated Dept. Stores	1988	6.5
Grand Metropolitan P.L.C. (UK)	Pillsbury Co.	1989	5.8
Royal Dutch/Shell Group (Neth.)	Shell Oil Co.	1985	5.7
B. A. T. Industries (UK)	Farmers Group	1988	5.2
Champeau Group (Can.)	Allied Stores	1986	3.6
Unilever N.V. (Neth.)	Cheesbrough-Ponds Inc.	1987	3.1
News Corp. (Aus.)	Triangle Publications Inc.	1988	3.0
Nestle S.A. (Switz.)	Carnation Co.	1985	2.9
Societie Nationale Elf Aquitaine (Fr.)	Texasgulf Inc.	1981	2.7
Hoechst A.G. (W. G.)	Celanese Corp.	1987	2.7
Bridgestone Corp. (Jap.)	Firestone Tire & Rubber Co.	1988	2.7

Source: *New York Times*, 28 May 1989, F-9.

petroleum industry, the telecommunications giants invested in food products and so on, across the entire gamut of industry and commerce. The motive driving this acquisitiveness was the perceived need to achieve a foothold in as many different sectors of the economy as possible and the assumption that management also has economies of scale.

Today, many conglomerates are shedding off their peripheral investments and entering into truly transnational mergers. These mergers are driven by the rising trend in trade protectionism and the tremendous costs of technological innovation. The decline in the value of the dollar against the Japanese yen and the German mark has also sparked a sharp upturn in investments in the US economy in general. Examples abound to illustrate these recent trends.

Stocks in direct foreign investment in US-based companies climbed to 304.2 billion dollars last year from a stock of just 90 billion dollars in 1980. [4] Several of the major acquisitions since 1981 are listed in Table 1.

In the examples listed in Table 1, foreign investors bought out US corporations in the same line of business. Faced with a declining dollar and the prospect of increased US protectionism, they chose to invest in the US market.

In a similar fashion, the prospect of growing protectionism and the desire to gain a strong foothold in the European market is driving American and Japanese investors to rethink their approach towards Europe. For example, A.T. & T. has built a 220 million-dollar semiconductor plant in Spain. It has also agreed to join Italtel, an Italian telephone company, in a 25 billion-dollar program to upgrade Italy's telecommunications system. Whirlpool, which had concentrated for years on the US market, has likewise completed a joint venture agreement with Philips N.V., the Dutch electronics giant. Through this joint venture, Whirlpool gained a 53 percent share in Philips' two billion-dollar major appliance business, thus establishing itself in the European market overnight. It is now the world's largest home-appliance company, with product entries in every price segment of its market. This 6.4 billion-dollar behemoth has manufacturing facilities in 11 countries, a 43,500-person work force, and a distribution network that spans 45 countries. [5]

The Japanese have been dramatically increasing their investments in Europe in preparation for 1992. Their investments have risen from one billion dollars in 1984 to 1.9 billion dollars both in 1985 and 1986, 3.5 billion dollars in 1987, and 6.6 billion dollars in 1988. It is estimated that Japanese investments in Europe will reach nine billion dollars in 1989. This increased figure for 1989 reflects both Toyota's plan to invest 1.2 billion dollars in an auto assembly plant outside Midlands, UK and Fujitsu's planned 680 million-dollar investment in a semiconductor plant in northeast England. [6]

The corporations of the industrialized world have chosen to devote a relatively larger portion of their investment capital to the other industrialized economies partly because of protectionism. According to the Secretariat of the General Agreement on Tariffs and Trade (GATT), the number of export restraint arrangements in operation have risen from 93 during the period April to September 1986 to 118 during the period October 1986 to March 1987, and to 135 during the period April to September 1987. [7] Paradoxically, as Table 2 shows, the export restraints in developing nations have fallen disproportionately.

There are other motives for cross-investment (i.e., investment in another industrialized market by corporations domiciled in an industrialized nation). One of the major factors pushing already giant corporations into joint ventures is the cost of research and production for the new technologies of the late twentieth century. Two years ago, Motorola (US) and Toshiba (Japan) created an alliance to develop a new computer chip technology. In December 1988, Texas Instruments (US) and Hitachi Ltd. (Japan) entered a joint research agreement to produce the next generation computer memory chip. Company and outside analysts alike felt that the agreement was intended to share both the enormous cost and risk of developing a 16 million-bit memory chip. The development of the chip is thought to require an additional two to three years of research, and the cost of a plant to produce this advanced-technology memory chip is put at roughly 400 million dollars. Pallab Chatterjee, director of Texas Instrument's Semiconductor Process and Design Center, was quoted as saying that each major player in the computer chip business must have at least three generations of new chips either in production or under research. And that a small misstep can exact a severe penalty: "If you don't get to market within six months of

Table 2. Extent of Quantitative Restrictions in International Trade in the 1980s.

	Number of Restrictions per country			Proportion of Commodities affected by restrictions		
	Developed Market Economies	Developing Countries	All Countries	Developed Market Economies	Developing Countries	All countries
All commodities	170	355	290	0.19	0.38	0.32
Agril commodities	47	100	77	0.29	0.61	0.47
Manufactures	115	243	213	0.15	0.32	0.28

Source: GATT, Group of Quantitative Restrictions and Other Non-Tariff Measures, "Analysis of the Group's Documentation: Note by the Secretariat" (NTM/W/17, 1 September 1986), as reproduced in *UN World Economic Survey*, 1988, p. 33.

the first company, you don't make money on that entire generation of products". Even for a six billion-dollar giant corporation like Texas Instruments, the development of the 16-bit memory chip was the equivalent of betting the company on a single new generation of technology. [8] These new joint ventures in computer chip technology only mirror earlier joint ventures in automobiles, telecommunications, and a variety of other fields.

The computer deal outlined above is indicative of one of the ironies of the evolving international economy. Just as the US government has come to the conclusion (with the support of a number of erstwhile free market economists) that there are advantages to having an industrial policy and a close working relationship between government and industry, American corporations began entering into wholesale joint ventures and mergers with their competitors. Two years ago, the US government sponsored Sematech, the semiconductor industry consortium formed to catch up with Japanese chipmaking techniques by the early 1990s. With the fall of Texas Instruments, the last holdout, every major US chipmaker today has a joint venture partnership with a Japanese corporation.

Finally, it is clear that the trend towards creating larger free trade zones such as Europe by 1992 and beyond or US and Canada under the recently concluded US-Canada Free Trade Agreement are leading to new investments and mergers that take advantage of larger "domestic" markets. *Businessweek* has recently concluded that the predicted wave of consolidations and industry shake-outs resulting from the unified North American market is occurring faster and earlier than expected. For example, Molson, the number two Canadian beer-maker is

pursuing a merger with Carling, the number three brewer, in preparation for an expected onslaught by US producers. In a similar fashion, Canadian Airline International is proposing the purchase of Wadair International to prepare for an eventual battle with larger US airlines once the entire North American marketplace is opened to full competition. [9]

The danger for the developing nations is that the incentives for cross-investment are increasing. In 1981, the developing world received 26 percent of all foreign direct investments. By 1985, its share dropped to 23 percent. [10] Although more recent figures are not yet available, it is not unlikely that this downward trend will continue, if not accelerate, given the changing nature of the global marketplace as discussed above. With a certain number of obvious but very limited exceptions, large parts of Asia, Africa, and Latin America are no longer attractive sites for foreign direct investment by the world's transnational corporations. This is explained in part by political decisions regarding protectionism and free market arrangements. Changes in technology also influenced this trend.

The 1970s and early 1980s were an era epitomized by the so-called "global car" and the widespread dispersal of manufacturing and assembly operations by the major transnational corporations. [11] This investment behavior was driven by economic and political motivations. Economically, the search was for cheap labor and a share in protected markets. Politically, the goal was to have a piece of investment in as many different national markets as possible, thereby enhancing the chances of receiving favored "national" treatment. Several changes in the international environment suggest that the end of the "global car" strategy is approaching. First,

the market is no longer as fragmented as it once was. Each automobile manufacturer, for instance, could supply the entire European market from a single plant; it no longer needs a foothold in the French, Italian, German, and British markets. Second, the dramatic increase in transportation costs makes it less efficient to be shipping parts from all over the world to a small number of plants where workers earning comparatively low wages assemble the final product. Third, the "just in time" system of inventory management pioneered by the Japanese seeks to reduce waste by minimizing the level of work-in-process inventories. This increases the incentive to have the parts manufacturers located in close proximity to the final assembly operations, thereby further reducing the incentive for the global dispersal of factories. The just-in-time management system is also increasingly being coupled with new flexible techniques of manufacturing and assembly by taking advantage of information technology incorporated directly into the production processes. The result is often a process where computers control inventories, assist in both the design of products and the re-tooling of the manufacturing process, and link parts suppliers directly to the plant floor where assembly takes place. Perhaps the best way to illustrate the importance of these trends is to quote at length from a recent study by the Centre on Transnational Corporation.

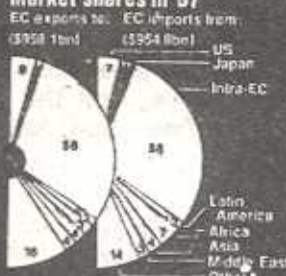
One of the leading users of information technologies in Scandinavia is KF (Sweden). Its automated production line produces huge volumes of precision ball-bearing found in electric motors and gearboxes. PC-80 is fully-automated and computer-integrated from the moment raw materials enter the system to the time the bearings leave fully polished and packaged. The line is served by three robots, an automatic conveying system and two attendants who monitor the central computer, which controls all machines and advises of problems, maintenance needs, etc.. PC-80 produces twice as much output as the traditional lines, and with perfect quality. PC-80 is the laboratory for SKF's plans to make a complete switch to a full computer-integrated manufacturing (CIM) production within the next five years.

Another European example of leading-edge automation is Fiat, which, in the mid-1970s, began to introduce assembly robots on a piecemeal basis. In 1978, in a slightly more integrated fashion, Fiat then introduced the Robogate welding line. A second stage in Fiat's automation strategy was unveiled in 1981 with the LAM automated engine-assembly line which used automatic guided vehicles (AGVs), automatic transfer lines and computer-directed work-stations to achieve a 50 percent reduction in rejection rates, a 25 percent reduction in direct labour time per engine, and a capability of producing 110 different versions of the RITMO engine. The third and most significant stage of Fiat's strategy came in 1985 with the introduction of the FIRE engine production facility at Termoli, Italy. The FIRE line was significantly more integrated and automated than the LAM line and yielded improved performance.

Changing patterns of EC trade



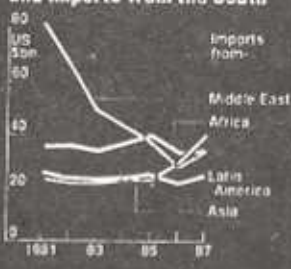
Market shares in '87



EC exports to the South ...



and imports from the South



Source: IMF, Director of Trade Statistics

In Japan, Yamasaki Machinery Works has placed CIM systems for machine-tool production in its five-plant site, two of which operate 24 hours a day and are literally unmanned. Its total employment is 215, compared to the 2,500 workers that would have been required in a conventional factory. Economic lot sizes have been reduced to one unit. Another example of Japanese CIM is to be found in Nissan's Murayama plant where computers are used to control all aspects of production, including the operation of flexible automation technologies and in-plant JIT. Computer-based ordering accounts for 90 percent (by quantity and value) of all components used.

TNCs based in the United States have also been in the process of introducing IT (information technology) into manufacturing. A leading example is General Electric. The small-parts shop serving General Electric's steam turbine plants, with 180 employees and over 120 numerical-control (NC) machining stations producing 35,000 different parts, is now fully on a CIM basis. It has computers handling all phases, from order-processing through manufacturing and shipping, without generating drawings or any related paperwork. Lead times have been slashed from weeks to days, labour and management costs have been reduced. This is the first phase of a six-year CIM master plan to switch all 10 plants in the division to CIM, so that they are working from a common data base that links all aspects of the business. [12]

Although it is too early to tell for certain, and automated assembly may never predominate in some industries such as garments and shoes, the trend towards the integration of information technology in the production and assembly processes raises the potential for a return to on-shore assembly. Some of the industrialized world's major producers of consumer electronic goods and computers have already begun to develop new, automated plants in their home countries. And the dangers are very real for Southeast Asia. As one recent study concluded:

This development will not hit so much the so-called newly industrializing countries (especially the four Southeast Asian countries, Hong Kong, South Korea, Singapore, and Taiwan). They offer lower wages (which are not so low any longer compared to other countries in the region) and have highly qualified, experienced work forces, good infrastructure and increasingly important internal markets.

The victims will be those "second tier" newly industrializing countries that tried to follow the successful strategy of industrialization of the first generation of NICs -- only to find out that the multinational corporations have become much less willing to make use of their cheap labor force, that the export markets in the industrialized world are already occupied by the

countries whose strategy they wanted to follow, and that these markets are not expanding any longer. [13]

The International Market for Capital

If recent trends in business organization and technology raise concerns for the developing nations, there are other more concrete threats to their prospects for development. These are the general shortage of capital for productive investment and the reverse flow of capital (out of the developing nations and into the industrialized world) which have occurred in the 1980s. According to the World Bank, "total capital flow to developing countries increased to 90 billion dollars in 1987 from 86 billion dollars in 1986. Principal repayments and interest payments from indebted developing countries also increased in 1987 and total debt service exceeded the amount of new loans by 29 billion dollars, resulting again in a substantial reverse flow of capital." [14]

Broadly speaking, the causes of the net flow of resources out of the developing nations are well known. Included in virtually every survey are such factors as: 1) the endemic US budget deficits which contribute to the rise in interest rates, the overvaluation of the currency rates for the dollar, and the flight of capital from the Third World into the United States bond market; 2) the long-term decline in commodity prices for most of the developing world's raw material exports during the 1980s; 3) the drying up of short-term lending by commercial banks beginning in 1982 in response to the collapse of Third World exports during the last US recession and the continued decline since then of private lending to the Third World; and 4) the fiscal and monetary policies of the United States which tend to keep domestic interest rates "relatively" high and which therefore exacerbate the interest payment problems of the Third World.

Speaking of the most severely affected region of the world - Latin America - the United Nations observed that "most of the economies of Latin America continue to be in a precarious situation. Noticeable increases in per capita income in 1987 occurred only in Chile, Columbia, Peru, and Uruguay. For the region as a whole, the average increase in per capita output during the year was negligible. This was so despite the structural improvements that have been made in the economies of the region since the debt crisis broke out in 1982." Despite impressive gains in export growth and

diversification, "the prospect for the Latin American region is for a continuation of a large net financial transfer abroad to service external debt obligations. This will entail negligible per capita income growth in the next decade." [15]

The result in Latin America has been the development of a new phenomenon known as "adjustment fatigue". This refers to the fact that the nations of the region have been religiously implementing such policies recommended by the World Bank (WB) and the International Monetary Fund (IMF) as the liberalization of the economy, the privatization of the state sector, the reduction in government deficits, etc. Technically, these programs have been an economic success as exports soared and balance of payments (BOP) are now in the black. But the BOP surpluses have been devoted to paying the bloated debt burdens of these nations, leaving little or nothing for investment in infrastructure, new industry, or human capital. In short, the right of citizens to the human existence and the prospects of the nation for a brighter future have been mortgaged to repay the international lenders. In January this year, the Inter-American Dialogue, a group of experts from the United States, Canada, Latin America and the Caribbean, concluded that:

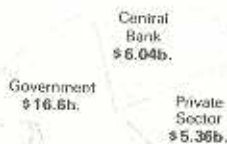
The Latin American debt crisis may soon touch off a political crisis... As governments lose credibility and authority, the appeal of extremist

solutions rises, making it harder to institute the economic measures needed for recovery and growth. Latin America may be condemned to a long period of economic hardships and political turbulence, which may force civilian authorities to yield to military rule in some places. [16]

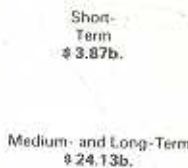
The collapse of private lending to the Third World has compelled countries in this region to place more emphasis on multilateral lending. But the picture here is not necessarily any better. Since 1986 the IMF has been a net recipient of funds from the developing nations. The amount returned reached almost five billion dollars in 1987 and the reverse flow applied to almost every Fund "window" and to every geographical region. [17] These pervasive debt service problems have also led the WB, which provides about 70 percent of all multilateral lending, to concentrate efforts on quick disbursing funds designed to support adjustment programs. By 1987, 23 percent of the WB's funds were devoted in this fashion. [18]

It is being increasingly acknowledged, however, that many debtors cannot be expected to maintain these heavy debt service burdens in the light of the unwillingness of private commercial banks to continue providing short and medium-term financing. No government can be expected to implement the long-term adjustment measures which are deemed necessary to repay its debts and,

Who Has to Pay?



When Is It Due?



Who's Collecting?



PHILIPPINE DEBT
Total borrowings (as of February)
\$28 billion
Debt per capita: \$470
Ratio to GNP: 72%

Asiaweek, July 1989

at the same time, retain its political support and legitimacy. It is also being acknowledged that muddling through the debt crisis provides only short-term solutions to long-term problems and that a more fundamental solution will have to be found. This means that borrowers cannot be expected to make full repayments of their debts. This is the assumption behind the shift from the "Baker Plan" to the "Brady Plan". The Brady Plan suggests that debt reduction is the only long-term solution to the current debt crisis. Given this assumption, it is not surprising that the final outlines of the Brady Plan still have not emerged. The intense negotiations that are currently being undertaken will determine which countries are eligible for debt reduction and, more importantly, which groups will absorb the losses implicit in the debt reduction plan.

Mexico is apparently the first to make progress towards debt reduction; the Philippines and Costa Rica have also recently signed new agreements with the IMF. Under the terms of the IMF agreement with Mexico, 4.08 billion dollars in loans were approved. This approval came in advance of an agreement with the commercial bank lenders to re-schedule the country's debts. But in a new development, a portion of the money from the IMF will be released even before Mexico reaches a rescheduling agreement with the commercial banks. This reduces the latter's leverage vis-a-vis Mexico. Moreover, up to 40 percent of the IMF money (which is lent at concessional rates) can be used to reduce the country's debts. [19]

The new agreement, of course, comes with the usual IMF demands for austerity, liberalization, and discipline. It also does not guarantee that the banks will agree to debt reduction on terms which are favorable to the debtor countries. The Mexican negotiations with the banks have not gone smoothly since the banks are unwilling to accept the proposed huge discounts on current loans which are to be retired, and are seeking to apply additional conditions to any new loans which may be granted to Mexico as part of an overall restructuring of its debt. [20] Thus, while the Brady Plan and the new attitude at the IMF are to be commended, we are still far from a solution to the international debt crisis. In fact, there are those who suggest that the crisis is destined to get worse in the near future as the US continues its economic decline and the growth rate of the industrialized countries slows down over the next few years.

The United Nations Industry and Development Organization (UNIDO) foresees a global economic slowdown around 1990. [21] The IMF and the Organization for Economic Cooperation and Development (OECD) believe that the slowdown would begin even earlier in 1989. [22] All expect the United States to lead this slowdown -- in fact, the US economy has begun to cool off, following a long period of sustained growth. The US' gross domestic product grew by four percent in 1988 and by 4.3 percent during the first quarter of 1989. In the second quarter of this year, however, this item is believed to have dropped to 2.3 percent and is predicted to drop even further to two percent by the end of the third quarter. [23] A decline in both the growth and consumption rates of the US, the world's largest market, taking 16.4 percent of all the world's imports in 1987, has immediate consequences for the rest of the world's exporters. Short-term changes in the growth rate of the US economy may have the most immediate consequences for Third World exporters, but an over-emphasis on its GNP growth rate tends to mask an overall, long-term decline in its economic hegemony.

The rise of truly transnational corporations, replacing the predominantly US-based TNCs which had dominated foreign direct investment for the first few decades after World War II, and the rise of the US as the most important locus today for foreign direct investment from both the established industrialized countries and the newly industrializing countries were discussed earlier. These two trends are related because increased competition for the American domestic market has forced US-based corporations to make new capital-intensive investments at home to improve industrial plant and organizational efficiency (thereby limiting the role these US corporations can play abroad). The figures reflecting these trends are reproduced in Table 3.

Foreign Investment is not the only indicator of the relative competitiveness of the US economy. Another measure would be the growth of exports or the ability of a nation to produce commodities which are attractive to consumers worldwide. The Secretariat of the General Agreement on Tariffs and Trade (GATT) revealed that for the period 1970 to 1987, the nation with the most rapid growth in exports was the Republic of Korea with a rate of 26.8 percent per year. In descending

Table 3. Outward Stocks of Foreign Direct Investment, 1960-1985 (billions of US dollars and percent of total stock of FDI).

Country	1960		1975		1980		1985	
	value	%	value	%	value	%	value	%
US	31.9	47.1	124.2	44.0	220.3	40.0	250.7	35.1
UK	12.4	18.3	37.0	13.1	81.4	14.8	104.7	14.7
Japan	0.5	0.7	15.9	5.7	36.5	6.6	83.6	11.7
Germany	0.8	1.2	18.4	6.5	43.1	7.8	60.0	8.4

Source: UN Centre on Transnational Corporations, *Transnational Corporations in World Development*, Table I.2, p. 24.

Table 4. World Balance of Payments on Current Account (billion dollars).

Country	1980	1982	1984	1985	1986	1987	1988
US	8.4	-1.2	-96.6	-102.9	-127.2	-148.5	-128.0
Japan	-9.4	8.3	36.5	50.1	86.7	88.7	75.0
Germany	-6.8	11.3	16.0	22.9	46.1	55.2	52.0

Source: UN *World Economic Survey 1988*, p. 49.

order, the other nations whose growth rate in exports ranged between 25 and 15 percent per year were Taiwan, Hong Kong, Singapore, Turkey, China, Thailand, Indonesia, Mexico, Ireland, Spain, Japan, Tunisia, and Israel. The average growth rate for the entire world's trade during these years was 13 percent, and below that average fell the United States with a growth rate of 10.9 percent and the Philippines at 10.4 percent. [24]

We must also think of the impact the US has on international capital flows in forms other than direct investment. Table 4 shows the dramatic shift in the US' current account when compared with that of Japan and Germany.

As the United States gradually began to produce a smaller share of the world's product, send less money abroad as foreign direct investment, and sell less products abroad, it became an international debtor – the world's largest. This international debt increases the flow of interest payments to foreigners. But it is not only from the international capital markets that the United States borrows

money to finance its budget and trade deficits; its domestic borrowing has also increased dramatically. With that increase has come a necessary shift in governmental outlays towards interest payments on the national debt.

This change in the governmental priorities of the United States is also reflected in the decline in its contributions to international assistance, whether bilateral or multilateral. This is where the US budget crisis has had the largest impact on the developing nations. For example, in 1980 the United States appropriated 1.2 percent of its national budget for international assistance. This almost reached the average of 1.4 percent for all Development Assistance Committee (DAC) members of the OECD. By 1987, the United States was providing 0.8 percent of its government budget for assistance while the average for all DAC members remained at 1.4 percent. [25] Table 6 shows the dramatic decline in the share of the United States in ODA to the developing world. And it is widely believed that the trends illustrated in Table 6 have continued into 1989 with Japan overtak-

Table 5. Composition of US Government Budget Outlays (%).

Year	Net Interest	Defense	Non-Defense/Non-Interest
1975	6.89	27.27	65.84
1980	8.87	23.46	67.67
1985	13.65	27.07	59.28
1986	13.68	28.09	58.23
1987	13.66	29.18	57.16
1988	14.15	28.76	57.09

Source: Budget of the United States Government, Fiscal Year 1990 (Washington, D.C.: Government Printing Office, 1989), p. 10-40.

Table 6. Official Development Assistance, Leading Donors in Selected Years (million dollars and percent of total ODA).

	1970-71		1980-81		1986-87	
	value	%	value	%	value	%
Total, DAC*	7,884		28,720		41,406	
US	3,328	42.2	6,973	24.3	9,913	23.9
Japan	555	7.0	3,592	12.5	7,425	17.9
UK	629	8.0	2,232	7.8	1,939	4.7

*Development Assistance Committee of the Organization for Economic Cooperation and Development.

Source: OECD, DAC, *Development Cooperation 1988 Report*, pp. 216, 219-220.

ing the US as the world's leading assistance donor.

With the United States no longer dominant economically, Third World nations can no longer rely on it as an open and voracious market for their produce nor as a source of investment capital or commercial bank loans. The US has been reduced to the role of both a world policeman and an arms salesman to the rising market economies. Without doubt, the openness of the US market and its insatiable appetite for consumer goods did provide an outlet and source of rapid growth for the early wave of newly industrializing countries. This is no longer true today. In fact, the world has changed in many ways since the rise of the first batch of NICs.

The New International Context For Philippine Development

This article has so far placed considerable emphasis on the role that foreign capital (loans, investment, and aid) plays in development. This emphasis needs to be redressed to a certain extent. First, for the entire developing

world, foreign direct investment represented only 3.1 percent of gross fixed capital formation for the period 1980 to 1984. [26] This is before we take into account the repatriation of profits which accrue to foreign investment. As Table 7 shows, the outflow of profits exceeded the inflow of new stocks of foreign direct investment for some countries in the region.

Second, for lower middle income countries, the recipients' ODA represented an average 1.6 percent of gross national product in Asia during 1986 to 1987. [27] This must be contrasted to the total gross domestic investment for lower middle income countries which represented 20 percent of their gross national product in 1985. [28]

Finally, as was discussed in the previous sections, all of the trends are negative -- the IMF is now a net recipient of funds from the Third World; the percentage of foreign direct investment to the Third World is declining; and Third World products are increasingly subject to protectionist barriers which prevent the further penetration of the markets of developed countries.

Table 7. Average Yearly Inflows of Foreign Investment and Outflows of Profits for Selected Asian Countries (million dollars).

Country	Inflows of FDI		Outflows of Profit	
	1975-80	1981-85	1975-80	1981-85
Philippines	73.6	58.1	156.6	199.6
Taiwan	91.3	189.0	93.2	207.4
Thailand	85.2	280.3	32.8	40.6
Korea	60.7	116.3	47.9	102.2

Source: UN. *Transnational Corporations in World Development, Annex one.*

In short, the decade of the 1990s is likely to be a difficult period for the Third World, with declining capital flows and opportunities for export-led growth. The scenario is even gloomier for those nations with heavy debt service burdens. The net flow of capital is almost certain to be negative for the most indebted nations of the world. This category includes much of the Latin American region and the Philippines. In the case of the Philippines, this difficult economic situation implies that:

1) large debt service payments will soak up capital which could otherwise be productively invested in human capital, infrastructure, or new industries. This will force the government to preside over an economy in which productive new investment is increasingly rare and where priorities for investment are determined by the private sector;

2) the continued need for financing from the IMF will make it difficult for the government to provide any kind of social welfare program or subsidies which would cushion the negative impact of the international economy on the poorest section of the population. The results are likely to be an increasing level of unrest and, as in Latin America, a growing appeal for extremist solutions; and,

3) Japan, Taiwan, and Korea will prove to be more important than the US as sources of development assistance and investment, and perhaps even as markets. This will reduce the Philippines' "special relations" with the US to that of military alliance. The dubious utility of

this relationship for most Filipinos will make such relations more strained and limit the ability of the US to confer legitimacy on governments which are pro-US in their foreign and domestic policies.

The present austere international environment should drive future governments to take a more self-reliant approach to development. This entails greater domestic savings, taxation, investment, and market development. Industrialization dependent on exports to the world market will be unable to provide the same driving force for development that it did for the NICs. In this situation, the Philippines will be forced to achieve market growth and comparative advantages based on domestic factors other than cheap labor. Any alternative will require redistribution of resources, including agrarian reform, so that rapid urbanization and population growth can be slowed down or even reversed.

The outlook for this kind of redistribution occurring under the current generation of political leaders is not positive. Thus, given the way in which the international political economy is evolving and interacting with the Philippine political system, we should expect a period of increased political tension as old paths to economic growth fail and new political leaders emerge to preside over alternative strategies.

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