



Notes on Philippine Growth and the Government's Medium-Term Plan

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Scenarios for Philippine Growth

1. The Philippines has fallen behind.

Over the past two decades, the Philippines has fallen behind economically, first relative to newly-industrializing countries like Taiwan and South Korea, and more recently, behind the other countries of the region such as Malaysia and Thailand. Over the last decade, the growth rate of the Philippine products has been less than 2 percent annually, while other countries in the region grew rapidly at rates between 6-7 percent annually.

2. It is difficult to achieve a Newly Industrializing Economy (NIE) status with the present trajectory of growth.

An NIE may be defined as an economy with a per capita income of \$1,400. The Philippines' per capita income in 1990 was estimated at \$730. If the growth trends of the past decade persist, namely growth of between 2 and 3 percent annually, the hopes of becoming an NIE are clearly unrealizable, and the slogan Philippines 2000 becomes a cruel joke.

With growth rates of less than 3 percent annually, as was experienced in the last decades, simple algebra would show that it would take a

Country	1975-79	1980-84	1985-91	GNP per capita (US\$)
South Korea	9.6	6.6	9.5	5,400
Taiwan	10.3	7.2	8.0	
Malaysia	7.2	6.9	5.9	2,320
Indonesia	6.9	6.2	5.7	570
Thailand	8.5	5.9	8.9	1,420
Philippines	6.3	1.3	2.1	730

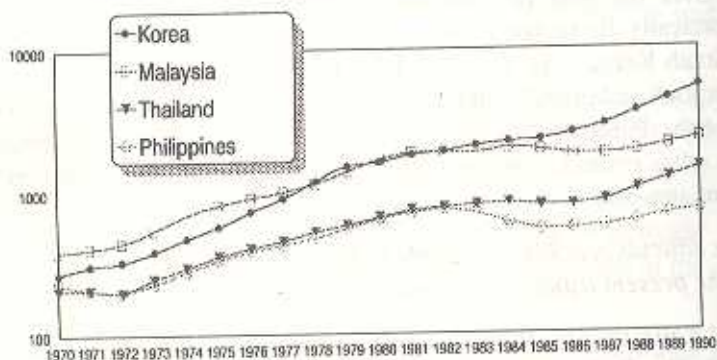
Source: World Bank, World Tables 1992^y

century for the Philippines to reach the goal of becoming an NIE, starting from its per capita income of \$730 in 1990 (Table 1). For that would mean that average incomes would grow at only 0.65 percent annually. If instead annual income growth of around 5 percent were to be achieved, it would still need to be sustained for 24 years to achieve Thailand's current status.

The goal of 7.5 percent annual growth contained in the current medium term plan must be sustained for some 13 years in order for the

Figure 1

Per-Capita Incomes for Selected Countries (US\$)



The graph above shows vividly how the Philippines has fallen behind. In the early 1970s, South Korea, Malaysia and the Philippines were not vastly different from each other in terms of income per capita. In the late 1970s, however, South Korea and Malaysia pulled away, while the incomes of Thailand and Philippines continued to be closed to each other. By the late 1980s, however, Thailand had also started to pull away.

Table 2
Years Needed to Achieve NIE Status

Hypothetical GNP Growth	Implied Per Capita Income Growth	Years to Reach NIE Status
3.0 percent	0.65 percent	100.0
5.0 percent	2.65 percent	24.5
7.5 percent	5.15 percent	12.6

country to reach the NIE status (Table 2). Growing at 7.5 percent annually, the Philippines is some 13 years removed from where Thailand is today and 38 years behind South Korea. Nor should it be forgotten that today the average Filipino has not even recovered the average standard of living achieved in 1981. This job is not made easier by the fact that since 1991, per capita incomes have been falling.

The point to be made is that very large and decisive changes are required if the country is to break out of its present state of low growth and stagnation.

3. Poverty cannot be reduced permanently without a sustained growth in incomes.

Mere growth in incomes will not, of course, necessarily translate into human development. There are also some features of NIEs that bear a second look before emulating (e.g., suppression of labor and human rights, rapid environmental degradation).

Nevertheless in the Philippines, there is a broad consensus that human development has lagged behind mainly because of the failure to sustain growth in overall incomes. Historically, there has been a powerful association between weak economic growth and worsening poverty. The incidence of poverty and the number of poor families have clearly worsened during the times of weak growth. Between 1985 and 1988, for example (Table 3), there was a decline in the number of poor families as economic growth revived. However, when the recession occurred in 1991, poverty incidence again worsened and the number of the poor increased by 15 percent.

The poor economic performance of the country also shows in the slow reduction of poverty it has achieved relative to other countries. Throughout most of the 1970s, countries of the region have managed to reduce poverty incidence by at least one percentage point a year. In

Table 3
Percentage of Families Below Poverty Thresholds

Poverty threshold	P1,872	P2,388	P3,675
Poverty incidence (percent)	44.2	40.2	40.7
No. of Families (in 000s)	4,355	4,230	4,880
No. of Individuals (in 000s)	26,231	25,005	29,375
Memo:			
Total Families (in 000s)	9,852	10,522	11,990
Total Individuals (in 000s)	53,207	55,567	63,859

Source: National Statistical Coordination Board

contrast, the Philippines has reduced poverty by only one-third of a percentage point annually over the past two decades. This is due mainly to its weak record of economic growth.

It has been estimated that even if the distribution of income were held constant, each percentage point increase in GNP growth would reduce poverty incidence (poverty gap) by about 1.8 percent. The rate of poverty reduction would be much faster, however, if growth were also accompanied by income redistribution.

The alleviation of poverty itself will entail other direct measures to provide minimum basic needs that are not as closely related to current incomes (e.g., housing, water and sanitation, health care, and education). But even these basic services can be provided in a sustained manner only if the economy, along with public revenues, is growing.

4. Achieving rapid growth will depend on increasing investments and exports wherein the Philippines has lagged behind.

The low level of investment is one of the main reasons for the country's poor economic performance, poor growth and employment, and growing poverty. Investment expenditure in the Philippines has rapidly fallen behind those of other countries in the last two decades. The share of investment in the Philippines' GNP has been declining since 1981. Over the period of 1986-1990, only 19.2 percent of GNP was invested. This must be compared to 32 percent for South Korea, 28 percent for Thailand, and 25 percent for Malaysia. In the case of the Philippines, it should be remembered that these ratios are decreasing shares of a stagnant or even shrinking income.

A clearer picture is seen by comparing levels of investment per head (Table 4). In the period 1986-1990, the investment expenditure per

	Philippines	Thailand	Malaysia	South Korea	Indonesia
1971-75	102	142	288	280	61
1976-80	182	178	408	522	64
1981-85	158	204	800	632	126
1986-90	116	286	562	1122	146

Source: World Bank, World Tables 1992

head in the Philippines was only 10 percent of that in South Korea, 20 percent of that in Malaysia, and 40 percent of what Thailand was spending. During that period, the level of investment in Indonesia was even higher.

5. An important consequence of the failure to invest has been the inadequacy of infrastructure support services.

As one indicator, the length of paved roads in the country has actually declined, despite obviously increasing needs. In comparison, this figure has increased fourfold in Indonesia and Thailand, and more than doubled in Malaysia over the same period (Table 5 and Figure 2). Similarly, the production of power in the Philippines has merely trebled in two decades, while it has increased between six and eighteen-fold in other countries. Other important components of infrastructure are shipping, ports, and communications. Among the major consequences of inadequate infrastructure support are high cost of production and the country's loss of attractiveness as a trade and investment site.

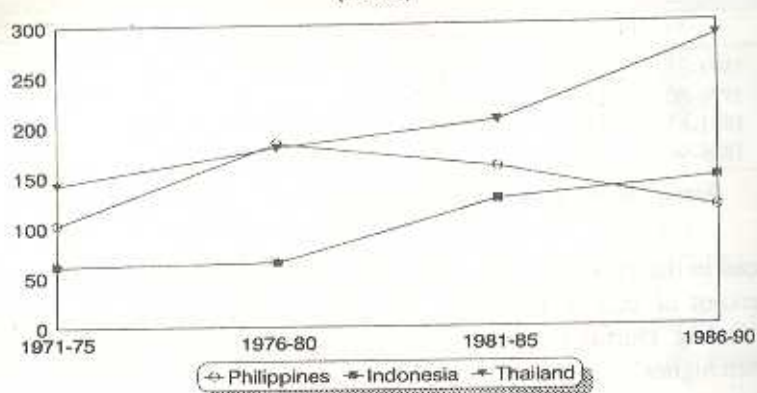
	Paved Roads (000 Kms.)			Power Production Index (1970 = 100)		
	1970	1980	1990	1970	1980	1990
Philippines	13.5	27.7	23.1	100.0	206.4	299.3
Indonesia	20.4	56.5	89.5 ^a	100.0	618.9	1817.8
Thailand	10.1	22.4	38.8 ^b	100.0	332.5	860.4
Malaysia	16.0	20.0	35.9 ^b	100.0	287.5	611.4

^a1987

^b1989

Source: Intal (forthcoming).

Figure 2
Per Capita Expenditures on Infrastructure
(in US\$)



6. The major reasons for the failure to invest sufficiently in infrastructure and provide social services are: a.) weak savings effort; b.) unsustainable public sector deficits; and, c.) periodic shortages of foreign exchange.

6.1 Filipinos as a whole are saving less and less; therefore, investment is more difficult to finance internally.

The proportion of income saved by the private sector and the government has been going down relative to past performance and also relative to those of other countries. Domestic savings today is less than 20 percent of output or incomes. In contrast, for many other countries in the region, this ratio was over 30 percent by the late 1980s. The weakness of domestic savings is one of the most important reasons investment cannot be financed from within and the country has to resort to external borrowing.

Part of the weak financial savings is caused by weak growth of incomes itself, so that if the economy were to rebound, savings would be bound to rise as well. But there are other important reasons for weak savings, and these are: low interest rates on savings given by the banking system especially to smaller savers; the lack of widespread access to higher-yielding financial assets (e.g., T-bills, shares of stocks); and the attraction of less economically productive forms of wealth, such as real estate speculation. A good part of this is tied up to the continuing tight hold of a few large commercial banks over important financial markets.

6.2 The public sector itself has been a large dissaver in the past.

This is seen in the large public-sector deficits and consequent debt accumulated, especially since the Marcos administration. Because a good deal of these did not find their way into productive projects, the

country was confronted with a large burden of repaying them, and most of these debts were taken over by the national government under the government guarantees given to private persons. Included under these were the debts of financial institutions such as the Philippine National Bank (PNB), the Development Bank of the Philippines (DBP), and now the debts of the old Central Bank.

In order to repay its assumed foreign liabilities, as well as to finance its necessary activities, the national government has heavily borrowed domestically. As a result, a large amount of national government spending (2 percent of Gross Domestic Product in 1991) goes to paying interest on both domestic and foreign debt (Table 6 and Figure 3). By 1991, domestic interest payments amounted to 4.5 percent of GDP.

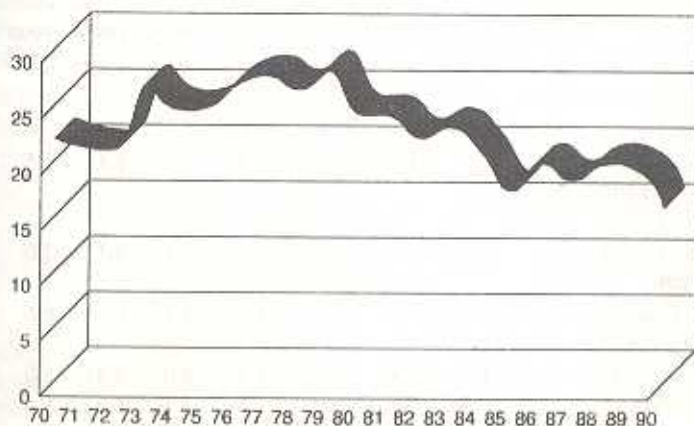
Table 6
Gross Domestic Savings
As Percentage of Gross Domestic Product
For Selected Countries

	1970	1975	1980	1985	1990
Philippines	21.9	24.8	24.2	17.4	16.0
Indonesia	13.9	25.9	37.1	29.8	37.4
Thailand	21.2	24.8	20.1	21.2	33.6
Malaysia	26.6	25.8	32.9	32.7	32.3
South Korea	15.0	18.5	24.3	30.5	36.7

Source: World Bank, World Tables 1992

Figure 3

Domestic Savings as a Percentage of the GNP
1970-1991



At present, the government is apprehensive about spending more on investment infrastructure or social services because of a fear that larger public sector deficits (measured as a proportion of GNP) might cause inflation. These deficits have heretofore been brought under control by cutting back on infrastructure spending. But this has obvious negative consequences for current and future growth. Among others, this spending cutback caused a recession in 1991 as the deficit was trimmed from 6.9 to 3.5 percent of GDP.

Apart from an inherited debt burden, other major reasons for the large public sector deficits are the following:

a.) *Poor revenue collection.* It is generally conceded that the country's tax structure is sufficiently progressive. But revenue collections have lagged behind. There has been a slow increase in the share of taxes to GDP. This has risen slowly from 11 percent in 1986 to 14.7 percent by 1991 (Table 7). If it can be maintained, the Philippine effort level today is comparable to that of Indonesia, Korea, and Pakistan over the last few years. By contrast, however, Malaysia's and Thailand's tax-GDP share is a higher 16 percent (Table 8).

The increase in tax effort is no reason for satisfaction, however, for several reasons. First, these other countries are not as heavily indebted as the Philippines and therefore do not need to raise as much resources. Second, the GDPs of many of these countries are higher, and therefore, the same percentage translates into higher absolute magnitudes. Finally,

Table 7
Public Sector Deficits
As a Percentage of Gross Domestic Product
1983-91

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Public Sector Deficit	10.0	8.5	6.6	6.5	2.4	4.1	3.9	6.9	3.5
<i>Of which</i>									
National Government (NG) Deficit	2.0	1.9	1.9	5.1	2.4	2.9	2.1	3.5	2.1
Central Bank Deficit	3.7	5.3	2.7	3.0	1.6	2.1	2.3	2.0	1.7
NG Interest Payments	1.4	2.0	2.6	3.5	5.4	5.7	5.9	6.6	6.0
Domestic		1.2	1.8	2.5	3.5	4.0	4.4	5.0	4.5
Foreign		0.8	0.7	1.1	1.8	1.7	1.5	1.6	1.5

Table 8
Tax Revenues
(as percentage of GDP)

Philippines	12.9
Indonesia	15.1
Malaysia	16.0
Thailand	16.2
Pakistan	14.1
South Korea	14.8

the increase in tax efforts in the Philippines has been achieved mainly through the imposition of a larger share of indirect taxes (such as on imports and on petroleum), which are easier to collect but are more distortive than Value-Added Tax (VAT) or income taxes.

b.) *A large expansion of government personnel costs* has also contributed to the deficit. Between 1980 and 1990, employment by the national government increased by 60 percent, and personnel costs rose from 3.8 percent to 5.8 percent of GDP.

6.3 Historically, growth has always been constrained by insufficient foreign exchange.

This is obvious simply by viewing Philippine postwar economic history. Economic crises have always coincided with balance-of-payments crises, such as what happened in 1949, 1962, 1973, 1984-85, and 1991. In the last decade, it has occurred twice that growth has had to be broken off as international reserves fell in precarious levels (Table 9). The reason for this is clear: Foreign exchange is necessary to pay for the imports needed for investments.

By contrast, the high growth record of the more successful NIEs has been less interrupted by such crises, since they managed to transform their economies into export dynamos. The high growth of these economies is directly linked to their export success. The main lesson from the 1960s and 1970s is that it is better to ensure the availability of foreign exchange

Table 9
Exports by Selected Countries
(in US\$ millions)

	1970	1975	1980	1985	1990
Philippines	1,060	2,216	5,750	4,588	8,681
Thailand	685	2,162	6,639	7,056	23,002
South Korea	830	4,452	12,654	30,283	64,837

for industrialization by encouraging the vigorous export of manufactures (export-orientation) rather than by restricting manufactured imports to protect local industries (import-substitution).

Here again, the progress of the Philippines has been weaker than a first-tier NIE like South Korea, or a second-tier NIE like Thailand. Ironically, as late as 1970, exports by the Philippines exceeded both those of South Korea and Thailand, although these consisted largely of traditional exports. However, rather than promote manufactured exports decisively, the Philippines resorted to heavy foreign borrowing. By 1990, Thai exports were more than two and a half times those of the Philippines, while South Korea's exports were seven and a half times larger.

As another indicator, one may view how the share of the world market for manufacture has been captured by the Philippines (Figure 4). After increasing in the 1970s, the Philippines' share has stagnated at around 0.4 percent for the entire decade 1980-1990. This contrasts with the experience of other countries that have completed the transition through exports, such as South Korea, whose share in world manufactured exports continuously increased from 0.3 percent in 1970 to 2.2 percent two decades later.

In the promotion of exports, several tools have been used by the more successful countries. An important requirement is that exporters must be given access to inputs at or close to world market prices, either through duty drawbacks and bonded warehouses, or reductions in tariff

Figure 4
Share of Selected Countries in World Markets in Manufactures
(in percent)

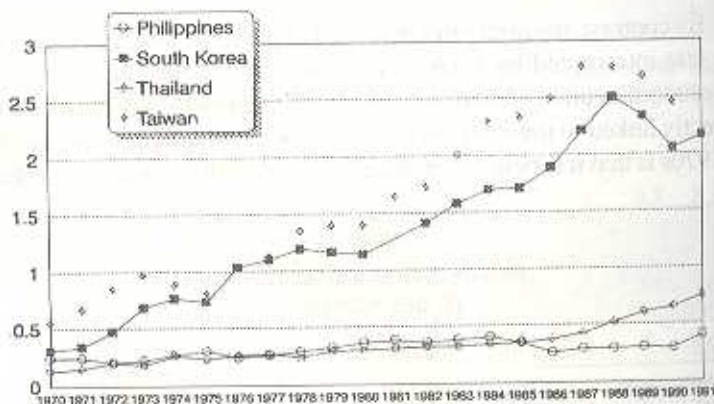
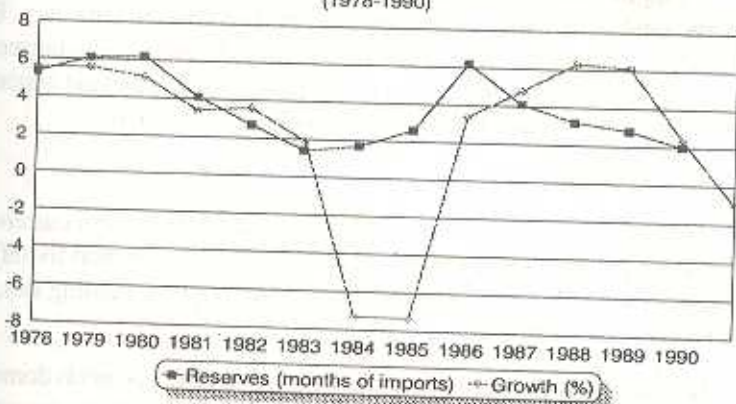


Figure 5

GDP Growth Rates and International Reserves

(1978-1990)



The graph shows GNP growth and international reserves, measured in months worth of imports scale. It is obvious that growth weakens and has to be broken off when reserves fall below a certain critical level, about three and a half months' worth of imports.

protection on inputs. A more basic presupposition for competitiveness, however, is access to basic infrastructure such as transport and communications. To this extent, there is an interaction between the urgency of providing infrastructure and the need to promote exports.

At present, the country enjoys a comfortable level of international reserves only because growth has been arrested through contractionary monetary and fiscal policies (Figure 5). To this extent, the foreign exchange situation is not urgent. But this situation is clearly temporary. It is sustainable only when one accepts the continuing lack of economic growth as a *normal* situation. For unless drastic reforms are put in place, it is highly likely that a foreign exchange crisis could again arise soon after growth is resumed, say, after macroeconomic policies are loosened. Even now that the economy is prostrate, many export industries continue to languish as imports rise.

The point is that much of the drive for NIE status and the sustenance of growth must inevitably contain a strong component that emphasizes exports, especially of manufactures. At the moment, however, the economy is still not sufficiently oriented towards achieving this. There are two major issues that need to be addressed: productivity and the exchange rate.

7. *Exports and competitiveness at home depend on productivity and the exchange rate.*

A Filipino firm's products have greater chances at a market if the domestic costs going into them translate into less foreign currency. This can happen either if the peso is cheaper relative to the foreign currency; or if more output is produced for a given peso outlay. The first concerns the *exchange rate*, while the second concerns *productivity*.

7.1 *Exchange rates.*

The peso's value relative to the dollar and other foreign currencies has generally deteriorated steadily throughout the years, and therefore, the observation will seem strange to many that notwithstanding this, the peso remains overvalued.

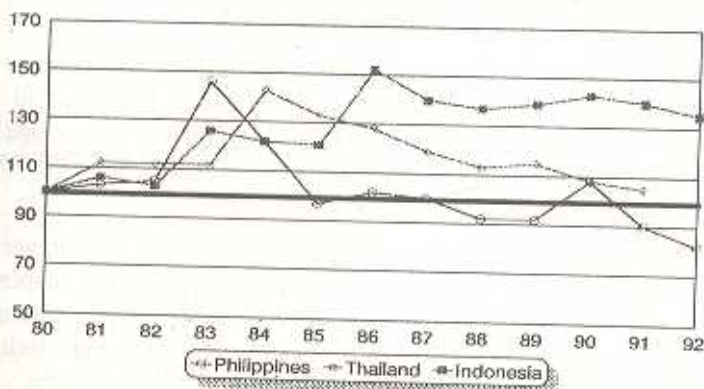
In assessing whether the exchange rate adequately protects domestic producers from imports, or promotes Philippine exports, what is important is not its level alone, but how it adjusts for domestic versus foreign inflation. This is known as the *real* exchange rate. If the depreciation of the currency does not sufficiently compensate for higher inflation at home than abroad, then the country's products lose competitiveness. Foreign goods would then look cheaper than domestic goods, whether the buyers are foreign (exports) or residents (import substitutes).

The following data show a computation of real exchange rates for the period 1980-1992 for the Philippines and other countries of the region (Figure 6). What they reveal is that especially in the early 1990s, the peso was appreciating in real terms, making foreign goods look cheaper and the local ones more expensive. In fact, in order to gain the competitiveness associated with 1985, the peso would have to be 14 percent cheaper. But even this may not be sufficient if one views the behavior of other currencies in ASEAN. Figure 6 shows that the country has been losing exchange-rate competitiveness relative to its own experience and relative to other countries in the region, especially Indonesia. This suggests for example, that compared to 1980, the peso has become almost 60 percent more expensive relative to the Indonesian rupiah. This is because devaluations of the rupiah have been more frequent than that of the peso, and the inflation in Indonesia has been less than the Philippines.

There can be no question that the exchange rate is an essential tool for export competitiveness. The single most important complication arises, however, when currency depreciations also cause inflation by raising prices of imports. The chief channels are petroleum prices, and

Figure 6

Index of Real Exchange Rates
(1980-91; 1980=100)



The graph shows real exchange rates indexed at 1980. If the value falls below the solid horizontal line, it means that the currency in question has appreciated relative to its value in 1980. This is true for the peso for most of the late 1980s. By contrast, the baht and the rupiah have managed to remain above the line, indicating that they have not lost their competitiveness vis-a-vis 1980 rates.

fertilizer, which affect the prices of energy and food. This leads to higher wage demands to catch up with inflation which, if excessive, causes an inflation so large that no real depreciation takes place: for then domestic products may appear just as expensive before and after the depreciation took place. Then no boost to exports, or discouragement of imports, takes place.

In the current situation, however, there are some hopeful signs that if currency depreciation occurs, the resulting inflation may not be as great as in the past, since the economy is in recession.

Social repercussions and resulting price-wage claims may also be lessened if highly focused safety nets are put in place as part of a plan to regain competitiveness. For example, ways might be found to control price increases in petroleum products, fertilizer, and the most basic food items; targeted feeding programs may be undertaken by Social Welfare or Labor. There should be no illusion that substantial devaluation (e.g., of 20 to 25 percent) will entail large adjustments. There is also no question, however, that these large changes cannot be long postponed. What is at issue is under what social terms this change can be achieved.

7.2 Labor productivity and industrial relations.

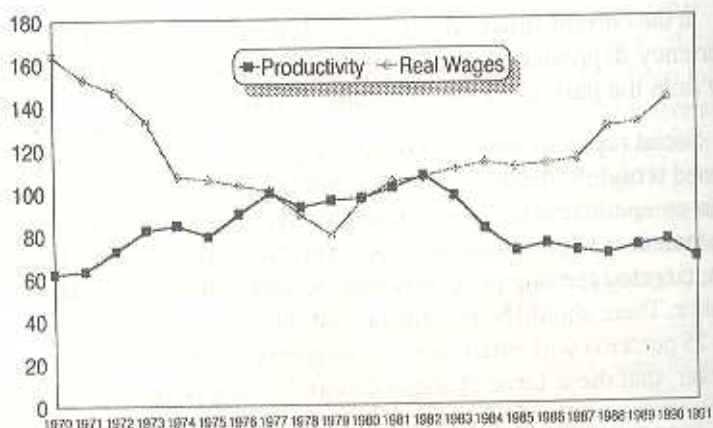
It is wrong to think that all the burden of regaining competitiveness should fall on exchange rate adjustment. It is also possible to regain competitiveness through rising productivity. This is something Japan has learned to do in the face of a yen appreciation.

Unfortunately, in this country changes in labor productivity have been uneven and generally adverse. Since 1983, the trend in labor productivity in industry has been downward (Figure 7); the average labor productivity in 1991 is about the same as what it was in 1970-1971, so there has been very little progress on this front.

On the other hand, World Bank estimates show real wages have also been generally declining or have stagnated. The large wage increases in 1987 and 1989 due to adjustments of the nominal wages were not in step with increases in productivity. Wages rose even as productivity was declining. This has clearly resulted in a loss of competitiveness.

As another indicator, one might consider Table 10, which compares the incidence of strikes and lockouts and workdays lost for the Philippines, Indonesia, Thailand, and Malaysia. It is evident that, despite some improvement, the incidence of labor disputes in this country is several times larger; the same is true for lost workdays. The result, again, is a loss of competitiveness.

Figure 7
Indices of Productivity and Wages



Sources: National Statistics Office for Productivity and World Bank (1993) for real wage series.

Table 10
Comparative Indicators on Industrial Relations

	No. of Strikes and Lockouts		No. of Workdays Not Worked Thousands	
	1980	1990	1980	1990
Philippines	62	187	105.0	955.0
Indonesia	198	37	33.8	48.6 ^a
Thailand	18	10 ^a	6.4	89.3 ^a
Malaysia	38	17	24.5	24.9

^a1987

Source: *Intal (Forthcoming)*

The vicious cycle that confronts labor and management is the following: poor employment growth and low productivity press down on workers' real wages and living standards. In order to maintain living standards in the face of deteriorating conditions, workers periodically strive to raise nominal wages (e.g., via minimum wage setting). But since productivity has not increased, higher wages lead to a further loss of competitiveness and even poorer employment prospects, completing the cycle. Owners and managers, on the other hand, seek to squeeze wages as far as possible in order to cope. In the end, however, industrial disputes of this nature are self-defeating for both management and labor, since they are premised on getting the most out of a shrinking whole, rather than expanding the reward itself.

Labor productivity is determined not only, or not even primarily, by the workers themselves. In fact, the main responsibility may lie with managers and capital owners. For the labor movement, however, what is important to realize is that wage increases that are unrelated with productivity increases can only lead to a loss of competitiveness for firms and industry as a whole, ultimately affecting employment. The real challenge for labor and capital is whether they can replace heretofore adversarial relations with a nationalist paradigm of cooperation for global competitiveness.

Two elements further complicate the issue as already discussed. Infrastructure support from the government has been sorely wanting, and this makes it much harder to demand productivity from all sides. Finally, there is continuing resistance among many owners to restructure their industries to meet growing international competition. There is an attempt to rely on outmoded protection to preserve traditional ways of doing business (for example, the opposition of many protected sectors even to moderate competition from the Asean Free Trade Agreement).

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Some Questions on Philippine Growth

The foregoing has sought to show that in the next three to four years, there are only few key but difficult issues that must be addressed in order to shift the economy away from its path of stagnation — not to mention achieving NIE status. In particular, the following questions must be answered:

First, how can the government catch up on infrastructure and social services, without bloating its deficit? What is the concrete combination of improved tax enforcement, new taxes, streamlining of expenditures, and deficit financing that is required and acceptable to the major sectors? What are the means of restructuring public debt (foreign and domestic) in order to free up more resources for investment?

Second, how can the precarious drop in savings be arrested and more finance made available for domestic investment?

Third, what is the combination of exchange rate adjustment and productivity improvements that is needed to regain competitiveness for the country? What framework can be proposed between capital, labor, and government for increasing productivity and radically improving the climate for sustained employment and new investment?

Finally, how can the peso's value be adjusted to allow exports to compete and to protect domestic industry against imports? How can the resulting inflation be minimized, so that the depreciation is not wiped out by inflation? What are the most essential safety nets required by and acceptable to the sectors that will be affected?

The business of government is a complex one, and not all problems can be addressed at one time. But if the idea of an economic summit and of a consensus has any value whatsoever, it must be found in obtaining

agreement on how to move forward on just four key issues: *public infrastructure, savings, the exchange rate, and industrial relations*. All the rest is sound and fury.

Some Issues on the Medium-Term Development Plan

The Plan already suffered its first setback last year by completely overlooking the length and intensity of the power crisis. The growth target of 4.5 percent was not met, with the economy posting a growth rate of about 2.5 percent.

Financing. The government wishes to spend more on its investment program but at the same time it projects a *declining* size of the deficit (relative to GNP). This can only mean either of two things: either a.) taxes and other revenues must be raised; or b.) current outlays must be cut. It will be seen, however, that the Plan projects only a slight increase in the revenue effort. Instead, it foresees a cutback in current government outlays, i.e., wages and salaries, maintenance and operating expenditures.

Assuming these targets are adhered to, how can this be done without provoking social conflicts (e.g., cutbacks in government personnel and wage-restraint in the public sector)?

Inflation or stagnation? On the other hand, if the tax effort is weak or if current spending cannot be cut, there are two possible responses by the government: a.) it may continue to spend on infrastructure as programmed anyway, which means the deficit ceilings will be violated and inflation may be fuelled; or b.) it may choose to stick to the deficit ceilings which means it may cut back on infrastructure spending, as it did in the past. The latter means poorer growth and a return to stagnation.

Export growth. The government projects a virtual tripling of the country's export earnings. Yet it is difficult to see how this is to be done considering the moderate

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devaluation that is being foreseen in the Plan. The level of the exchange rate foreseen in the Plan does not suffice to restore the competitiveness of Philippine exports and stem the rising tide of imports. Another element weakening the projection is the presence of other large exporters in the region. On the other hand, a substantial devaluation risks social opposition because of the sharp rise in prices it might occasion.

Foreign investments. If export growth does not materialize, then the country must borrow abroad, either in the form of loans or investments. The scale of foreign investments seem ambitious: an increase in net foreign investments from \$769 million (1992) to \$2.7 billion (1998), or an average of 25 percent growth annually.

Foreign loans. The Plan continues to project large net outflows because of repayments of foreign debt. Repayment of principal will amount to \$2.4 billion annually on the average, while inflows are only \$475 million — an average outflow of \$1.95 billion annually, excluding interests. No debt relief is being foreseen. This looks sustainable only because of the projections regarding exports and foreign investments. However, if these scenarios should prove over-optimistic, then a crisis in foreign exchange may once more be the result.

Agrarian reform. The Plan says little about important social concerns. Among others, the magnitude of the financial requirements needed to implement agrarian reform is underplayed and is not fully treated.

Social pact. There is a lack of a clear recognition of the urgent need for a social pact between workers, capitalists, and the government. There is no specification of the specific package privately and socially provided benefits to the employed and the possible trade-offs and sacrifices the government and the private sector are willing to make. There is no clear pronouncement or arrangement regarding the role of organized labor, the organized peasantry, NGOs, and POs in national decision-making.

The present Plan has been criticized for its too ambitious targets and certain technical inconsistencies. While certainly valid, that is probably not as important as the more basic but missing element — a framework for obtaining social consensus on the goals and policies the Plan advocates. Whether these goals are ambitious or not depends not only on technical feasibility, but also on the political support it can muster. Often, a goal is regarded as 'realistic' partly because there are no bearers or constituencies behind a higher achievement. The apparent failure to mobilize such support through credible present actions could, in the end, spell the more decisive defeat for the Plan.