The Road to NIChood: The Philippine Experience

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Not democracy nor even nationhood, but the dream of "NIChood" -- of becoming a NIC, a Newly Industrialized Country -- is what engages the energies and imagination of regimes in the underdeveloped Third World today.

The term "NIC" has an upbeat ring; unlike the tired cliche that the word "development" has become. NIChood connotes not just triumph over underdevelopment and poverty. Above all, it signals hope and opportunity for every poor country that had previously despaired over the prospect of ever making it in a world economy long dominated by the industrialized nations of the North. NIChood, in short, has become a fetish, a talisman against the poverty syndrome. The promise of attaining this status has become the new battlecry of Third World elites whose capacity to lead their countries out of poverty has been severely put in doubt by the failure of the development strategies they had earlier instituted.

But is there really a NIC model of development? Who are the NICs and the likely candidate of NIChood? Most intelligent commentators and analysts would hesitate to generalize on the basis of very diverse experiences in order to formulate an ideal type for newly industrializing countries. Bjorn Hettne observes that "... the experiences of the NICs (Newly Industrialized Countries) was used as the main case for the refutation of dependency theory and held up as the model to imitate in the 1980s." [1]

There is a tremendous interest, for obvious reasons, in the development strategy that the NICs are supposed to represent. But, as Hettne properly warns:

> We probably violate reality by using terms such as NICs or the NIC model. The concept summarizes the most recent waves of industrialization which has taken place in a limited number of countries in different regions: Latin America, Southeast Asia, and Southern Europe." [2]

The OECD (Organization for Economic Cooperation and Development), according to Hettne, has identified ten newly-developing countries, namely: Singapore, South Korea, Hong Kong, Taiwan, Brazil, Mexico, Spain, Portugal, Yugoslavia and Greece. To these ten, the World Bank adds another six, namely: Malaysia, Argentina, Turkey, The Philippines, Colombia and South Africa. [3]

The list is incomplete and static. There is no mention of Thailand or Indonesia, the two ASEAN countries that, in the last two years, have caught the attention of international media as possible candidates for NIChood in the immediate future. On the other hand, the Philipines is still in the list, notwithstanding the fact that well-publicized accounts consider it to be the "basketcase" or the odd man out in an otherwise dynamic Southeast Asian landscape. Malaysia too finds itself in an uncertain economic fate that often confounds observers; sometimes it looks like it will soon be elevated to the exclusive club of the four so-called dragons. At other times, it is pictured as an archaic economy that is unable to break away from its dependence on raw material exports.

As a status to be aspired for, NIChood refers essentially to a per capita income of $1500 and a poverty incidence of only about 15 percent of the population. As a dream, there can be no doubt about its tantalizing power. It is both within reach and out of reach. It is a reality because Singapore, Taiwan, Hongkong and South Korea are there. They have shown the way. But as an analytical tool and as a guide to policy-making, the NIC strategy has remained nebulous. What torments us is clarifying the prerequisites for NIChood and isolating its most crucial element. Is it the Confucian ethic? [4] Is it the leadership of a forward- looking authoritarian regime? Is it geo-strategic considerations? Is it the capacity to draw a coherent program and to move the nation as if it were one coordinated machine?

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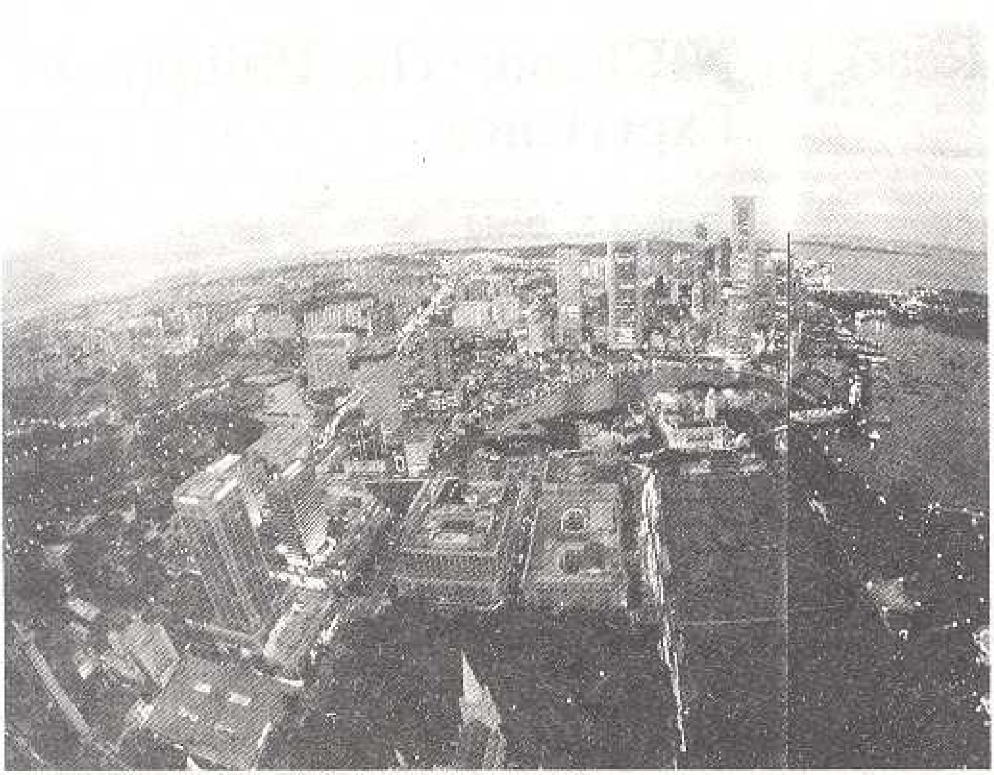

The enchanting lure of an NIC: **The night lights of Singapore.**

The answers are not clear.

What is clear is that NIChood is the new development ideology. State technocrats deploy it to justify and obtain bigger budgetary support for their pet programs, and to rationalize acquiescence in the adjustment measures prescribed and dictated by the guardians of the world capitalist system. Only very recently, for instance, the Department of Science and Technology of the Philippine government announced its new program to assist in the development of key industries by launching the slogan: "The Philippines as a NIC in the Year 2000," as if by mumbling this new mantra, one could tame the demons of poverty and underdevelopment.

As an economic model, the NIC strategy, if such can be culled from the experiences of South Korea, Singapore, Taiwan and Hong Kong, is, in fact, not so vastly different from the early models associated with the Rostowian "take-off." The importance assigned to foreign capital and technology, foreign markets, private sector initiative, and the leading role of the manufacturing sector is there.

What might set it apart from the earlier modernization models could be two things: (a) first, the much stronger emphasis on participation in the world market as the linchpin of economic growth, and (b) second, a greater stress on the role of a strong developmentalist State in coordinating and facilitating this outward thrust. [5]

Earlier conventional development strategies simply stressed the importance of foreign capital and technology in the drive to create a mature economy patterned after the economic structures of the industrialized North. The NIC experience highlights the singular importance of labor-intensive manufactured export as the key to economic development. [6]

And whereas the unobtrusive State was the ideal for the earlier development strategies, the NIC experience places a premium on the significant role that the interventionist State can play in promoting and managing external linkages, as well as in mobilizing domestic resources. The "strong" State is seen as an indispensable instrument to steer a country through rapidly changing circumstances in the world economy in its bid to improve its economic standing. This activist role of the State is perceived as a necessary corrective to the relative weakness, at least during the early stages, of domestic private entrepreneurs and economic groups.

Based on the accumulation of literature about the NIC experience, especially in its East Asian expression, we might list down the following as among the essential lessons of this "model":

1. Inspite of, and perhaps because of, the absence of a rich natural resource base, development could be launched on the backbone of labor-intensive manufactured goods.

2. Intergration into the world capitalist system is not only unavoidable for countries aspiring to develop, but in fact it would be a pity if the opportunities being opened in the world market were not seized.

3. On the whole, an open externally-oriented economic strategy based on international trade would tend to have a more positive, rather than negative, impact upon the overall efficiency and health of the local economy.

4. A strong decisive State, with an enhanced rather than a diminished role, and with a demonstrable capacity for autonomous action in its relationship to particular political and economic blocs, is an important ingredient in the process of development.

5. High levels of external capital assistance are unavoidable especially at the early stages of the development process.

6. High rates of economic growth can go hand in hand with equitable development within the framework of global integration; the creation of massive employment in the labor-intensive manufacturing sector not only eliminates poverty but also results in a greater equity in income-distribution.

7. The expansion of labor-intensive manufacturing for export leads to the formation of a strong middle class which alone can ensure political democracy in the long run.

8. A national ethos -- which promotes discipline and conformity, cooperation and unity, hard work and sacrifice for the sake of the common good -- is an essential cultural factor underpinning the NIC experience.

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The need for an authoritarian State: South Korean armor on parade.

Can It Be Repeated?

As an ideological weapon for destroying the *dependentista* worldview, the NIC experience succeeded in showing that development was a feasible goal for countries operating within the framework of the global capitalist system. Taiwan, South Korea, Hong Kong and Singapore continue to be held up as eloquent testimonies to the validity of development via integration in the world capitalist system.

Yet, on empirical grounds, doubts about its replicability have remained. Attention has been focussed, for instance, on the role of Japan and the US in pumping massive amounts of aid and capital into Taiwan and South Korea because of their particular geostrategic value. The distinct size of the two other city- states, Singapore and Hong Kong, also casts doubt on the meaningfulness of using them as cases for purposes of comparison.

But one of the most persuasive accounts of the specificity of the NIC experience and its non-replicability on a universal scale is that of William Cline. [7] Cline studied the export programs of the four dragons (G-4), and wondered whether the world market constituted mainly by the developed countries would be able to absorb the expansion in exports that would result if the rest of the underdeveloped world followed the NICs example. Cline's conclusion was:

> It is seriously misleading to hold up the East Asian G-4 as a model for development because that model almost certainly cannot be generalized without provoking the protectionist response ruling out its implementation. Elevator salesmen must attach a warning label that their product is safe only if not overloaded by too many passengers at one time; advocates of the East Asian export model would do well to attach a similar caveat to their prescription. More broadly, development planners adopting the increasingly popular strategy of export-led growth must take into account the probable capacity of the international market to absorb the resulting increases in exports from their own and like-minded developing countries. [8]

It appears that it cannot even be sustained. In the final analysis, the NICs will have to diversify their trade. They will have to attend to the domestic market and to equity considerations. Growth will have to recognize ecological sustainability. The authoritarian State will have to be replaced by a democratic polity founded on a new consensus. In most discussions of development models and strategies, an accounting of the Philippine experience often suffices to moderate the wild expectations that usually attend any presentation of the NICs experience. From the early seventies to the present, the Philippines has dutifully complied with all the prerequisites that should have transported it to the privileged terrain of the dragons. But the last twenty years have only yielded for us the debris of many failed programs and ruined lives. Indeed, only the specter of a corrupt and kleptocratic Marcos regime somehow tempers our criticism of this model, and permits its defenders to introduce qualifications while upholding its essential validity. We are told that the model requires an ethical leadership to push it as if unethical leadership were a monopoly of the underdeveloped. This is utterly simplistic, and leaves out of consideration the complexities that warrant a more pious attention to the problem of development.

The Philippine Case

When Marcos imposed Martial Law in 1972, his economic project was anchored on a program of aggressive export-manufacturing. His model was Park's South Korea: [9] development via export-processing zones, liberalization of investment laws, massive foreign borrowings, and authoritarian rule aimed at creating a stable political environment and a docile workforce. The object was to draw massive foreign investments into the country. And in this Marcos succeeded. But two years into the authoritarian-developmentalist experiment, the Philippines was hit by the twin curse of falling commodity prices, notably for sugar and coconut, from which Marcos had hoped to mobilize savings, and spiralling oil prices which quadrupled in just one year. Note that the country was and remains almost totally dependent on imported fuel. A further rise in fuel prices took place in 1979, just when the Philippines was recovering from the first oil shock of 1973-74.

Under the circumstances, there was no choice but to tap foreign loans if the export-oriented experiment was not to be left stranded in mid-stream. Marcos borrowed at the rate of $2.5 billion annually. Prevailing low interest rates on recycled petrodollars seduced us to borrow massively; but floating interest rates subsequently multiplied this indebtedness beyond our imagination. The accumulation of external debts put the country at the mercy of its commercial and official creditors, and the latter spoke mainly through the International Monetary Fund (IMF). The adoption of the standard IMF cure further drove the country down.

Devaluation increased the peso value of our external debts and made it virtually impossible for the private sector to service them. Reduction in liquidity resulted in a regime of high interest rates which forced many companies to either cut back their production or, in many instances, close down altogether. Increase in taxes and the freeze on wages strangled the public and fuelled mass unrest. The resulting instabillity scared investors, and triggered a capital flight of about $5 billion from which we have not been able to recover till now.

Towards the end of his regime, Marcos found himself face-to-face with a $26 billion external debt, a debilitated economy that for two years registered a negative growth rate, a full-grown insurgency, a business community that had completely lost confidence in its government, and foreign commercial banks all wanting to collect from their loans. From 1983-1987, all commercial lending to the Philippines ground to a complete halt. Until 1986, most importations were on a cash-only basis.

It is politically convenient to ascribe the economic debacle in the Philippines to the corruption and mismanagement of the Marcos regime. But an honest accounting of those years should allocate a large portion of the blame as well to the commercial banks and multilateral institutions, and to the unjust trade and currency relations that has characterized the world economy up to the present.

The Post-Marcos Economy

Four years after the collapse of the Marcos regime in 1986, the Philippines is still painfully trying to recover from the severe crisis that tested Filipino resilience from August 1983 to February 1986. We have a democratically-elected government, a new Congress, a new Constitution and a new Medium-Term Economic Development Program for 1987-1992. But it would be a delusion to say that we have a strategy for economic development. What we have is what may be called more accurately an eclectic program to manage the crisis and to contain the damage.

Our biggest economic problem is still foreign debt. While the profile of this debt has changed substantially since 1983 (e. g., in 1983, 37% of our debt was in the form of short-term obligations; in 1990, these short-term debts accounted for only 16% of the total debt), nevertheless, the servicing of this debt remains a punishing load on the country as a whole. As of March 1990, the Philippines' foreign debts amounted to $28. 983 billion or almost $29 billion. Forty-four percent of the national budget for 1991 has been earmarked for debt service. Social and economic services are sacrificed in the process. Infrastructure expenditures are pegged at low levels. In 1976, our debt service was only 5% of the total budget; in 1987, it was 45%. On the other hand, for the same period, expenditures for power and energy decreased by two-thirds, and infrastructure expenditures in 1987 were only 67% of the 1976 figure! [10]

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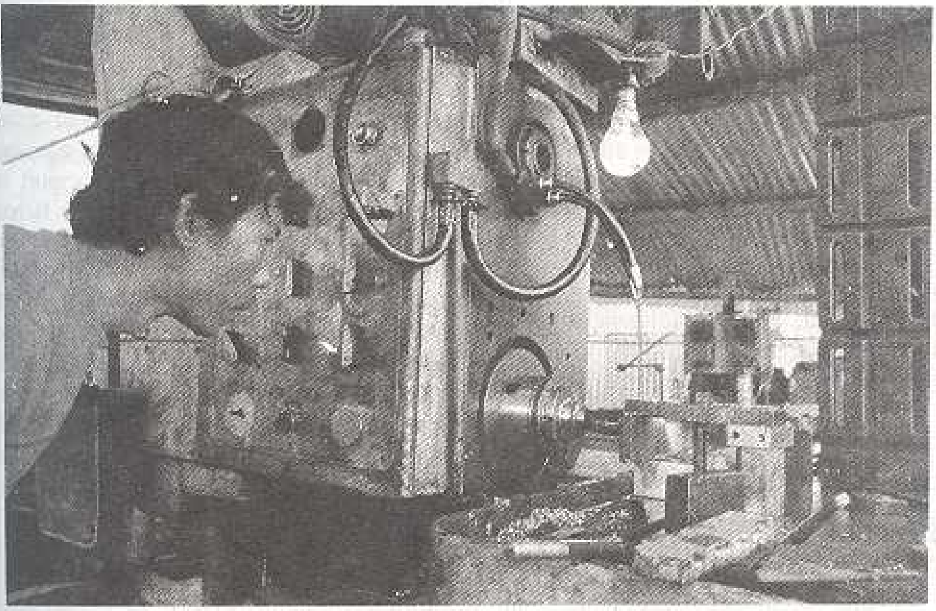

The debt problem is presently being tackled in two stages. The first stage is the reduction of the debt stock. The second stage consists of negotiations for lower interest rates. The reduction of the debt stock is being pursued through the debt buy-back program, and the debt-equity conversion scheme. Using money borrowed from the IMF, the WB and the Japan Eximbank, the government has been able to buy back $1. 3 billion worth of debts at a 50% discount. About half a billion dollars has also been retired through the debt-equity swap, a scheme by which private investors may purchase Philippine debt papers at a large discount, and then redeem these in Philippine currency at their full face value, on condition that the proceeds will be used to buy equity in Philippine companies. The latter scheme in effect provides holders of foreign currency a preferential exchange rate double the prevailing one. It has recently been shelved, pending a closer study of its unintended effects. For one thing, it has been discovered that instead of cash capital, new investors would rather bring in Philippine debt papers purchased in the secondary debt market.

Concerned citizens movements in the Philippines, like the Freedom from Debt Coalition (FDC), have proposed a reduction of such foreign obligations by contesting the legality of some of the 6000 loan transactions which constitute the Philippine foreign debt. Studies are being conducted to show the fraudulent character of some of these loans, which, from the evidence, appear to have been transacted with the connivance of representatives of the lending banks themselves. The FDC has urged the government to stop paying the interest or any part of the principal for such loans as the Bataan Nuclear Power Plant, pending the completion of a full investigation. The Aquino government has ignored these calls, and has opted to comply instead with the economic prescriptions drawn by the IMF which were affirmed by the former in its Letter of Intent and, subsequently, in the document it submitted to the consortium of aid-giving countries participating in the Multilateral Assistance Initiative for the Philippines, also known as the MAI/PAP.

It is useful to consider the economic program that the IMF has suggested to the Philippines as a condition for its remaining in good standing with international creditors and aid-givers. In this way, we may be able to show how the country is being made to bear the full burden of adjustment before it can even attempt to plan a long-term economic strategy.

IMF-sponsored adjustment has two objectives: external and internal. Exteral adjusment basically consists of measures aimed at reducing the balance of payments deficits. Internal adjustment, on the other hand, is aimed at lowering the public sector deficit. The most important external adjustment measures are the following: (1) expansion of exports, (2) foreign investment drive, (3) increase in foreign assistance, (4) reduction of outstanding debt. The most crucial of the internal adjustment measures are: (5) vigorous tax drive, (6) withdrawal of state subsidies, (7) deregulation of oil prices, (8) privatization or sale of State assets, (9) freeze on wages and the hiring of new government personnel.

Each one of these constitutes an aspect of an adjustment program whose consequences upon the lives of the people, especially the children and the poorest families, have not been fully investigated. We now consider some of these consequences.

The Export Drive

The NIC strategy suggests a shift from the traditional primary exports to light manufactures. The Philippines has faithfully complied with this. In 1976, manufactured products made up only 22.1% of total exports; by 198[illegible] they constituted 61.3% of exports. Like the NICs, we have gone full blast on garments, integrated circuits, footwear, furniture and other wood products, appliances, food, etc. The most popular of these are garments and electronic products, which also entail huge import costs because in reality they are re-export industries. And entry into the competitive world market has often entailed dealing with Hongkong and Korean textile suppliers and traders. Our furniture and wood products have been very successful abroad, but the largescale denudation of our forests, the internal exhaustion of tropical hardwood and rattan, leaves us asking whether it is worth it at all. A government report estimates that the country's dwindling forest cover continues to be depleted at the rate of 119,000 hectares per year.

But the truth of the matter is that our largest export earnings are not derived either from primary commodities or from manufactured exports; they come from the export of our labor. Our country has one of the largest overseas work forces in the world. There are about 700, 000 to a million contract workers abroad. This figure does not include the [illegible] million Filipinos living in North America, who also regularly send money to their relatives back home. Official bank records estimate annual remittances from OCWs to be at least $800 million. But it is very likely that the real figure could be anywhere from $2 billion to $2.5 billion. As R. Tiglao puts it:

> This represents a huge consumption demand which... contributed strongly to the economy's boom in the past four years.... The role of unreported workers' remittances is the tip of the iceberg of the vast underground economy of the country, which some believe is equal to known figures, hence creating a vast underestimation of the real GNP figure. [11]

During the time of Marcos, the export of labor was perceived largely as a stop-gap measure to alleviate the unemployment problem at home. Today, it has become probably the most important sector of the economy in terms of the earnings it is able to contribute to the country's finances. But the cost in human suffering is untold: families being seperated, young girls forced into prostitution, children growing up without parents, schoolteachers forced to quit their low-paying jobs in public schools to work as domestic helpers

And to all these, we must add the long-term effects of this drain upon the overall economic prospects of the country. Many technicians and farmers are leaving the country for construction work abroad.

The Foreign Investment Drive

The Philippines has not been able to attract as much of the Japanese surplus capital as it wants to. But in the last two or three years, the country has become a haven for overseas Chinese capital from Hong Kong, Singapore and Taiwan. Far Eastern Economic Review reports that "capital from Hong Kong and Taiwan made up 30% of total corporate investments last year..." [12] The successive coup attempts, and we have had six in less than four years, have not dissuaded these investors. But the resulting political uncertainty has placed the government on the defensive in its dealings with foreign investors. There are determined moves to open up hitherto restricted sectors of the economy to 100% foreign ownership, even as foreigners already enjoy generous tax incentives.

The most dynamic sector in the economy today is the construction and real-estate sector. This is also where the overseas Chinese money is flocking. In the last four years alone, land prices in the cities have increased fourfold. This has had the effect of cutting off a large section of the Filipino middle class from the housing and real estate market. It has also unleashed a frenzy of land conversions from agricultural to commercial, industrial and residential uses. Very recently, for instance, the government threw out 160 farming families in Cavite who had been tilling a 250-hectare farm owned by a government corporation. It needed the land as the site for an industrial estate aimed specifically at enticing Japanese corporations to come.

This land conversion phenomenon is dangerous, warns the economist Sixto Roxas. We no longer have an agricultural frontier to which landless peasants can move, he said. "By following a strategy of creating enclave industrial estates and export processing zones, the country is marginalizing whole populations." [13] Government attention is riveted to the employment-generation potential of the export-oriented industries. Consequently, small-scale agriculture suffers from benign neglect. Agrarian reform, which is aimed at reducing glaring inequalities in the countryside, is in suspended animation.

Reliance on Foreign Assistance

This is an option forced upon the country by the decision of international commercial banks to reduce their exposure in the Philipines. It means increased reliance on official loans and development assistance instead of on bank loans. At first blush, this would seem like a superior idea considering the concessional interest rates at which official loans are usually given. But the standard trick behind so-called development assistance is that it is usually tied to certain conditions. The assistance is seldom in the form of cash, it comes in the form of services or commodities supplied by the donor country. Which needs of the receiving country are to be satisfied? Who decides this? Here the practice often belies the rhetoric of international assistance.

Reduction of Outstanding Debts

Debt forgiveness or debt write-offs would have been the easiest ways of reducing the debt stock of many impoverished countries. But this is not an option that sits well with creditor nations. We have discussed the two most recent instruments by which the overall debt stock of the Philippines is sought to be reduced: the debt buy-back and the debt-equity swap. The overall impact of these schemes have been minimal. Whatever interest savings are made as a result of these transactions are just as quickly erased by even a slight appreciation in the value of the currency of a large creditor country like Japan. But more importantly, the beneficiaries of a scheme like the debt-equity swap are often the same big banks and large investors who probably contributed to the ballooning of the foreign debt in the first instance.

The impact on the population of the internal adjusment measures that were aimed specifically at reducing the government's budgetary deficits are easier to monitor. The vigorous tax drive, for instance, has not focussed on collecting more from the big corporations. Rather, it has sought to collect more through indirect taxation. Recently, so-called "sin taxes" were added to the cost of cigarettes and liquor. The government expects to collect an additional 2 billion pesos in taxes, which is roughly equivalent to taxes forgone in the form of incentives to foreign corporations.

The withdrawal of subsidies previously given to the government- owned water and power corporations means basically that they now have to charge a higher tariff for water and power consumption to recover their costs. On the other hand, the de-regulation of oil products is scheduled to take place before the end of the year. The move will most certainly mean a drastic increase in the price of gasoline and cooking gas. At present, the government maintains a price control over these commodities, but compensates the oil refining companies, mostly foreign, for whatever losses they may incur through an oil price stabilization fund. The freeze on wages and salaries of government personnel has not been as effectively implemented as the other adjustment measures, mainly because of its immediate political implication. Even so, family incomes have not been able to catch up with the rise in prices of essential services and goods.

What all of these measures teach us is simply that, as far as the IMF and the commercial banks are concerned, the victim -- not they -- must adjust and must absorb all the pain, because the buck stops with him/her.

The NICs ideology glosses over this reality, for it readily concedes the amoral automaticity of global economic processes, and exculpates from any responsibility all the political leaders, bank executives and corporate m who, by their actions, effectively snatch food away from the mouths of children, them their schools and homes, and co them to lives of desperation.

Conclusion

To surrender to the singular logic of world market is not only to give up autonomy; it is also to submit to a fragme notion of development. More nations are becoming aware of the equally impor values that had been given up in exchange economic development. Values like democr identity, equity, and ecological sustainab The conventional view is that such values come truly salient only after the quest economic development has been satisfied.

I do not agree. All too often, the va that are traded off are irreversibly lost. T environment only bears the most visible sc but in truth, the erosion is comprehensive. the Philipines, this whole flawed episode produced national demoralization, and has us wondering whether we will ever again masters of our own destiny.

(An early version of this paper was delive at the Regional Conference on "A Wo Without Borders," sponsored by the Society International Development, held in Jakarta, donesia on July 18-20, 1990.)

Notes

1. Bjorn Hettne, **Development Theory and the Three Worlds** (Longman Scientific and Technical, co-published in the U. S. with John Wiley, NY, 1990).

2. *Ibid.*, p. 120.

3. *Ibid.*, p. 262.

4. Tu-Wei Ming, "The Confucian Dimension in the East Asian Development Model," *Kasarinlan* Vol. 5 No. 4, 2nd Quarter 1990.

5. This is a point that Walden Bello stresses in his latest book **Dragons in Distress.** Previous observations, he argues, have tended to perpetuate the myth that these are free-market economies. Bello prefers to call these NICs economies "command economies."

6. R. Barett & S. Chin, "Export-oriented Industrializing States in the Capitalist World System: Similarities and Differences," in F. C. Deyo, ed., **The Political Economy of the New Asian Industrialism,** 1987.

7. William Cline, 'Can the East Asian Model Development be Generalized?' in C. K. Wilber, ed., Th **Political Economy of Development and Under development,** 4th ed., 1988.

8. *Ibid.*, p. 295.

9. An excellent account of the South Korean experien is provided by Hyun-Chin Lim, **Dependent Develop ment in Korea 1963-1979**, Seoul National Universit Press, Korea, 1985.

10. Solita Monsod, 'Calling A Spade A Spade,' Th *Manila Standard*, February 10, 1990, p. 8.

11. Rigoberto Tiglao, in *Far Eastern Economic Review* July 12, 1990, p. 34.

12. *Ibid.*, p. 34.

13. Sixto K. Roxas, "Blueprint for a Banana Republic," *Philippine Daily Inquirer*, March 4, 1990, p. 18.