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PHILIPPINE POLITICAL REVIEW 1982

William H. Overholt
Vice President
Political Assessment Group

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The regime of Ferdinand Marcos, and with it his major policies, the economic elite associated with him, and the rules of the political and economic game, have arrived at a fundamental turning point. To understand this turning point, the current situation must be placed in historical context.

Ferdinand Marcos declared martial law and terminated democratic rule a decade ago (September 1972). His justification, which was widely accepted within the Philippine elite, was that, although Filipinos appreciated democratic liberties, the nation was in a crisis due to:

- deteriorating law and order;
- failure to achieve land reform and equitable income distribution
- corruption and administrative incompetence;
- contradictory, irrational development policies;
- import-substitution, capital-intensive, highly politicized economic strategy;
- domination of the country by a landed oligarchy.
- in reaction, a mass movement for U.S. statehood.

From 1972 to 1975, Marcos vigorously pursued reform policies, with broad public support. His most noteworthy achievements were:

- collection of huge numbers of privately held weapons;
- destruction of the political power of the old landed elite;
- installation of a group of highly qualified technocrats at the top of key government ministries;
- reduction of Congressional corruption;
- great progress in infrastructure development (symbolized by the building of highways which, for the first time, did not wash away in the rain);
- successful achievement of more land reform than all his predecessors combined;
- stimulation of agriculture, to the point where the country became self-sufficient in rice from 1976 onwards;
- encouragement of the creation of a series of large industrial and financial firms (e.g., CDCP, Disini group, Herdis group, Silverio group...);

- improved tax collection and gross domestic investment;
- growth of 6.3%, 1973-80, vs. 5%, 1966-72;
- reduction of dissidence in strategic Central Luzon;
- some rationalization of foreign investment policies;
- achievement of growth rates which, although the lowest in ASEAN, were quite respectable, especially in the face of a deterioration in terms of trade substantially more severe than that of ASEAN neighbors;
- reduction of discrimination against local Chinese; and
- cooptation of the left (Cristobal, Ople, Taruc) into cooperation with his administration.

These achievements were substantial, and in the view of most of the politically active population they were less than offset by a number of important costs: Democratic liberties were severely curtailed. Efforts to collect weapons fueled a major Muslim rebellion in the south. The leading firms were dominated by Marcos' relatives and associates (who came to be called "cronygarchs"). Strikes were prohibited. The military (army, navy, air force, constabulary) increased from 60,000 to 250,000 -- at higher levels of real income. Development programs focused overwhelmingly on areas of special interest to the President: Manila, Central Luzon, Ilocos, and (later) Mindanao. The independence of the judiciary was compromised. But crime, poverty, and inequity were so severe that Filipinos were mostly willing to pay these costs for their alleviation.

After 1975, however, the reform drive stagnated, and even reversed, in some areas. One Marcos aide said, "It was like an old lady taking off her girdle."

- land reform stagnated and became bogged down in corruption and red tape;
- administrative reform largely stopped at the minister and deputy minister level;
- while the Muslim guerilla opposition stagnated (at about 10,000 guerillas, with lacklustre organization), the New People's Army slowly grew, and even began to reemerge modestly in Central Luzon;
- crime rebounded with a vengeance;
- the new business empires became channels of corruption, and, unlike their counterparts in South Korea, were so tied to the political power of President Marcos that their survival after he leaves is dubious;
- a series of self-serving constitutional revisions (nine by 1981) destroyed the mystique and legitimacy of the constitution;

- a policy of switching from import substitution industrialization to export-led growth was weakly implemented;
- growth fell back below 5% from 1980 on, and probably won't rise above that until mid-decade;
- despite impressive paper revisions of the foreign investment laws, red tape and corruption continued to hamper foreign investment;
- for reasons of nationalism and corruption, early plans to promote labor-intensive industry were gradually abandoned in favor of emphasis on capital-intensive projects;
- capital-intensive expenditures precluded modernization of the coconut industry, which feeds 16 million people;
- massive borrowing from abroad substituted for domestic investment, but much of the borrowing was diverted to non-productive uses; a 120% investment rise caused only a 30% incremental growth;
- sugar and coconut monopolies widened the difference between world market prices and farmer prices;
- failure to respond to high oil import prices, together with the borrowing noted above, rapidly increased debt service;
- key technocrats lost jobs or confidence: Melchor was fired; Paterno quit; Virata planned to move to Washington.

This across-the-board deterioration led in 1981 to a broad political-economic crisis, based on:

- collapse of the coconut oil market;
- a cyclical economic downturn;
- a financial crisis;
- a new constitution;
- a new election;
- political polarization;
- wide-ranging military misbehavior; and
- deterioration of President Marcos' health.

Coconuts. In an environment of generally weak commodity prices, the new national coconut authority, noting that the Philippines possesses 60% of the world coconut oil market, believed it had a one-country cartel and raised prices drastically. This occurred at a time of maturing investments in palm

oil elsewhere, notably in Malaysia and West Africa, and consumers easily switched from coconut oil to palm oil. The subsequent collapse affects 16 million Filipinos, severely damaging the economic prospects of a third of the nation.

Economic turndown. In a world environment of slow growth, high interest rates, and low commodity prices, the Philippines, whose exports depend heavily on coconuts, sugar, and copper, has suffered more deterioration of export demand and prices than its ASEAN neighbors. It has borne the full weight of rising oil costs since, unlike Malaysia and Indonesia, it lacks domestic oil. Comparing late 1981 with 1980, domestic shipping is down 20% over last year; school enrollments are down 20%; retail trade is down 30%; sales of items like radios, TVs and quality foods are down drastically; and transport costs to and from work now exceed wages in some areas. Philippine economists expected the U.S. economy to revive in a big way in early 1982 and pinned their hopes on a Philippine recovery to follow (with a six-month lag).

Financial crisis. The Philippine financial system was sufficiently fragile that the departure of Chinese businessman Dewey Dee with P635 million triggered very wide-ranging financial consequences. Most of the leading Marcos-associated manufacturing firms (notably CDCP, Herdis Group, Disini Group) suffered financial crises, leading to an emergency five billion peso bailout program by the government. Bancom had to be rescued, Silverio Group disintegrated, and Philfinance, the country's leading brokerage house, with one billion pesos in assets, suffered a run from which most businessmen say it can never recover. Consolidated Mines went under, and Marinduque Mining experienced a crisis. Leading textile and auto distributing firms failed. Major banks had to be consolidated. (The Benedicto, Cojuangco, and Romualdez business empires remain intact.) The root causes of the crises were Central Bank mismanagement and corruption; overborrowing by manufacturing and construction firms which salted away high proportions of the borrowed, government-guaranteed funds in foreign accounts; underbidding by major firms which later had difficulty delivering; loss of political confidence; and a series of interlocking management and financial arrangements which rapidly turned a localized problem into a chain reaction.

The foundering of large firms with government guarantees has made the government the owner of 230 firms. These formerly were bailed out by the Development Bank of the Philippines, but now fall largely into the hands of the National Development Corporation.

Lifting of Martial Law. Responding to rising pressures, including the spread of bombings conducted by middle-class, business-based groups, Marcos lifted martial law in January 1981. While most of the apparatus of martial law was retained, there was significant liberalization. Rule by decree dwindled (although for some time decrees were backdated). Somewhat greater press freedom and political organization were permitted. In August, the right to strike was returned, subject to government intervention if national security was involved.

New Constitution. The new constitution, the ninth revision of the Philippine constitution under Marcos, was approved by plebiscite with the

usual irregularities. Its highly centralized, French-style governmental structure is quite appropriate to Philippine conditions. Although there are some peculiarities (no vice president in order to avoid creating a competitor, a minimum age for the president of 50 to eliminate Benigno Aquino from running), it is technically quite sound. The flaw is that nobody, including the elite around Marcos, views it as anything more than the latest tool for implementing the personal wishes of the current President. When Marcos goes, the constitution will have no force.

New Election. In the presidential election following the constitutional plebiscite, Marcos allowed the opposition only 28 days to organize and campaign, restricted opposition access to the media, refused a new registration of voters, and carefully controlled the Commission on Elections. Only two governorships in the country went to opposition groups. The democratic forces joined with the leftist and communist forces for the first time ever in a united front to boycott the election. The success of Marcos in depriving the opposition of electoral wherewithal, and in forcing 62% of the population to vote (of which 14% spoiled their ballots), destroyed the credibility of the democratic opposition. In the conservative elite, this was regarded as decisive evidence that, whatever they thought about the President personally, only Marcos was capable of governing. But it also polarized the society, pushing a large number of the formerly democratic opposition members into cooperation with the New People's Army. One former close Marcos associate estimated that 25% of those who had supported his own election were now collaborating with the communists.

Military misbehavior. Outside Manila, the most significant political force aside from the coconut collapse is widespread military brutality. As a large-scale phenomenon, this is relatively new on the Philippine scene. Assassinations and disappearances have actually declined in most of the country, except in very remote areas and in Mindanao, where a military group called the Monkees is allowed to kill at will. (There is a corresponding communist group, the Sparrows, with license to murder.) But everyone from farmers to pro-Marcos members of the National Assembly to active generals agree that widespread beatings of suspects and casual abuse of property have become a potent force of recruitment for the radical opposition.

Deterioration in health of President Marcos. For years, there have been rumors about Marcos's health. These are common when aging leaders rule a highly centralized system, and it is equally common for such leaders (note Sukarno, Mao, Brezhnev) to rule successfully for many years after their early demise has been predicted. Marcos suffers from lupus erythematosus, which affects his kidneys; this is not necessarily fatal but does reduce his energy. Marcos also has a cancer, for which the prognosis is good.

Political polarization, due to the election, economic hardship, and military brutality, has transformed the opposition political scene. As mentioned, the center and the far left actively collaborated in the election boycott. The communist-supported National Democratic Front has acquired massive support from students, large segments of the middle class, human rights groups, teachers, dispossessed businessmen, and respected Catholic and Protestant clergymen (including two bishops). The communist guerrilla New

People's Army, once confined to four limited areas, now is influential in Cagayan, Samar, southern Leyte, Bataan, Laguna, western Pangasinan, Bicol, Panay, southern Negros Orientale, and five provinces of Mindanao. Whereas the old communist guerrilla movements could be decapitated and defeated by the capture of a few charismatic peasant leaders, the new version has leadership in depth, with impressive professional qualifications. (The former leader in Samar, Morales, had been Deputy Director of the Development Academy of the Philippines.)

Anti-Chinese feeling. The triggering of a financial crisis by Chinese businessman Dewey Dee brought nearer to the surface rising resentments of the role of the Chinese in the Philippine economy. While the easing by Marcos of the rules constraining Chinese from becoming citizens, and of other rules constraining their economic activities, was good in human terms and good for the economy, it was also true that Marcos had made the Chinese community major political and economic partners of his regime. Nine of the ten leading Philippine banks were under Chinese control by 1981. The coconut monopoly was largely under Chinese control. And so forth. Kidnappings of Chinese businessmen have become frequent. A leading bank prepared a paper on the role of the Chinese in the economy, and a leaked version was circulated around Manila. Expressions of anti-Chinese sentiment reached the highest point in a generation -- although never approaching the level that is common in Indonesia in the best of times.

Anti-U.S. Alienation of both left and right. Both the left and the right find it useful to blame the U.S. for many of their problems. This will create diplomatic difficulties later in the decade.

Each of these developments was important by itself. But the simultaneous occurrence of such major problems had a cumulative impact. For instance, the necessity to spend billions of pesos bailing out firms owned by his closest friends has caused Marcos additional difficulty in persuading much of the population that the purpose of the new Constitution is any thing more than one more personal gambit.

President Marcos has responded to these difficulties with a wave of reforms. The cabinet has been reshuffled, with several key technocrats moving up. Highly respected Finance Minister Virata has been made Prime Minister, to the consternation of his principal rival, Imelda Marcos. Jaime Laya, universally well respected, has been made head of the Central Bank, and the Central Bank is being purged of some of the most corrupt top level officials. Alex Melchor is back as a presidential assistant. Medium and long-term interest rates have been deregulated, and the Central Bank's capacity to monitor private financial institutions has been enhanced. The head of the Post Office has been changed, and the mails have improved somewhat. Coconuts have been deregulated. A key police chief has been fired. A merger of Public Works and Public Highways was used as cover for a partial purge of incompetent and corrupt officials. Imelda Marcos's bid for the Prime Minister's job was defeated, although she was appointed to the important Executive Committee in 1982. These are all steps in the right direction. But the ability of Marcos to push the reforms hard without destroying his own political base is in

doubt. His willingness to punish his closest friends for corruption is universally doubted. There is a new wave of efforts by Imelda Marcos to shift the loyalty of key groups from her husband to herself.

Meanwhile, the opposition, while moving to the left and becoming more cohesive, remains weak. The Muslim guerrillas in the south retain a strength of about 10,000, which has been their strength for some years, but appear weaker and more divided than in the past. The democratic opposition is increasingly radicalized and increasingly willing to cooperate with the far left, but uncomfortable about too much cooperation with the communist New People's Army. The New People's Army is newly prominent in many parts of the Philippines, most notably Mindanao, but is widely dispersed and mostly far from Manila. It is not clear that the New People's Army possesses the discipline and hierarchical leadership to sustain major thrusts anywhere against government forces. For the next few years, in the absence of a disintegration of the government from within, the opposition forces will be unable to threaten Manila. On the other hand, throughout much of the country, they will be increasingly able to impose heavy security costs on the government, to disrupt government programs, and to humiliate government officials. While a Nicaragua-type outcome could occur by the end of the decade, it is presently unlikely; its likelihood is further reduced by the probable U.S. intervention that would occur against such forces. The chief risks posed by the guerrilla oppositions are financial difficulty and gradual loss of control. This coincides with the other principal risk: gradual disintegration and demoralization from within.

This situation gives rise to several possible scenarios:

1. Technocratic Revitalization. This is the scenario which Marcos administration optimists presented in the fall of 1981.

- The recovery from the 1981 financial crisis proceeds uninterrupted.
- The technocrats gain principal authority in both economics and finance;
- Marcos accepts the role of Chairman of the Board, letting Virata be CEO;
- The major industrial companies prove basically sound, but weakly financed, and their finances are successfully reformed with the help of such mechanisms as the Industrial Recovery Fund;
- The world economy, particularly the U.S., recovers strongly;
- As a result of the latter, prices for coconuts, sugar, and copper steadily rise;
- Coconuts are deregulated;
- The Philippines recovers its coconut oil market without undue strain;
- The trade/industrial structural reform program is vigorously implemented;

- The energy diversification program is strongly implemented;
- The eleven major industrial projects are largely abandoned;
- The Muslim revolt in the south remains stagnant;
- Military abuses are sharply curtailed;
- Social strains which have been spreading support for the New People's Army prove reversible, and are ameliorated by gradual economic recovery;
- Political liberalization reduces opposition, rather than just giving it new scope for disruption;
- The above are sufficient to restore confidence in the financial system, the major firms, and the political leadership;
- While this process of reform and rejuvenation is occurring, the country avoids unpleasant surprises, such as:
 - a recurrence of financial panic;
 - assassination or severe illness of President Marcos;
 - political/military/terrorist events of a (new) scale which destroy confidence.

This is a fairly strong set of assumptions, taken collectively, but none of the assumptions individually is unreasonable, and the scenario can probably tolerate weakening of a few of the assumptions.

2. Business As Usual Deterioration

If the reforms fail to change the way decisions are made, to restore financial confidence, and to revitalize the economy, and if President Marcos remains in office for a long period of time, then the following scenario could occur:

- on most major issues the technocrats are confronted by the cronies and Marcos decides in favor of the latter;
- alternatively, Mrs. Marcos becomes more and more prominent on key decisions, with the same results;
- the U.S. economy fails to recover decisively;
- coconut, sugar and copper prices fail to rise;
- the coconut levy is permanently reinstituted;
- the industrial reform and energy diversification programs are neither formally abandoned nor really implemented;

- several of the eleven major industrial projects are implemented, at great cost to income distribution and agricultural development;
- the NPA continues to spread rapidly, escalates the level of military activities, and takes over the Muslim guerrilla apparatus in Mindanao, effectively revitalizing it;
- economic demoralization caused by the above decisions is compounded by political demoralization caused by spreading dissidence and military abuses, and selective assassination of relatively senior officials greatly accelerates the demoralization;
- major firms prove to have problems which go much deeper than a temporary financial weakness, and they require continuous new infusions of money in order to prevent recurrent systemic financial crisis;
- the financial strains of higher military budgets and larger bailout funds threaten to become intolerable; funding them begins to accelerate inflation;
- serious capital flight emerges;
- the government finds that its needs for foreign funds are rising, while the banks become more fearful and seek to hold their exposure constant or reduce it.

3. Premature succession.

If President Marcos were to die at an early date, from disease or assassination, the country is supposed to be ruled by an Executive Committee of ministers until a new president could be elected. There is little likelihood that the Executive Committee, composed of apolitical technocrats like Virata and Laya, together with unscrupulous and ambitious men of power like Enrile, and the ambitious Imelda Marcos, could truly govern. There would be a power struggle, with the technocrats on the sidelines. Leading contenders for the presidency would be Imelda Marcos, Minister of Defense Enrile, Armed Forces Chief of Staff Ver, and (by push rather than personal ambition) Constabulary Chief Ramos. Each of these despises the others. None could easily defeat the others combined. Because of the de-institutionalization that has occurred under Marcos, the Philippines lacks the strong, independent ministries, business firms, and military unity that guide a country like South Korea in a national crisis. Thus a combination of civil war or near civil war could occur.

Assuming one of these individuals did achieve power, the outcomes would vary. Imelda Marcos is immensely unpopular among virtually all social groups, but particularly among the technocrats. Her rule would be unstable and her policies would be intensely nationalistic, extravagant, and erratic. General Ver would attempt to rule by terror; his stock in trade is the use of intelligence files to compel obedience. Imelda and Ver might well attempt to use each other to create an insuperable coalition. Enrile would attempt to follow the pattern of General Chun in

Korea, being effective even in the absence of initial public support; this would not be impossible, but Enrile is handicapped by the divisiveness within the army, the opposition of Imelda Marcos, his involvement with the coconut fund, and his son's alleged escapades. Ramos has the most limited base within the military, and is currently demoralized, but would be supported by the technocrats and the U.S. His rise to power would be more difficult, but, as an honest professional, his prospects would be more favorable.

The financial and political outcomes of all these scenarios would be greatly influenced by the involvement of the U.S., which has enormous political, economic and military stakes in the Philippines. At least in the early phases of any crisis, it would almost certainly provide military support to the government and financial support to the economy.