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PHILIPPINE POLITICS AND ECONOMIC MANAGEMENT

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In late 1983, the Philippines' economic managers face problems on three levels:

- First, they have a cash flow problem. This paper does not address the scale or immediacy of that problem, but does address the management of it.
- Second, the country benefits from the U.S. economic upturn. Since the Philippines' terms of trade declined during the recession far more than those of any other Pacific Asian country, the Philippines has an above-average potential for bounce-back in its terms of trade. Key commodity prices have risen dramatically.
- Third, the country faces a medium-term economic and political adjustment. The key trends of interest include: a long history of heavy borrowing with very low rates of return; a vast migration of heavily indebted, failing companies with government guarantees into the public sector; personalization of rules and decision-making procedures in military, government, and economic institutions; a declining base of social support for the government as expected economic benefits failed to materialize; and total dependence on the personal rule of Ferdinand Marcos. These longer term trends have diminished the bounce-back potential and have exacerbated the cash flow problem.

Mid-Term Management and the Cash Flow Problem

Over the past year, as the cash flow tightened, the Philippines has moved toward an austerity program. The leadership agreed with the IMF to: cut back heavy industrial projects, including an aluminum smelter, a pulp and paper plant, and a petro-chemical operation; to raise electricity, gasoline, and cigarette prices; to reduce cash expenditures 11 percent and capital expenditures 23 percent; and to reduce equity contributions to public corporations by 50 percent and cash transfers to public corporations by 43 percent. In return the World Bank and IMF provided major loans.

The government's implementation of the public sector austerity program has on balance been impressive. It has exceeded the IMF goals for reduction of the government budget deficit. It has instituted new control mechanisms which deprived the ministries of the right to spend money directly. The Cabinet now meets and divides up available funds. Each ministry receives authorizations to commit funds which are valid for only 90 days. The ministries make their commitments, and the Treasury pays the resulting bills directly. By all accounts, these controls are effective. In addition, government has devalued the peso by 7.8 percent; increased food prices (although subsidized food is still available in government run stores); and imposed higher and stricter reserve requirements on banks.

There was a political crisis in the spring triggered by these austerity measures in general and specifically by demands that Republic Planters Bank begin to meet its reserve requirements and cease to hold large amounts of

government funds without paying any interest. At a meeting of the governing KBL Party, Prime Minister Virata presented the official government program. He was publicly denounced by Roberto S. Benedicto, Imelda Marcos, Minister Benitez, and Minister Ongpin. The President backed Virata, but the latter, having been publicly humiliated, tendered his resignation. The resignation was refused, and the Makati business community put on a huge party in honor of Prime Minister Virata. Since then, the program has been effectively implemented. It has been facilitated by the rise in the Philippines' commodity prices.

The public sector austerity success, and Virata's triumph, demonstrate the regime's will to take strong measures to set a financially responsible course. However, the government has been unable to meet IMF current account targets and has resorted to import restrictions which are specifically prohibited by the IMF agreement. The government has also resorted increasingly to distortion of statistics. Domestic credit has been tightened, but not enough to meet IMF targets.

The IMF program continues to be opposed by a serious coalition which includes Minister of Human Settlements Imelda Marcos, sugar czar Roberto S. Benedicto, Deputy Prime Minister Rono (a lieutenant of Imelda Marcos), other leading businessmen associated with the Marcos regime, small and medium business, leftist intellectuals, and young military officers. This powerful coalition occasionally obtains important concessions. A luxury tax on automobiles had to be rescinded. When coconut czar Cojuangco was forced to give up his levy on every kilogram of coconuts, he obtained in return permission to charge a huge spread between the market price and the farm-gate price. He was also allocated a Central Bank rediscounting window for his Coconut Planters Bank.

On balance, so long as President Ferdinand Marcos is fully in control of the situation, the public sector austerity program is likely to be implemented with considerable effectiveness, and crisis management is likely to be very competent. However, the health and effectiveness of Marcos are currently matters of controversy, and other crucial aspects of the crisis program are less susceptible to direct controls than the public sector deficit.

Confidence

The beneficial effects of the austerity program and crisis management, together with the upturn in the world economy, are significantly reduced by a crisis of confidence. For some years, Philippine business has been unsettled by a generalized sense of political foreboding. By early August of 1983, these fears were reaching a peak. There were pervasive rumors that Ferdinand Marcos was gravely ill, and there was a pervasive belief that a prolonged succession crisis was possible if Marcos was indeed coming to the end of his rule. This fear was greatly heightened when the President announced he would take a three week leave of absence in order to finish work on several books.

The resulting crisis of confidence became extraordinary when, on August 21, opposition leader Benigno Aquino was assassinated upon landing at the

airport. The assassination occurred under circumstances which enhanced widespread public suspicion that the government might have been involved: the security cover for Aquino was exceptionally light; the assassin had knowledge of Aquino's time of arrival, flight number, and airplane exit route superior to that of senior military officers; the assassin easily penetrated security; and so forth. Rightly or wrongly, the government's inability to explain these circumstances contributed to a mood of public anger and lack of confidence. Aquino's funeral, much of which occurred during a driving tropical rain storm, attracted millions of people -- more observers than attended the visit of Pope John Paul II, the sentimental return of MacArthur, or the funeral of President Magsaysay, the occasions which previously held the record for Philippine crowds.

These events contributed to economic and political uncertainty and to speculation against the peso, and diminished the chances of an early return to buoyant domestic economic conditions.

Medium-Term Adjustment

The Philippines' most serious long term problem has been that of inefficient institutions. Business has been heavily protected against foreign competition as compared with its Asian neighbors (although not with Latin American countries); and key sectors have been protected against domestic competition through monopolies and heavily subsidized firms. Similarly, the military has gone from an extremely efficient 60,000 man operation to an extremely inefficient 200,000 plus man operation.

A World Bank structural adjustment loan has sought to facilitate transition away from this situation. The World Bank loan focuses on the cement and textile industries. By all accounts, the cement industry has been upgraded to become far more efficient, competitive, and energy efficient. However, not one textile firm has accepted funds for modernization.

Elsewhere in the economy, pressures for efficiency are being weakened rather than strengthened. The coconut and sugar monopolies are being enhanced, and industries involving coconuts are all being integrated into the conglomerate run by Eduardo Cojuangco and further protected from foreign competition. (Companies like Proctor and Gamble are now required to sell only to their principal competitor, Mr. Cojuangco.) Over 200 firms, including over 40 hotels, have moved into the government sector after suffering financial difficulties. Their ownership is concentrated in the National Development Corporation, the Development Bank of The Philippines, The Philippine National Bank, the Social Security system, and the government pension fund. There is widely expressed determination to put the squeeze on multinational corporations involved in sectors other than agribusiness and high technology. Extraordinary proportions of the economy are controlled by the Cojuangco interests, which now include coconuts, banking, cement, a potentially dominant position in the textile industry, and the San Miguel conglomerate; the Benedicto interests, which include the sugar monopoly, two banks, a major newspaper, shipping, communications; and others; and the Romualdez interests, which include the principal power corporation (Meralco), automobiles,

communications, and many others; along with a number of more traditional conglomerates such as the Ayala Group, the Soriano Group, major banks, and a few others.

Finally, austerity has mostly been achieved by across-the-board cuts rather than new priorities, so the pattern of inefficient investment persists.

Stability Under Stress

There are major unanswerable questions about the health of President Marcos. Scenarios for the circumstance that he dies or becomes too ill to continue are discussed below. This section focuses on the political struggle in the event he is sufficiently vigorous to control his government.

When Marcos declared martial law in September 1972, he had broad public support even though he would probably have been defeated in an open election against Senator Benigno Aquino. Early reforms maintained his base of support for some years, but since about 1976 that base of support has steadily declined. He is supported by the military, by the population of Ilocos area, by the enormously powerful business groups noted above, and by much of the Chinese business community. He benefits in addition from America's sense of strong strategic interests in the Philippines and from Washington's resultant fear of instability there. He is opposed by Muslim guerrilla groups, by the communist New Peoples Army, by the numerous associates of the political leaders he has destroyed, by a group of democratic opposition parties, and by almost everyone in the Visayas (the islands which constitute the middle of the country). The balance has until now leaned in favor of President Marcos, since most of his supporters are highly organized and powerful, whereas most of his opponents, although numerous, are unorganized and weak. The Muslim groups are increasingly factionalized. The Communist guerrilla movement is gaining strength very rapidly, and for the first time has a substantial presence in nearly every area of the country, including the principal elite suburbs of Manila, but its 5,000 to 7,000 armed guerrillas are far too few, and far too poorly located, to challenge the government's 200,000 troops.

The balance has been shifting gradually away from the regime, however. The modern sector of the business community has increasingly become outspoken in opposition to the principal policies of the Marcos regime. The Catholic Church has moved from a policy defined as "critical collaboration" into open opposition. In October 1983, Cardinal Sin will expand the newsletter of his diocese into a full-blown opposition (he would say "objective") newspaper, and the Association of Major Religious Superiors will launch its own full-blown opposition paper.

Two events have increasingly turned public opinion against the regime. First, in the context of general austerity, the President's daughter had Philippine history's most spectacular wedding. For the wedding, the entire town of Sarratt was landscaped and reconstructed in a 17th century motif. An international airport was constructed there to handle incoming guests. A 250 room luxury hotel was built especially for the purpose, along with a huge brick building for the reception. A luxury liner was anchored just offshore

to accommodate additional guests. Mrs. Marcos was angered by her discovery that the flower blossoms along the wedding route were constructed from paper, and ordered Philippine embassies abroad to ship huge numbers of real flowers to line the route. The couple received 15 new Mercedes Benz limousines, and a panoply of other suitable gifts. Shortly after the wedding, most of the town was leveled by an unusually severe earthquake. The earthquake was widely attributed by Filipinos to the wrath of God.

Second, and more important, the assassination of Benigno Aquino stirred a broad and deep public anger, along with a widespread expectation that such an event must eventually be expiated with blood. The endless lines of people who visited Aquino's casket, which the family deliberately left open to display an unretouched mutilated body in blood-stained clothing, included many who quietly expressed determination to avenge the assassination. Demonstrations have been endemic since the assassination.

Even in the face of those developments, the absence of a large, highly organized, coherently led opposition leaves President Ferdinand Marcos in control. In the Philippines, there is no Solidarity Union and there is no fanatic religious movement organized around a Khomeini. Marcos is perceived as all-powerful. The opposition is weak, divided and fearful. Under this situation, the regime remains in control although it cannot command widespread loyalty or ensure timely revival of the economy. The regime's control could, however, be shattered by events which somehow made it look impotent. One such event would be an indisputable crisis in the health of President Marcos. Another such event could potentially be a major financial crisis.

Succession to Marcos

The Philippine Constitution calls for the country to be run by an Executive Committee comprised of prominent government and private individuals, in the event anything happens to President Marcos. All the designated members of the Executive Committee are, of course, supporters of President Marcos, but the antagonisms among members of the group are extraordinary. Committee rule is seldom effective in any country. In this country, with this group of individuals, it could hardly be effective for more than a few weeks.

In a succession, there would be a number of groups contending for power. Prime Minister Virata would hold the senior position in the government, but he has very limited political support outside his technocrats, and the technocrats feud with one another. Imelda Marcos, who holds 14 major government positions, would have the most immediate access to a network of senior government officials and to enormous economic power; in public testimony during August, she testified that her Ministry of Human Settlements controls public and private monies amounting to 50% of the total government budget. General Ver, Chief of Staff of the Armed Forces, controls movements of military divisions, together with the presidential guard and the national intelligence network. He is very close to Ferdinand and Imelda Marcos, and it is widely believed that he would ally with Imelda. Secretary of Defense Enrile has military and government influence and considerable economic power. Coconut czar Eduardo Cojuangco is a close associate of Enrile (although recently

strains have appeared) whose vast economic and financial empire effectively complement Enrile's roots in the government and military. Roberto S. Benedicto would seek political influence to protect his position, and, as an enemy of the technocrats and a bitter opponent of Cojuangco, might ally with Imelda Marcos and General Ver. Philippine Constabulary Chief Fidel Ramos, a West Pointer who is the only senior general with a widespread reputation at home and abroad for professionalism and honesty, has been stripped of all military functions and left with a police operation, but could become an important ally of the technocrats or of Secretary of Defense Enrile. Ramos could also potentially draw on direct support from the United States.

From these diverse elements, there are many scenarios which can be elaborated. However, the following triangulate the major possibilities:

First, the Executive Committee might meet and run the country for a short period. Then an excuse would be found to send Prime Minister Virata out of the country. With him absent, the supporters of Imelda Marcos would have a majority in the Executive Committee and could vote to invoke a provision which permits them to delegate, by majority vote, all of the powers of the Executive Committee to one member of that committee. The committee would delegate its power to Imelda Marcos, who would then be additionally supported by General Ver. This arrangement would cause so much popular dissent, and evoke such severe antagonism within the government and within the military, that it could not be stable for long. However, severe violence might well be necessary to dislodge this powerful team.

Another version of this scenario, in terms of consequences for the economy, would be a situation in which Imelda Marcos and General Ver quickly moved to seize power and were opposed by a coalition of Secretary of Defense Enrile, Eduardo Cojuangco, and General Ramos. The confrontation would destroy coherent economic policy and might lead to sustained violence. This scenario could be triggered by a steady escalation of the current campaign of public demonstrations and anti-regime violence. It could set the stage for a Nicaragua-type outcome at the end of the decade.

Second, a coalition of Enrile, Ramos and Cojuangco might successfully seize power. Such a coalition would combine ruthless political leadership, economic power, and technocratic skills in a proportion similar to that of the present regime. It would be a Marcos regime with younger blood. It would ask for time to prove itself. And it would strip the competing economic empires, especially those of Benedicto and Romualdez, for assets which could be distributed to reward loyal supporters. It might well introduce modest reforms and thereby gain support from key technocrats and from a nervous United States. The image of new blood and tough leadership might ease the present crisis of confidence, although such a regime would not receive widespread adulation.

A reformist regime with widespread public support could be put together by combining the technocrats, the Catholic religious leadership, General Ramos and a number of younger generals, the business leadership as represented by the Makati Business Club, and U.S. Embassy support. This is the most auspicious but the least likely of all the coalitions and could only be

implemented with the active intervention of a determinedly reformist American government. This is not likely to happen under the Reagan administration.

Overview

This is a period of cash flow problems, severe political uncertainties, and long term structural problems for the Philippines. But while dangers to the regime and to the economy are severe, the situation is not hopeless in the way Argentina is hopeless. If Mr. Marcos' health holds up and if his government avoids a major crisis, the anger over the Aquino assassination could possibly dissipate over a considerable period of time. Effective crisis management and a substantial dollop of help from the United States could avert the worst financial outcomes. A succession could occur, and a relatively optimistic version of the business-as-usual scenario could mark time until the economy was buoyed by a general world economic recovery. The Filipino elite has an extraordinary capacity for coalition building and compromise, and this capacity could underpin such a modestly optimistic scenario.

But the possibilities that a persistently severe crisis of confidence would lead to a very serious and prolonged financial crisis, or that an appearance of weakness on the part of the government could stimulate widespread violence, or that a succession struggle could cripple the economy for a prolonged period, remain serious concerns. The Philippines would be in a revolutionary situation if there were an effective opposition, and even without a revolution there is a risk of chaotic conditions.