EMERGING ECONOMIC SYSTEMS IN ASIA

A political and economic survey

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Bruce McFarlane

One of the most interesting debates among social scientists (and the economic historians) studying ASEAN these days is that concerning the actions and role of the state in economic development. There is agreement that the Philippines today is predominantly capitalist, even if the overall capitalist development of the country is highly uneven and relatively weak in comparison to the other ASEAN states. This chapter is concerned with the policies the Philippines has used in order to accelerate development. Specifically, four questions will be posed:

1. What were the main features of the process of capital accumulation in the Philippines, and what was the role of the state in that process?
2. Given that powerful families and regional mafiosi have dominated political life, was the erratic development the result of the weakness of the state or the result of a fractured society over which any state would have had to rule?
3. The Marcos regime, which was overthrown in 1986, has been seen as especially corrupt and as forming a unique system—'crony capitalism'. Is this a correct way to approach the events and economic policy of the Marcos period, or was this regime part of a wider species that Myrdal in his famous *Asian Drama* (Myrdal 1970) called the 'soft state', and which can be found in a number of countries?
4. To what extent have the social and economic contradictions that emerged under Marcos been corrected by the state machines of the successor presidents, Corazon Aquino and Fidel Ramos?

The chapter consists of four main sections. The first section looks at some characteristics of capitalist development in the Philippines.

The second section considers the role of the state. The third section considers state development policies. The fourth section discusses the dilemmas of accumulation and of growth since 1990 and summarises the current contradictions of the Philippines' development.

THE CHARACTERISTICS OF CAPITALIST DEVELOPMENT IN THE PHILIPPINES

The Philippines was opened to world commerce at the beginning of the 19th century. This development attracted the British and American commercial and shipping companies, which set up trading houses in Manila and, together with the local Chinese middlemen, developed the exchange of locally produced agricultural products and imported goods. They began exporting sugar, tobacco and other agricultural products; as a result, the market for the food-producing sector expanded. The initial burst of capitalist development representing 'original accumulation' in the Philippines was merchant capital in the last century of Spanish rule. During its experience as a colony of Spain a feudalistic agrarian order was implanted, through the establishment of haciendas, and the development of the *kasamahan* (or sharecropping arrangement), with the institutionalisation of private property ownership (Ofreneo 1980; Hayami et al. 1990).

All these developments marked the beginnings of capitalism in the Philippines. In a narrow sense, the signs of capitalist development were reflected in the growth of wage labour in some sugar haciendas, and in the trading and service establishments in the new urban centres (Doeppers 1984). In the broad sense, capitalist development was mirrored in the tremendous expansion of commerce, although a mature banking system developed only in the period 1852–82 and has remained rather a brake on development with its high interest rates and continuing political interference in banking policy.

Under the American colonial regime the free trade policy fuelled a tremendous growth in export agriculture and investments in sugar centrals and coconut mills. Capitalist relations were evident in the sugar haciendas, rubber and pineapple plantations, timber companies, mining industry and in the related export companies in Manila (Ofreneo 1982). In the coconut, tobacco, hemp and abaca farms, capitalism developed in a highly uneven manner (Ofreneo 1980; Hayami et al. 1990) but agriculture had come under the dominant influence of capitalism by 1920. Of course, there were survivals of pre-capitalist forms of production, especially tribal subsistence agriculture in Bontoc and North Luzon. But capitalism in general held sway over the agrarian landscape (Ofreneo 1980). The sort of capitalism it was had been decisively shaped by its origins, for the last decades of Spanish rule saw not only the opening up of commercial and export agriculture, but a drive to private land ownership and consolidation of that ownership. Here was the origin of the big, powerful and influential families that have dominated Philippines' politics. It is more or less traditional to say that little industrialisation took place in the Philippines before World War II and, if compared with the advanced industrial nations, this is certainly true. But among the countries of South-East Asia, the Philippines on the eve of the war was probably the most industrially advanced.

Some estimates show that for 1938, 16 per cent of net value of product was produced in the manufacturing sector, while industry as a whole (including mining, transport, construction and public utilities) accounted for about 30 per cent (Hartendorp 1961). Admittedly manufactured goods were produced largely in the handicraft sector rather than under a modern factory system, but this still compares favourably with the 21 per cent prewar share of industry for Vietnam (1931). The significance of the manufacturing sector was also much greater than for Malaya, with less than 7 per cent of total employment in 1947.

The major stimulus to industrial growth during the colonial period came from the growth of export commodities. The chief of these was sugar which, by its nature, requires some processing on the spot immediately after harvest. By 1910, the introduction of sugar centrals in competing sugar-growing regions of Louisiana, Puerto Rico and Cuba meant that, to stay competitive, the Philippines had to introduce them too. Another major area of manufacturing production was coconut oil refining and the production of desiccated coconut for export to the United States. The Spaniards had established tobacco manufacturing, notably hand rolling of cigars for export and cigarette production for the domestic market. California Packing Company established a pineapple cannery. Abaca fibre was largely exported as raw fibre, but some rope and cordage factories were established. Sawmills were established to cater for the domestic and export markets.

Embroidery, using imported American cotton as raw material, was another important industry. This was carried out according to a 'commission system' which was run by a handful of middlemen who supplied raw materials to home workers. Weaving of straw hats, also for the export market, was yet another cottage industry run in this manner.

Development of industry for the home market prior to 1940 was not, however, very extensive. Some impetus to the development of industry arose during the 'Commonwealth period' after 1935 in response to Filipino concerns at the prospect of diminishing access to the American market after independence. The Tydings-McDuffie Act (1934) specified a period of adjustment from 1940 to 1946 during which the hitherto free access of Philippine exports to the US market would be reduced, at first by the application of quotas and then by an export tax levied by the Philippine government on sugar and other restricted exports. At the same time, US goods would continue to have access to the Philippine market, so that the implementation of the Act could be expected to have a deleterious effect on the Philippines' balance of trade unless import replacement industries could be established. The impact of the Great Depression may have affected the thinking of wealthy Filipinos, as doubts about the ability of Philippine sugar to compete in the absence of imperial preference surfaced. In spite of low Filipino wages, the sugar industry was not highly productive and could not easily compete with more efficient producers from other countries. In 1938, however, sugar alone had accounted for over 40 per cent of Philippine export income.

In 1935 the Commonwealth government set up the National Economic Council (NEC) to advise on industrialisation strategy and the National Development Company (NDC) to establish desired public enterprises. An integrated textile mill, some fish canneries and a can manufacturing plant were set up by the NDC in the late 1930s. The National Power Corporation (now NAPOCOR) was also established in 1937 and made plans to build hydroelectric power plants—plans which were interrupted by the Japanese invasion.

An atmosphere favouring industrialisation seems to have prevailed in the late 1930s. A number of private enterprises were also set up during this time, notably in the textiles and fish processing industries, and Japanese private capital was active in establishing a number of plants in Mindanao.

Capital formation

The main source of capital formation in manufacturing in the prewar Philippines was Filipino and Chinese mestizos diversifying out of their earlier established sources of capital accumulation in plantation agriculture and trade. Sometimes this occurred under the impact of competitive pressures—for example, after the introduction of sugar centrals in the Philippines' main competitor countries. A number of Filipino hacienda owners invested in sugar centrals during the US colonial period and in fact tended to dominate the industry. Mestizo families also became the main investors in coconut processing, which developed quite rapidly during World War I when, because of a shipping shortage, it became more profitable to export refined coconut products rather than the bulkier raw copra. The tobacco industry, which had originally been owned by Spanish interests, also passed into the hands of local companies during this period. Most of these developments were thus directly related to the agrarian and mercantile interests of the Philippine capitalist class. Probably the only significant Filipino initiative in import substituting industries was the Malabon Textile Mill of Filipino shipping magnate Vicente Madrigal, established in 1922. It had, however, failed by the 1930s (Doeppers 1984).

American companies established some branches of manufacturing—for example, the del Monte Corporation (or California Packing Company) set up a fruit cannery—while US citizens were also instigators behind engineering firms like Atlantic Gulf and Pacific and the Honolulu Iron and Steel Works, both established in the first decade of the century. However, the majority of US capital was mercantile. Towards the end of the period, some textile manufacturing was set up by Japanese investors.

Labour

Total employment in manufacturing in 1938 was 610 445, of which about 100 000 were dressmakers, mainly working under a putting-out system (Mitchell 1942). Other cottage industries included shoe and sandal manufacture. Relatively few worked in what might be called a modern industrial environment. Much larger numbers of wage labourers worked on the sugar plantations where wages were determined not so much by the combination of labour as by the employers in whose patronage all jobs were held. Conditions of workers were generally poor, with high levels of unemployment and disguised unemployment (Ofreneo 1980).

POST-1945 CAPITALISM

Capitalist development in the postwar period was not only uneven but also involved a complicated array of capitalists, including the following:

- American business companies engaged in either local franchising or in maintaining subsidiaries to protect their shares in the local market;

- Filipino industrialists engaged in import-replacing production (but dependent on imported inputs); and
- foreign and Filipino business interests involved in the traditional extractive industries (export crops, mining and logging).

Capitalist development in the Philippines in the post-1960s period has the following characteristics:

- the emergence of dependent capitalist industry
- state capitalism
- inadequate industrialisation
- crony capitalism

The emergence of dependent capitalist industry

As well as other developing countries, the Philippines changed its development strategy from Import-Substitution Industrialisation (ISI) to Export-Oriented Industrialisation (EOI). The Philippines was one of the first countries to implement the strategy of ISI after 1949, but the 1970s and 1980s saw a dramatic shift from ISI to EOI in the industrial policy regime, from an inward-looking to an outward-looking agro-industrial strategy. The new economic gospel openly sought a tighter integration of the national economy with the global economy through the promotion of labour-intensive and export-led industries (Hawes 1987). It did not, however, industrialise the country. As Philippine economist Joseph Lim has remarked, 'A simple look at historical data shows that export-led industrialisation never took off in the Philippines' (Lim 1985), although some orthodox economists (Bautista & Power 1979; Virata 1972) believe that Marcos opened up a promising development. This policy shift ushered in sharp qualitative changes in the structure of the economy. Most of the home-oriented industries of Filipino industrialists were penalised by the removal of protection measures, but other firms in the post-1970 export-oriented sub-sector expanded (including garments and electronics). These changes made the Philippines' economy increasingly integrated with the world economy. At the same time the lack of an engineering and machine-building sector, and of a solid core of entrepreneurially minded independent industrialists, made it difficult for local industries to become self-reliant. Those producing for the home market in the 1990s are receiving less and less protection. The industrial policy changes still require a pool of cheap and productive labour, and labour rights are restricted. New forms of exploitation are allowed. Subcontracting of both output and of labour recruitment had become a way of life in the

Philippines' economy by 1990. Multi-level subcontracting, even down to barangay level, is practised as a way of 'taking the heat off' a particular corporation. For example, a Manila-based company subcontracts to regional agents who, in turn, often subcontract to family units who are willing to mobilise women and children at low pay and under poor labour conditions. (The eight-hour day, minimum wages, and medicare, in this case, no longer apply.) Unions are made virtually irrelevant in this structure, except at the final assembly stage in the factory.

State capitalism

The Philippines has long been regarded as a 'weak' state by political scientists and economists who consider that the state's main concern is the encouragement and succour of the business of the private sector (Hutchcroft 1994). Despite Marcos's assurances that he supported dynamic free enterprises, there was too much evidence to the contrary. The state took control of numerous enterprises which would normally have been the bailiwick of the private business sector (Manapat 1991). These enterprises (including banks) were run for the benefit of Marcos and his friends. By 1982 there were more than 100, and by 1984 approximately 260 such government-owned or crony-controlled corporations, largely under-performing in terms of strict economic criteria. Almost all of the key industrial companies were put under the control of Marcos and his cronies and relatives.

State capitalism in this form resulted in a controlled economy, characterised by mismanagement and inefficiency, which impeded expansion and restricted output. Jesus Estanislao, head of the Centre for Research and Communication, has tried to point out the inefficiency of such companies. He noted that the slow, unbusinesslike grind of regulatory agencies usually resulted in decision delays and unnecessary paperwork, especially in export-related industries. It was also pointed out that such agencies could not have a full understanding of individual company, or even industry-wide, peculiarities (Manapat 1991). These problems followed the type of intervention of the state in the Philippines' economy which was to promote cronyism, thereby distorting economic policy, since the Marcos state offered protection to crony companies through legislation. The main purpose of this protection was to favour the cronies engaged in manufacturing, but it offered no incentive to compete internationally. Critics of the Marcos regime concluded that state intervention had resulted in higher prices and restricted output, slower growth of employment and real wage rates, and failure to expand market opportunities

(McDougall 1987; Hutchcroft 1994). However, it could perhaps be pointed out that despite the corruption and economic inefficiencies, the Marcos era was still one in which a sort of primary or primitive capital accumulation process was carried through by Disini, Cojuango and other cronies, and that their corruption and rent-seeking activities were by no means unique to the Republic of the Philippines. Rather, these features are also to be found in the modern economic history of Indonesia and Thailand and could be analysed more soberly by means of Gunnar Myrdal's 'soft state' concept (Myrdal 1970) just as fruitfully as the use of Ricardo Manapat's moral outrage at the crimes of the Marcos entourage.

Inadequate industrialisation

Industrialisation does not take place without certain internal bottlenecks and constraints, as argued above. However, *external* shocks (such as changes in the world economy) and *external* constraints which resulted from the imposing of state policies, were also crucial in the Philippines' recent industrialisation.

The five most controversial aspects of the economic anatomy of the Philippines have been:

- devaluation of the exchange rate of the peso after 1960;
- lower tariffs on imports, and export orientation, as pursued since 1968 starting with the Bataan free trade zone;
- foreign debt and internal debt which affected expenditure on social infrastructure and social welfare, higher taxes on population (tax exemption for foreign investors continued) and higher public utility charges;
- an integument of official ineptitude and corruption; and
- the special nature and function of 'Filipino' banks. (Foreign banks had, until the 1990s, only up to 40 per cent equity in local banks.) President Ramos agreed in 1994 to lift those ceilings somewhat and to allow more full-blooded competition between foreign and local banks.

The structural weaknesses of the economy are now well enough known, and have been particularly underlined by Lichauco (1973). During the period from 1965 to 1987 the industrial sector registered the lowest average annual growth rate in ASEAN; the same situation arose in 1991–94. This reflected the government's policy of deliberate neglect of serious industrial linkages as part of an integrated industrialisation program. The comparative performance of the Philippines is strikingly poor, as shown in Table 6.1.

Despite the rise in the shared producer goods in total output (Table 6.3), the Philippines in 1992 yielded a lower share of

Table 6.1 Growth rate of value added in industry, 1971–81 to 1991–94 (% per annum)

	1971–81	*1981–90*	*1991–94*
Singapore	8.1	5.2	7.2
Malaysia	9.6	7.4	10.7
Indonesia	11.3	5.9	8.6
Thailand	12.1	9.9	10.7
Philippines	8.2	–0.8	1.6

Source: Asian Development Bank, *Asian Development Outlook*, 1994.

Table 6.2 Sector share of GDP, 1970–92 (%)

	Agriculture			*Industry*			*Services*		
	1970	*1980*	*1992*	*1970*	*1980*	*1992*	*1970*	*1980*	*1992*
Singapore	2.2	1.1	0.3	36.4	38.8	37.5	91.4	60.0	62.2
Malaysia	—	22.9	16.1	—	35.8	43.9	—	41.3	40.0
Indonesia	35.0	24.4	17.9	28.0	41.3	42.9	37.0	34.3	39.3
Thailand	30.2	20.6	13.1	25.7	30.7	37.4	44.1	48.7	49.5
Philippines	28.2	23.5	22.6	33.7	40.5	35.0	38.1	36.0	42.5

Source: Asian Development Bank *Asian Development Outlook*, 1993.

Table 6.3 Structure of Philippines' industry 1956–86

	% establishment		*% employment*		*% value added*	
	1956	*1986*	*1956*	*1986*	*1956*	*1986*
Consumer goods	65.1	58.1	61.6	62.8	59.0	53.7
Producer goods	34.9	41.9	38.4	37.2	41.0	46.3

Source: Calculated from Asian Development Bank, *Asian Development Outlook*, 1994.

industry in the whole economy compared to other ASEAN countries (Table 6.2) and it is necessary to briefly trace out this process. After the change in government in February 1986, the new administration of Aquino seemingly placed a high priority on the role of the private sector in successful economic recovery. Aquino persistently emphasised that a sustained attempt to reduce government involvement in the economy was one of three key principles of the state while she was in government. The role of the state was clearly seen as 'intervening' in the economy only in those areas where the private sector was unable to meet social needs and where there was a clear comparative advantage for public action. 'Interference' with labour markets (in the form of presidential decrees over the minimum wage and cost of living adjustments) was abandoned by President Aquino and was not renewed by Ramos. It is estimated that during the period of

controlled economy by state capitalism as operated by Marcos, approximately US$2.1 billion was lost to state treasuries and in economic incompetence, so Aquino was pointing to real factors at work and legitimising her withdrawal of state dirigism.

Crony capitalist system: Its political modus operandi

The central characteristic of Marcos's crony capitalism was the use of political power for material gain. This is the most coherent and consistent explanation possible of what occurred in the Philippines during Marcos's rule. The 'policy zig-zag' that occurred during Marcos's time presupposed the abuse of political privilege (Manapat 1991). The motif of corruption, however, was not peculiar to Marcos's rule. Marcos was merely continuing the longstanding tradition of corruption in Philippine politics (Simbulan 1965). Marcos' corruption was not an aberration from the normal political traditions of the Philippines; it was merely the most transparent, best-developed example of that tradition. Corruption, graft, cronyism, patronage, the abuse of political office, and the use of government and state power to further personal ends are the defining characteristics of mainstream Philippine political institutions. The trappings of Max Weber's rational state, clean government, efficiency, promotions based on merit, public service and socially responsible behaviour, were really the exceptions in the behaviour of state-appointed officials in public office (Hutchcroft 1994). As explained above, in a relatively short period after Marcos declared martial law in 1972, power and wealth became concentrated in the hands of him and his wife, relatives and closest friends. How did this come about?

The public sector of the economy was controlled by placing loyal bureaucrats or businessmen in key government positions. Government projects were implemented not because they provided public services but because they were sources of kickbacks. The private sector of the economy was sliced into different spheres of influence. Each section of wealth production was handled by a relative, a close friend or a trusted crony. Each company, every industry, all sectors of the economy, provided that they were sources of money, became the object of greed and eventual acquisition. The whole economy came to be divided into different fields managed by relatives and cronies who regularly shared their earnings with the dictator (Manapat 1991).

The country's entire financial system was placed at their disposal. Monetary policy was formulated and conducted on the basis of the benefits it would bring to the industries and companies Marcos and his cronies owned. Marcos appointed only those who were loyal to his interests to the posts of central bank governor and finance minister. The central bank governors who served under Marcos and one finance minister prided themselves on being apolitical 'technocrats' but displayed absolutely no independence from the dictator's monetary and financial policies. At this time the entire banking system was dependent on Marcos's cronies.

The country's principal export crops—coconut, sugar, bananas, and tobacco—were placed under the control of the most trusted cronies. Monopolies in the production, milling, local marketing and international trading phases of these industries were created through a series of presidential decrees, resulting in extreme poverty for the agricultural workers in these industries and great wealth for the few who benefited from the monopolies.

Trading monopolies over the country's main imports were established as well. Trusted members of Marcos's cabinet were put in charge of trading the country's most essential imports, such as rice and oil. The stated rationale for such trading monopolies was to acquire cheaper imports. Due to invoicing forgery, however, the exact opposite often occurred. The gains from trade were then enjoyed mainly by those who administered the trade.

Marcos and his cronies used many other techniques to enrich themselves. The country's natural resources, such as its mines and forests, were given to the cronies to exploit by the issue of logging licences, etc. Extremely liberal government incentives and tax exemptions were selectively granted to corporations owned by favoured individuals. Relatives and friends were awarded lucrative government contracts. Captive markets (in primary products) were created through presidential decree to benefit the corporations owned by Marcos's cronies.

Marcos's crony capitalism was explained by Manapat through a historical analysis of the concrete ways in which wealth and power interacted to produce a new elite. His analysis of how government or state power was used to further the wealth of the individuals, families and economic groups close to the Marcos family provided us with a most consistent and coherent approach to the history of Marcos's crony capitalism (see also Manapat's second work on the telephone monopoly, 1993). While there were also some achievements in the manufacturing sphere, and while the accumulation process did continue, it is undoubtedly true, as Manapat suggests, that a lot of necessary social and economic planning was abandoned because of neglect of the arenas of technical and allocative efficiency which were, in the day-to-day running of the state, treated as secondary to the government's support of the business interests of Marcos's cronies. Moreover, the over-rapid expansion of these crony conglomerates was

founded on easy access to funds from the government and so-called political banks, and resulted in the loss of loanable funds, of important sources of national savings which could have been used to pump-prime a very sick economy and to improve the industrial core of the economy in such a way as to promote forward and backward linkages to other sectors and to reduce the over-dependence on imported capital stock and imported components and semi-finished goods.

THE SOCIAL BASES AND FORMS OF THE PHILIPPINE STATE

The much troubled discussion on the economic and social role of the state (especially in the Asian context) has yielded only a few theoretical insights since Marx and Weber wrote (Skocpol 1985; Hewitson et al. 1993). Weber made the point that in a period dominated by a more 'rational' bureaucracy, the divisions between the legislature, the executive and the judiciary are made clear by law and custom, while the demarcation between state activity in relation to infrastructure and welfare is also kept distinct. Marx, in his *Eighteenth Brumaire of Louis Napoleon*, also suggested that there are periods of relative autonomy of the state, a point developed by such followers as Nicos Poulantzas for conditions of highly developed bourgeois society.

In the conditions of the modern Philippines, Weberian notions do not fully apply. The discrete division between the state apparatus and the legislature has been cut across by land owners' direct domination of the legislature and the judiciary, as well as by the influence of regional power blocs. In modern times, the state machine has not confronted a situation of a near-equilibrium in the balance of the classes. Rather, the state apparatus has always sided with the strongest social power.

As a consequence, an activist state policy in relation to economic development could not involve, as it might in Western economic systems under certain conditions, a compromise between various capital fractions and the labour movement, but reflects a change in the composition of the leading social power or coalitions of the ruling elite.

While some similarities with the experience of Western countries appear from time to time, in the rhetorical assurances of the leading figures of the Philippine state, such as Macapagal, Marcos and Aquino, that they favoured this or that democratic process or institution, the reality was that state policy has reflected the interests only of the landed and business elites. The latter have, indeed, been ex-land owners who made their way into banking and light industry. The old guard, Spanish–Filipinos (or mestizos), as well as foreigners, largely invested in sugar; while the Chinese–Filipino business families invested in a range of light industry (Kunio 1985). *The state apparatus had to preside over a process of capital accumulation already taking place in the private sector.* Its more active role was to assist the transfer of economic surplus around the economy, to make sure that the bulk of money was invested in production and did not end up merely as real estate speculation. The state introduced laws to facilitate the operation of capital markets and set up government banks to encourage credit policies and to provide a loanable funds pipeline to industrialists. As will be argued, it did not succeed in promoting any extra successes in the process of capital formation above what the private sector achieved.

There has been considerable dissatisfaction with the Philippine state's performance in and management of economic policy over the last 25 years (de Dios & Villamil 1991). Business does not consider that the state succeeded in setting adequate macroeconomic policy signals, or in handling debt and World Bank demands in a proper way; nor did it succeed in encouraging more efficient capital markets until well into the Ramos presidency. A common series of complaints has it that interest rates had been too high, that there was a continuing policy of inflationary financing of deficits (Ferrer & Montes 1990).

Agrarian reform has not extended much beyond Luzon province and rice. Moreover, it has been overly legalistic (Hayami 1990; Samson 1991). Successive governments failed to address the problems associated with a lack of engineering industries and the high import-dependence of both domestic production and export industries (Lichauco 1973). While all the problems of the Philippines' economy since the 1960s cannot be put down to 'cronyism', or even to corruption (Manapat 1991), the paralysis in the political sphere was occasioned by the long-term influence on the state apparatus of technocrats and of the power exercised by regional bosses and big landed families, against which Recto and others had fought (Constantino 1978).

My conclusions at this point of the argument may be summarised as follows. In considering the economic role of the Philippine state, these factors are to be taken into account:

- the social base of the state (the dominant class or coalition of classes);
- the form of the state (whether a dictatorship, parliamentary congress, etc.); and
- the state's relationship to the market economy (the business and household economy).

To take the first point. The social basis of the Philippine state is one in which social power has been shared by four elite factions:

1. *Regional mafiosi* (e.g. the Osmena family in Cebu, the Mitra family in Palawan and the Cojuangco family in Tarlac and Bacolod City) (Simbulan 1965). These historically powerful influences on the state machine are still able to influence the rules of political and economic action set by particular presidents. Although they have been weakened by intra-elite rivalry (fights between politicians within different regional regimes), the mafiosi still have a disproportionate influence on politics and economic policy, though less these days in the working of the modern sectors of the economy.
2. *Politicians influenced by Western neoclassical economists allied with the World Bank and the IMF* (e.g. Virata and Estanislao; see also Virata 1972). These highly placed politicians became more important after 1979 and played a role in blocking Marcos's scheme to launch heavy industry.
3. *Financial capital banks and related institutions*, which became much more significant after the election of Aquino. It is true that some banks played an important role under Marcos (e.g. the Coconut Planters Bank run by Cojuangco, and the Philippine National Bank, which guaranteed the country's foreign debt) but they also retained backward attitudes to the whole issue of financing economic plans and the general process of economic development. Their positions in the 1990s have been undermined by the decision to allow more foreign banks to operate in the Philippines as competitors.
4. *National industrialists*, a faction engendered by the circumstances of the period of foreign exchange controls, who have lost ground since the 1960s (Constantino 1978; Bautista & Power 1979; Lichauco 1973). They have been less able to feather their own nests through tariff protection and increasingly have been forced to accept the need for tariff reform, although they continue, with the aid of some sympathetic academics, to wage political campaigns in favour of protectionism.

To this consideration of competition and conflict between significant factions of capital, one must add historical legacies. The Philippine state today is still partly influenced by its past as an appendage of the United States (Ofreneo 1982). It is also shaped by the fact that since the 1920s, a section of the state bureaucracy has itself been immersed in patronage politics. This means that the clear divisions made in Western states between legislature, executive and judiciary do not apply. The executive committees of the state and the Congress/Senate complex are especially open to influence by such social groups. This means that when state policy changes it is not because of compromises, but because of shifting strengths within the elite faction. (In the Philippines there are strong elements of instrumentalism and less relative autonomy of the state than in the West.) The form of the state in the Philippines, whether the dictatorship of Marcos or an oligarchic pattern under earlier and later regimes, has meant that developmental strategies have not been consistently applied.

The social structure with which the Philippine state has had to deal is the result of an interaction of oligarchy, patron–client relations, the demands of traditional nationalist businessmen, and the growing influence of politicians and technocrats representing the IMF–World Bank line (Jose 1982 & 1991). The social structure has a weak foundation and this is seen in the constant reliance on crisis assistance from abroad, as well as an underdeveloped capital market and a low level of infrastructure. The state is called upon to intervene in capital accumulation and growth to compensate for this weak structure, but the Philippine state, because of its lack of 'relative autonomy', has not been successful in doing this, compared with (for example) the Singapore state. The reason for this failure is that the traditional elite is still able to block land reform (Samson 1991), neglect modern education, starve research funding, and cut back funds for renovation of the infrastructure. The social relationships of society have not led to efficient accumulation of productive capital. Moreover, the refusal to reach a lasting compromise with the interests of workers and peasants has contributed to instability in this regard.

THE PERFORMANCE OF THE PHILIPPINE STATE

Cultural factors need to be fully taken into account by political economists evaluating the state's performance (Villacorta 1987; Fegan 1983). As well, it can be argued that the cultural–political role of the state, once it has satisfied its legitimacy function, is *to assist what capital accumulation is taking place and to make the system as a whole as stable as possible*, given the constraints of cronyism (Manapat 1991) and landlord control of the state (Rivera 1994).

Accumulation is one of the major factors of the development process. In the Philippines, capital accumulation reached its highest rate at the end of the 1970s but the benefits of this suitable national rate of investment were partly dissipated in the circumstances of the accumulated amount of capital flight for the period 1981–86, which some commentators (Jose 1991) believe may have reached US$22.9 billion, or nearly half the outstanding external debt.

As the Philippines is a predominantly agricultural country, the marketed net surplus generated in agriculture contributes a big share of the accumulation process. In general, under the Marcos and Aquino administrations, limited land reform was attempted (Hayami 1990; Batangantang 1989). The leaders of the state in the Marcos and Aquino periods gave these reasons for assisting farmers and state revenues at the same time:

1 Agriculture still accounted for about half of total employment, about 30 per cent of GDP, and more than one third of export revenues; hence, it had to yield surpluses for accumulation.
2 Two thirds of the country's population continued to live in the rural areas and are directly or indirectly dependent on agriculture for their livelihood. (In 1988, agricultural employment accounted for about 52 per cent of total employment and in 1990 for 46 per cent). Hence, jobs in rural areas also had to be created. As part of the program, a surplus was seen as an important part of accumulation. Coconut and sugar had proven to be a substantial earner and saver of foreign exchange; hence, they needed state help.
3 The average family income in rural areas was 67 per cent of the average urban family income in 1975 and 46 per cent 1988. It was argued that the state must intervene to regulate rent and leasehold charges to stop landlord exploitation and regulate plantation profit so as to prevent social instability and limit peasant unrest. The Marcos land reform people thought that social stability required land reform in order to narrow the gap between the standard of living of rural and urban areas.

Under the Marcos state, land reform aimed at a significant, if limited, transferring of land from the land owners to the tenant–tiller. However, it covered only tenanted rice and corn lands and allowed a seven-hectare retention limit. The farmer-beneficiary had fifteen years to pay an amount equivalent to 2.5 times the average 'normal' harvest of three crop years, at an annual interest rate of 6 per cent. The farmer-beneficiary also had to go through six stages of implementation before acquiring title to the land. The major achievement of this land reform program was the transfer of a significant portion of economic surplus to rice and corn land from landlords to share tenants through the transfer of a part of the bundle of land property rights (Samson 1991). The reform succeeded in achieving the intended goal of handing over 'land to the tillers' to a limited extent only. For example, in the central Luzon, southern Luzon and Bicol regions, comprising some 8.34 million hectares and dominated by rice, corn, coconut, sugarcane and abaca, some half of the disposable land was planted to crop in 1985. Of this area, about 30 per cent of the region's income went to the 60 per cent of the poorest farmers' households and 20 per cent of the 48 per cent went to the richest. As well, the Operation Land Transfer (rice and corn land) referred to above covered only 20 per cent of the target in 1987 (Batangantang 1989, p. 20).

Aside from these achievements, Marcos's land reforms had some flaws, notably a clear lack of political will on the part of the Marcos state to redistribute land in favour of the poor farmers (Samson 1991). Thus the program suffered from poor implementation. But even if the Marcos land reform program had been fully implemented, it would hardly have changed the basic contours of the existing structures of ownership. The program itself was so severely limited, being confined to certain crops and areas, that it was bound to fail as a thoroughgoing reform.

On 22 July 1987, President Corazon Aquino signed executive order no. 229, instituting what was called the Comprehensive Agrarian Reform Program (CARP). In general, CARP expanded somewhat the scope of the Marcos reforms (Batangantang 1989). Politically, the goal of this particular bow towards agrarian reform was to redistribute wealth so as to reduce social unrest and thereby promote stability. Economically, the purpose was to raise agricultural productivity which, by increasing food supplies, would keep the price of food low and wage demands down. Compared with Marcos's land reform program, Aquino's was to be almost 25 times larger than the total area of rice and corn lands distributed between 1972 and 1986. Nevertheless, the pace of implementation would have been hastened if the state had seriously considered (at an early stage) the opportunities offered by existing and newly emerging non-government organisations or cooperatives. Although Aquino's land reform appeared to be comprehensive, she didn't seize the political opportunities to effectively initiate such a reform (Hayami et al. 1990; Batangantang, 1989). Instead, she abdicated the task of defining land reform to a land owner-dominated Congress so that her land reform failed.

Taking into account the limited achievements in the areas of savings, industrialisation and agricultural reform, it is no wonder that in the whole period up to the early 1990s the Philippines' economy had been unable to prosper, because industry and accumulation, even with an accelerated role for foreign investors, could not promote the potential of the sectors most needed in the struggle to achieve stable economic growth. For example, to promote industrialisation prematurely without developing agriculture more fully first was clearly unsound. As a result, foreign investment and foreign loans had to be brought in to fill the resources gap, and to cover other significant and unavoidable infrastructure expenses (Jose 1982 & 1991; de Dios & Villamil 1991).

ROLE OF THE FOREIGN SECTOR

Foreign investment represents an important augmentation of the accumulation of capital stock. The ability of the economy to undertake investment projects productively, and to finance these projects through external borrowing and savings, is a test of the state's ability to carry out its accumulation function.

The Philippines has had a long history of foreign participation in its economy. As pointed out above, for more than seven centuries the Chinese had been trading in the country. Spanish rule came in the 16th century and was to last for 350 years. Between the Spanish domination and the American annexation, there was also a period of Japanese influence over the whole of central Luzon. This was followed by another 50 years of American domination. An American Ambassador—Michael Armacost—commented in the early 1980s that the Philippines should rely more on foreign investment than on foreign loans to boost the economy. Singapore, Hong Kong and Taiwan aggressively seek foreign equity investment, and they have experienced the most rapid growth in their investment over the last twenty years. The Philippines, by contrast, relied on foreign investment for a relatively low percentage of its net financial inflows, and the larger part of supplied external funds came from borrowing. This structure of the external sector of the Philippines' economy in the 1980s coincided with an achieved growth rate that, in the 1980s and early 1990s, was the lowest in ASEAN (see Table 6.1).

The countries which contributed the most foreign investment under Aquino's state administration were Japan, Hong Kong, Taiwan, the United States and the United Kingdom (de Dios & Villamil 1991). These investments went mostly to manufacturing, construction ventures, energy projects and tourism-oriented projects. In the year after Aquino took over the presidency, foreign investment accounted for 7.34 billion pesos out of an increment

Table 6.4 New foreign investment levels in the Philippines, 1986–91 (US$ million)

1986	*1987*	*1988*	*1989*	*1990*	*1991*
17	34	81	93	171	127

Source: Board of Investment, the Philippines.

of 13.4 billion pesos in total investment. Taiwanese investment contributed 2.28 billion pesos (then equivalent to US$107 million), mainly destined for an ill-fated petrochemical plant in Batangas. The overall national investment rate was a disappointing 16 per cent of GDP, much below the rates prevailing in ASEAN as a whole. Such figures meant that the difficulties of the Philippine state in encouraging mobilisation of domestic savings, and the relative failure to quickly promote the participation of domestic and foreign direct capital investment in the period up to 1989, were evident to all (Table 6.4 indicates the foreign contribution).

After 1990, things improved in relation to foreign investors. The overall capital inflow of private investors increased, while the level of foreign investment in export-oriented manufacturing accounted for 548 million pesos (US$160 million) or 60 per cent of the total investments in the export processing zones (EPZs). Koreans (investors, although not second on the list) accounted for a further 110 million pesos. The Japanese preferred to invest in Cavite and the Calabarzon project, while the Taiwanese were willing to invest US$100–200 million in the expansion of the Mactan industrial site (Board of Investments 1992). Japanese investments dropped 44 per cent to 3.7 million pesos in the first three quarters of 1991, while British investment ballooned due to a 17 billion peso oil refinery project of the Shell Corporation.

Meanwhile, US investment, which declined from 3.2 billion pesos in 1988 to 2.9 billion pesos in 1989 and 1.4 billion pesos in 1990, appeared to be perking up. The Board of Investments (BOI) records show that from January to September 1991, US investments reached 1.5 billion pesos, or 47.46 per cent more than that for the same period in 1990. ASEAN countries, particularly Taiwan, contributed to the overall increase in Philippines' foreign investment in the early 1980s.

According to the BOI, in the Philippines foreigners are not allowed to own land, but foreign investment in Philippine export-oriented industries will, according to this official body, increase Philippine production and export capability, and thus contribute to economic growth and to mitigating the foreign exchange shortage. For this purpose, the development of an attractive investment environment in the Philippines is seen to be vital. Foreign investors have praised the industriousness and skill of Filipino workers, and some have worked quite well with trade unions, but they complained loudly throughout the 1980s about electricity shortages and continued to draw attention to poor telecommunications and the policies of the telephone monopoly before its break-up by resolute state action (Manapat 1993).

The Foreign Investment Act of June 1991 substantially liberalised the environment to the advantages of foreign investment. This legislation was different in two important respects:

1 It allowed entry into all but a few specified sectors on a short 'negative list'. The shift to a negative list was said to make the legislation transparent and was accompanied by removal of the requirement that foreign investors obtain authorisation from the BOI. The Ramos regime loosened restrictions on foreign investment still further.
2 One hundred per cent foreign equity was to be allowed in all but a few sectors such as banking. As a result, there was an increase in the foreign investment level: some US$692.7 million, a 33 per cent increase over the level of 1991, was recorded in 1992 and accelerated in 1993–96.

Export of labour

Over a million Filipinos work abroad, a phenomenon that was much studied in the 1980s. Such studies show the necessity of the state, in seeking to solve its fiscal crisis, keeping a share of foreign remittances and the urgent need to boost the country's foreign exchange reserves. These requirements put the Philippine state in a bind: it cannot really remonstrate effectively with foreign governments over the mistreatment, constantly documented, of Filipinos abroad, while allowing labour 'brokers' to flourish. Export of labour is an important element in breaking the bottleneck posed by the shortage of foreign exchange (Rashid 1980; Ofreneo & Habana 1987).

The use of export processing and free trade zones has meant cheap labour was recruited and 'loose' labour laws favouring employers were publicised in order to attract foreign investors (Ofreneo & Habana 1987).

THE STATE, THE DEBT ISSUE AND BUSINESS DEVELOPMENT

The state in the Philippines has faced a perennial *fiscal crisis* (de Dios & Villamil 1991, Ch 1). The very active role in investment

Table 6.5 Financial flows and external debt, the Philippines, 1986–88 (US$ million)

	1986	*1987*	*1988*
Total net financial flows			
Official development assistance: grant	516		
Official development assistance: loans	439.9		
Other official flows	176		
Direct investment (private)		176.1	
Portfolio investment (private)	81.3		
Export credit (private)	–283.2		
External debt outstanding			
Short-term	5 378	3 792	
Long-term	22 878	24 018	
Use of IMF credit		1 342	
Debt-service payments			
Principal repayments	998	1 006	
Interest payment	1 938	2 051	
Total	2 936	3 057	3 361
Debit-service ratio (%)*	34	33.3	29.68

Note: *Defined here as the ratio of debt-service payments to exports of goods and services.
Source: OECD, Geographical Distribution of Financial Flows to Developing Countries, 1990.

played by the Philippine state occurred, in spite of this, by cutting down on education, health and other 'social' expenditures. The current high involvement of the state is also largely a result of the fact that the crisis years of 1983–86 hit hard at the 'modern' and 'urban-based' sectors, jerking the professionals and technocrats dominant there into a realisation that more had to be done for the ailing social and economic sectors. The crisis of those years brought on a new determination on the part of the modernists in the state machine to clip the wings of several regional mafiosi families and the cronies of the previous Marcos regime.

The purpose of the state's overseas borrowing should be to finance industrial, agricultural and other economic development projects for which resources cannot be found from revenue collections. Borrowings should be limited to capital projects which can produce revenues, build up infrastructure and yield long-term benefits like higher export levels or job promotion. This, however, has not been the consistent policy of the state in the Philippines.

Foreign investments are considered as a significant supplementary tool for development, but foreign investment is only one among many considerations in running a developing country. In the Philippines, foreign investment in the form of direct investment rather than portfolio investment or speculation has not featured as a major consideration.

Table 6.6 Debt service on foreign loans, the Philippines, 1986–91 (billions of pesos)

Year	*Annual budget*	*Total debt service*	*Ratio to annual budget* (%)*
1991	254.4	170.1	66.9
1990	211.8	128.4	60.6
1989	224.7	99.3	44.2
1988	190.7	71.2	37.3
1987	160.4	118.4	73.8
1986	118.8	40.6	34.2

Note: *Average ratio of debt service to annual budget.
Source: *Annual Report*, Central Bank of the Philippines; see also Lamberte (1992), p. 86.

In the Philippines, foreign borrowings in the 1970s were facilitated by a highly liquid international capital market flooded with dollars from OPEC. In 1974 the state borrowed US$165 million from the World Bank. Foreign debt grew from US$2.6 billion in 1975 to US$10.5 billion in 1980. By 1983 the debt level had blown out to a state foreign debt of US$26 billion. From 1986 to 1991, the level of the country's foreign borrowings recorded an aggregate increase of US$9.07 billion. What followed? At the beginning of 1986, the unpaid balance of the country's foreign borrowing stood at US$26.25 billion. Table 6.5 shows the condition of indebtedness facing Mrs Aquino in her first years—late 1986 to 1988.

By the end of 1991, or six years after Aquino took power, the balance outstanding totalled US$29.96 billion, posting an increase of 14 per cent, or US$3.7 billion. The average annual increase was US$617.33 million. During the six-year period, the highest annual increase of US$2 billion occurred in 1986. In 1988 and 1989, however, the balance of foreign debt owed went down.

Under the Aquino administration, the state spent an average of 105 billion pesos annually in the payment of principal and interest on its foreign and domestic borrowings. The biggest increases were recorded in 1987 and in 1991, amounting to 41 billion pesos for each year (National Bank of the Philippines 1992). Table 6.6 shows the trend of growth of total debt service and its ratio to the national budget from 1986 to 1991.

In 1991, principal and interest payments reached 170.1 billion pesos, which came to 48 per cent of total expenditures of the national government and 66.9 per cent of the total national budget for the same year. For a poor country like the Philippines, spending 170.1 billion pesos on principal and interest payments for one year alone is quite onerous. To give an idea of priority-reshuffling possibilities, this amount could have been used either to:

- Feed some 200 000 refugees from Mt Pinatubo for more than 23 years at 100 pesos per person each day.
- Finance the 14-year modernisation program of the entire Armed Forces of the Philippines; or
- fund the budgetary requirements to implement all the programs, projects and services of the government for one fiscal year, including agriculture, the environment and natural resources, trade and industry, public works, transportation and communication energy, irrigation, education, health, defence and the general public service.

The state policy on domestic and foreign debt is an important aspect of its management of the economy. In the Philippines the burden of debt is seen as a problem by many economists (de Dios 1984; Jose 1991) for two major reasons: first, the Philippine state presides over a weak economy and therefore finds it hard to pay back its foreign commitments as they fall due; and second, the potential of the budget policy to help the domestic economy has been consistently weak because of low tax collections as a percentage of budget receipts, a shortfall which squeezes funds otherwise needed for welfare safety nets, social overhead capital, and research and development.

According to some economists, debt is not bad if the money borrowed is utilised to expand exports and reduce imports. But in the Philippines there are two persistent problems in connection with debt. The main problem is that not all foreign sources of funds have been directed to export industries and productive manufacturing (apart from tourism). Another problem, now being reduced in severity, was that of high levels of debt service. (In the early 1990s, debt servicing was 28 per cent of exports, down, rather hearteningly, from 45 per cent of exports in 1984.) Deterioration in the debt service position would mean, however, a renewed drain of funds from the national budget which might otherwise have been used for social overhead capital (infrastructure, education, training, research and welfare).

Table 6.7 shows that external debt as a percentage of GNP rose steadily during the run-up to 1990. This forced the new Ramos government, together with the International Monetary Fund, to take remedial action during 1992–96.

While investment is more significant than savings in promoting economic growth, the savings rate remains a key variable in economic development, particularly in Third World conditions. Sustained economic growth is accompanied usually by sufficient

Table 6.7 Debt burden estimates, the Philippines, 1970–90

Year	*Ratio to nominal GNP (%)*	*Ratio to exports of goods and services (%)*
1970	33.90	174.02
1972	32.60	188.02
1974	25.52	105.51
1976	37.52	196.46
1978	44.50	217.84
1980	48.99	215.38
1982	62.83	308.31
1984	80.49	317.05
1986	93.71	327.30
1988	71.58	261.38
1989	62.40	222.56
1990	61.29	219.14

Source: Lamberte & Lim (1992).

domestic savings that are, hopefully, efficiently channelled into investment. The raising of savings (as opposed to efficiency of their use) has been only partly successful, forcing the state to introduce value-added taxes for the first time in 1995 as a way of plugging the savings gap. However, to keep this in perspective, we should note that—admittedly from a low base, that over the 1973–81 period—foreign savings only reached 4–5 per cent of GNP, while the domestic savings rate reached about 16 per cent. The problem was that the 1980s slowed this trend at the very time that other ASEAN states were accelerating their national savings and investment rates. When her new government was established in 1986, President Aquino initiated a brief economic recovery, but savings continued to be quite weak. National saving during the recovery period of 1986–90 remained stagnant, ranging from 16 per cent to 18 per cent of GNP. The state's own ability to save proved to be practically nil, for two main reasons:

1 The state, under pressure from the IMF and the overseas banks, had to assume much of the foreign debt service, while domestic debt servicing was growing due to the dependence on treasury bills to finance the budget deficit and to mop up excess liquidity.
2 The state could not cut back its accelerating level of expenditure significantly during the time of recovery, when the opportunity to do so was provided by relatively buoyant private savings. Ramos inherited this problem: domestic and foreign debt remained high; new foreign investment in productive manufacturing remained sluggish; under-employment

was growing in rural areas; and the rate of capital accumulation failed to meet national needs for accelerating the growth rate of GDP. However, as noted below, he was able to turn this situation around because of accelerated growth following the overcoming of power shortages, improved fiscal measures and international assistance.

OVERVIEW OF STATE STRATEGIES DURING THE WHOLE INDUSTRIALISATION PROCESS

The relatively poor efficiency of the Philippines' manufacturing sector over the years reflected to a large extent the industrial and trade policies pursued by the state in the past. As the pandering to vested interests was so blatant on the part of the state machine this inevitably led, under IMF pressure, to pressure for the state to initiate radical reforms in recent years. The present industrial and trade policies in the Philippines are the result of limited reforms originating in the early 1980s and of further intensification of those reforms in the 1990s. The reforms, however, have led to the elimination of only some of the major structural weaknesses in the economy.

Philippine industry, which developed behind protective barriers in the 1970s, has been subject to major attempts of the government to liberalise trade since the beginning of the 1980s. The state's policy after 1986 was to provide prudent macroeconomic management and to imaginatively utilise tariffs and import controls as its main tools.

For decades, continuing up to the present, the overall trade policy of the Philippines has generally been protectionist in nature, although applied by the state in varying degrees during the period. This began inadvertently in 1950, when the Philippines imposed strict foreign exchange controls in response to a severe balance of payments difficulty resulting from the Bell Trade Act and a drop in US economic assistance. Foreign exchange was rationed according to 'essentiality'. Virtually, only producer goods, such as machinery and equipment, could be imported, as foreign exchange was difficult to obtain for 'non-essential' consumer goods. The system became a permanent policy feature for the rest of the decade, fully entrenching an import substitution policy which, as such, necessarily favoured the finishing stages of manufacturing while effectively penalising backward linkages and exports. As well, the failure of the Philippines' economy to develop backward and forward linkages was due to a narrow and weak domestic market, caused by very low levels of rural and urban income (Lim 1985). Real wage levels and rural poverty were beginning to emerge as problems in the 1960s, and remained so in the 1990s.

By the late 1960s, government planners had become more aware of the bias against exports. Instead of reforming the protection structure, however, export promotion measures, mainly through the BOI, started to be adopted in the 1970s. As well, in the 1970s import controls became more widespread. The Central Bank started the system of classification by type of product. In the majority of cases, the motive for import licensing was the protection of local industry in the domestic market. The system of quantitative restriction, in general, buttressed the effect of the tariff structure. A neglected feature of the state's accomplice role in IMF-sponsored tariff reductions is that there has been a continued bias against the production of capital goods and intermediate inputs, pointed out over many years by Lichauco (Lichauco 1973). Yet a report for the ILO by Ranis commented favourably on the efficiency of what capital goods sector existed and recommend that it be encouraged (Ranis 1979).

By the end of the 1970s, the inherent biases of the protection structure were recognised and the inadequacy of an offset approach through various incentives became more and more apparent. Thus in 1981, the government finally launched the first major reform of the protection system. First, the tariff reform program (TRP) was implemented. Second, a schedule of import licensing liberalisation was formulated. The process continued under Ramos.

Under the Aquino administration there were also new trade reforms. More than 1600 items were liberalised betweem 1986 and 1990. Another major change was the removal of all export taxes (except for logs), which had heavily burdened the already disadvantaged agricultural sector.

There were some tariff adjustments implemented at this time, supposedly to provide temporary assistance to industries affected by import liberalisation. These came in two forms. First, it was intended to replace to some extent the protection arising from the import restriction with its tariff equivalent. This involved raising the tariff on imports of the protected output. The other adjustment reduced the tariff on inputs of affected sectors. These tariff changes were implemented under executive orders.

The trade reforms under Aquino effected tariff changes on a total of 138 tariff lines, of which 55 were lowered while the rest were increased. The average tariff rate for all imports merely moved from 30.2 per cent in 1985 to 30.1 per cent in 1988. In August 1991, a new tariff code (EC 470) was introduced with the objective of encouraging export-oriented growth by lowering nominal and effective protection, stimulating investment by reducing tariffs on capital goods and simplifying customs administration by reducing tariffs dispersion and the number of tariffs bands. In 1992 a renewed trade liberalisation program was launched. This reduced the 'effective' tariff protection levels in manufacturing to an overall 32 per cent, which is lower than in Thailand (51 per cent) although slightly above that of Malaysia (27 per cent). However, the state has failed to develop an export strategy which is linked to an improvement in income distribution, which post-Keynesian analysis suggested (Lim 1985) was the key to improved growth via export orientation. All of this neglect was reinforced by the essential 'enclave' characteristics of the Philippines' export sector, which had failed to link with domestic-oriented industry to raise demand, productivity and wage rates there.

Wage conditions and labour policy of the Philippine state

According to one source (which may be slightly inaccurate), in 1980 the Philippine manufacturing wage was 54 per cent of the Malaysian wage. By 1989 it had increased to 69 per cent. The Filipino manufacturing worker received twice the average wage of workers in the manufacturing sector in Indonesia, but only one third of the Thai manufacturing wage. So the 'record' is patchy (*Far Eastern Economic Review*, 10 June 1993, p. 50).

The Philippine state's labour policy is full of contradictions and often unsuited to a modernisation process. For example, as is well known throughout the ASEAN region, Filipino workers are skilled but are industrially combatative and prone to pursue their human rights. However, this disguises the weakness that only 3–4 million out of a workforce of 26 million are well organised into unions. The state machine knows this and has used a plethora of laws, regulations, police actions and semi-legal means to shackle worker militancy, hobble the labour unions and reduce real wages. The ensuing 'coolie wage' mentality does nothing to encourage worker productivity or to inspire managers. Rather, it results in absenteeism, periods of illness and poor results at the point of production (Limqueco et al. 1989).

The contradictory aspect is that to maintain political popularity and perform the legitimation function of the state, the top political leaders (including Marcos and Aquino) have periodically legislated to raise legal minimum wages and cost-of-living adjustment payments. This has been done even in periods when the state was advertising the cheapness of Filipino labour to attract foreign investors. Yet in 1990–91, for example, by contrast with the 1980s, stipulated wages rose above the levels prevailing in the

much more vigorous economy of Thailand, at a time when the Philippines' economic scene was bleak. In this way we see a contradiction between the political legitimacy interests of the state and the more objective requirements of accumulation and growth, with the state unable satisfactorily to juggle the two aspects of its role.

The Philippines has a highly motivated and mobile labour force, which is well-educated, fairly skilled and English-speaking, and which can be trained relatively quickly to meet the needs of modern business. The protection of these workers' rights is unequivocally necessary and desirable. The state, it seems, has not been able to force compliance with its wage laws, making the conciliators the de facto enforcers. But since organised workers account for a small proportion of all workers, wage laws remain unheeded in many factories, on top of the widened practice of child labour. If the Philippine state remains weak relative to the requirements of wage-law enforcement, the alternative will have to be strengthening of the trade unions. The least that the state can do is to refrain from enacting laws that would set constraints on union organising activities, even if manufacturing wages rise. The alternative is a low-wage, unproductive coolie economy.

Education policy

It should be emphasised that the domestic market remains restricted due to a lack of improvement in the distribution of wealth and income. The Philippine state has clearly failed to keep pace with the needs of modern capitalist society or the sectors of it that are being nurtured in the Philippines. Education is a prime example. It has a record that has deeply disappointed Filipino families. Under the Spanish, education simply served the needs of the church; under US occupation, education served American commercial and colonial interests, with the local state acquiescing in the miseducation of Filipinos (Constantino 1993). Nevertheless, it produced levels of literacy well above the South-East Asian average.

The education system in the Philippines is characterised by a high degree of wastage. According to 1983 data, the wastage was highest among children in rural areas in the lowest decile of the income distribution. Among children in rural areas in the income distribution, the drop-out rate was 42 per cent compared with 5–10 per cent among children in the highest income distribution. In general, the education system in the Philippines tends to be regressive at all levels. At the elementary level, regressivity stems from the variance in quality between schools, where poorer students receive a lower quality of service. At the secondary level, poorer students lack access to the higher-quality private system; and at the tertiary level, they lack access to subsidised public education facilities.

The primary reasons for leaving school are the low motivation of children, due to the poor quality of schooling, and the financial burdens on parents of school-related social amenities. The state's policies in education officially aim to raise the quality of elementary and secondary schools, and to increase the attendance rates of low-income children. However, bureaucrats have failed to address these issues: in the 1990s the state continued to neglect those aspects of education best suited to modernisation.

The essential educational inputs into a modernisation program would appear to be a well-funded primary school system, second and tertiary education sectors which stress vocational training, and investment in engineering and science as priorities. Education payments were allotted only 14 per cent of the total state budget, although the Constitution stipulates that the state shall assign the highest budgetary priority to it. The problem in the coming years is the need for the state to increase its expenditure on education. The failures of state policy between 1979 and 1994 in the areas of industry, trade policy, labour and education reflected not only poor vision, but also pressures from backward social layers in the elite and the squeeze due to heavy payments abroad.

The cuts in allocation to education in successive state budgets from 1986 to 1990, counter-productive from the viewpoint of improved efficiency in the workplace and the overall productivity of the economy, are thus indirectly a result of foreign debt 'hangover' and the political priorities of the elite. An ever-increasing debt service payment eats into the national budget, and the wealthy resist the taxation needed to modernise education. Their resistance is reinforced by the reality of the Filipino education system: the poor have no alternative to the public schools (which are understaffed by poorly paid teachers); the more fortunate pay separately for their own schools. Wealthy parents resist having to pay twice: for themselves and for the public education system patronised by the underclass. This helps to fuel the state's fiscal crisis.

FUTURE POSSIBILITIES: AN ACCELERATED ECONOMIC GROWTH PERSPECTIVE?

After Ramos was proclaimed the Philippines' president in May 1992, he stated repeatedly that the Philippines had some difficult

problems, among them widespread poverty, sluggish growth, communist and Muslim insurgencies, a heavy foreign debt, power shortages, devastation from the Mt Pinatubo volcanic eruption, and a kidnapping wave which reduced local and Taiwanese investment levels. Even so, Ramos promised to make the Philippines an NIC, or little 'tiger' economy, by the time his term ended in 1998. He insisted that the Philippines must catch up as quickly as possible with the other ASEAN countries. To get the Philippines' economy moving, he set as the country's economic goals: poverty reduction, job creation, GNP growth of 4.5–5 per cent per year, rising to 10 per cent by the end of his term in 1998. As well, he set an inflation rate of 8–9 per cent to be achieved within two years, falling to about 6 per cent by 1998; and interest rates sliding from 18–19 per cent to around 14 per cent by the same date. His aim was to attract foreign investors away from the Philippines' neighbours.

Ramos demagogically argued that labour, investment and technological progress will be the key, though the Philippines' greatest strength at the moment is its people. Of course, people are one of the major sources of foreign income, and Filipino workers mercilessly exploited in the Middle East, Hong Kong and Singapore are likely to remain in demand in the region. As well as tapping labour's work effort, the state has decided since 1993 to further accelerate the national rate of investment. As Table 6.8 shows, the Philippines had lagged behind other ASEAN states in this respect.

The foreign sector will, in the Ramos program, be a dominant force in total investment rates. Foreign exchange earnings are planned to rise by means of a sustained expansion of exports to an annual growth rate of 15 per cent, passing a benchmark of US$23.2 billion by 1998. Should the plan actually work, estimates by the state machine are that the export sector will contribute 37 per cent of GDP, compared to 19 per cent at the time of Ramos's election. Foreign debt is to be reduced somewhat (a US$2.3 billion reduction by 1998), which should reduce the dampening effect on investment of the 'foreign debt hangover'. The older slogan of 'improving the business climate' has been revised by the Ramos executive, aiming to leave behind the complaint of the US Agency for International Development (USAID) in May 1983 that: 'The Ramos government has not drastically improved the business climate in the last six months, basically due to the law and order problems, power shortages and less than forceful political leadership' (quoted in *Far Eastern Economic Review*, 16 June 1993). Ramos's program of catching up to ASEAN relatively quickly met with a favourable initial response from the World Bank and the

Table 6.8 Gross domestic investment, 1971–80 to 1991–94 (% of GDP)

	1971–80	*1981–90*	*1991–94*
Singapore	41.2	42.2	40.9
Malaysia	24.9	30.7	35.0
Indonesia	19.3	30.4	34.9
Thailand	25.3	26.9	38.8
Philippines	27.8	21.9	22.1

Source: Asian Development Bank *Economic Outlook*, 1994.

USAID. Allowing for American pique over lost US bases, it is necessary to consider their view seriously, as they have access to all government officials and documentation. The World Bank report of 1 April 1993 (quoted in *Far Eastern Economic Review*, 10 June 1993) saw infrastructure lags as a key bottleneck factor and an expensive one to overcome: 14 per cent of the Philippines' GNP would have to be spent in 1994 and 1995 to meet infrastructure and land reform costs and inescapable social services spending. Moreover, sustained growth rates of 5–6 per cent—almost impossible given telecommunication and transport bottlenecks—would be needed to get the economy moving into an ASEAN growth pattern. Even without the pillage of the economy of the Marcos state (Manapat 1991) which this chapter canvassed earlier, with a lessening of the debt crisis and relative political stability, all that sort of 'visionary' growth could only be unrealistic. As the World Bank report noted (*Far Eastern Economic Review*, 10 June 1993, p. 41), the state machine would need an overhaul: 'Sustained growth at even the modest rate of 5 to 6 percent depends on improvement in governance.'

The politics of the situation in late 1993 required the IMF/World Bank commentators to be more positive about the Ramos 'Philippines 2000' program and its goal of constructing the springboard for achieving NIC status early next century. We find the World Bank president saying in March 1994, for example, that the Bank was 'satisfied with the Philippines' economic performance over recent years and congratulated President Ramos for the apparent success of the economic reforms implemented by his administration since 1992' (*Philippine Star*, 15 March 1994). The Bank expressed concern, however, 'about the government's ability to channel loan funds and other official development assistance to rural areas' (*Philippine Star*, 15 March 1994). A more favourable attitude by the World Bank as a foreign lender had not, in 1994, been matched by foreign private sector investors. This is, of course, partly because other economic regions in Asia have been doing better in economic growth terms (see Table 6.2). However, the main reason is that the World Bank's call in June 1993 for 'overhaul of the state machine' has not been heeded. Consequently, there are many 'hidden costs' for the foreign investor.

Such costs arise from low productivity; the need to pay bribes to clear goods from customs and bonded warehouses; long delays in refunding VAT taxes; highway checkpoints slowing down the flow of goods; and the extracting of tribute—'tong' in the language of Filipinos. As well, the ordinary macroeconomic signals that influence foreign corporations are not such as to encourage them to accept 'Philippines 2000' as a viable program: low or zero growth, high inflation and interest rates of 17–25 per cent still existed in 1992. However, in 1995 the official growth rate was claimed as 5.6 per cent, and for 1996 6.2 per cent (estimated), admittedly coming off the low base year of 1990. As well, the prime lending interest rate dropped from 17 per cent to 15.5 per cent in 1996 (*Far Eastern Economic Review*, 9 May 1996, p. 81), and inflation (despite soaring rice prices) was officially estimated at 11.5 per cent for May 1985/86. There was some claimed success for the export drive: an increase of 23.7 per cent for May 1995/96 and an import surge of 32.7 per cent for the same period; perhaps, in part, reflecting the accelerating growth rates of the economy (*Far Eastern Economic Review*, 9 May 1996). This was about the same order of achievement as in Thailand and above the average for the ASEAN economy. There are a few signs that the political stabilisation that has been achieved by the state is being accompanied by economic stabilisation and that the continuing fiscal deficit is not now unacceptable to the 'financial markets'. In 1993, only US$327 million had been invested by foreigners, less than was needed to accelerate the rate of overall investment, although quite a lot of the new direct investment did go into manufacturing, coal and chemicals. This shift to the direct form of investment after 1993 was better than the previous emphasis on portfolio foreign equity on the financial sector. Ironically, some of the funds are now flowing to areas marked out for Marcos's 'eleven major industrial projects' of the 1970s, hijacked when *Western-oriented technocrats* and economists took over the economic ministries and abandoned the industry strategy in 1979. Also, the pattern of financial flows from abroad is closely associated with the *stage of economic development reached* and with political stability. Hence, the test of Ramos's ambitions, that the Philippine state could by 2000 create the conditions of 'run-up' to NIC status, will be whether the pattern of financial flows continues an upward movement not only into retailing and banking but also into heavy industry, and especially into machinery, rather than into real estate and finance. Ramos turned the Clark air force base and Subic naval base into 'duty free' shopping areas, and together with new hotels this has restored some dynamism to these centres. In Subic a free trade zone has been established, attracting quite a lot of interest from foreign investors, especially Taiwanese. In explaining the role of the state in the economic development strategies of the Philippines, it is all too easy to emphasise 'weak entrepreneurs' or the 'confusion' of policy makers. What the above discussion has tried to show, by contrast, is that the Philippines' economic development has been characterised by slow and uneven capital accumulation, poorly redirected by the state, or redirected into speculation and real estate (rather than productive manufacturing output and jobs) by the private sector without effective state intervention, and that this situation is not yet resolved.

CONCLUSION

This chapter has underlined the link between the social base of the state (the coalition of classes and sectional groups behind state policy) and the evident distortions of the economy, with low investment and growth rates the inevitable result. Economic recovery is now discernible, as noted above in several places in this chapter, but little has fundamentally changed with the Ramos Presidency in relation to the continuing influence of rent seekers and vested interests. New personnel have been brought into the state machine as a cosmetic device, but the system of patronage and a national parliament still strongly influenced by sectional interests suggests that not much will be done to improve the dismal record of the past in the matter of development planning, until more modern political forms are found to underpin the operation of the state. I do not suggest, however, that it is advisable to play around with the term 'cacique oligarchy' in the manner of Ben Anderson (1988). One should first look at the critique of this complex, if trendy, categorisation, with the best being that of Santos (1992). Rather, the transition from oligarchy, cronyism and looting of the public purse to a democratic economy should be closely studied, as the Filipino masses are demanding and earnestly seeking such a change. Ramos, as President, has sought to channel this great flow of public opinion into support for an official program, 'Philippines 2000', which emphasises the achievement of 'tiger' status in Asia; that is, he is assuming that the self-respect of Filipinos is best assured by projecting an image of the country as having reached at least the ASEAN average in terms of the standard of living, available infrastructure and supply of basic amenities.

However, given the present huge gap in the per capita income of the Philippines and the other members of the ASANA grouping (excluding, perhaps, Indonesia), this will be a long-term task and certainly will not be achieved by 2000. Moreover, the economic spurt, even if it were to be achieved in the medium term, will constitute a necessary but not a sufficient condition for fulfilling Filipino aspirations for change. Those aspirations can only be met by a fundamental break (which has not occurred under Ramos) with the political domination by the landed families, with cronyism and with the political system as it has operated in the past.

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