IMF sets money flight from the Philippines

by Sophie Tanapura

One of the largest savings and mortgage banks in the Philippines, the Banco Filipino, declared a "bank holiday" on July 23, sending a clear warning to the Marcos government. The Banco Filipino closed its doors in the face of a run on deposits which actually began at the end of 1983; it accelerated in June and July of this year when more than 840 million pesos were pulled out. Such runs also hit smaller banks after the August 1983 assassination of exiled opposition leader Benigno Aquino. But in the Banco Filipino case, riot police and the military were mobilized to hold at bay thousands of panicking Filipinos whose life savings were threatened.

Bank runs in the Philippines are but one of the economic results of a credit shut-off by the islands' foreign creditors. No matter what austerity measures the Marcos government imposes on a population already depleted and poverty-stricken, the International Monetary Fund (IMF) is refusing to lend to the Philippines, blocking credit flows from its major commercial creditors.

To please the IMF, the Marcos government has apparently been making some interest payments by digging into the assets of some of the country's private commercial banks, threatening them with a liquidity crisis. In January, Marcos also brought in José Fernández—the IMF's man—as governor of the central bank. Every effort was made to set the economy straight in the eyes of the Fund. In June, fearing that the Philippines would become an outlaw nation in the banking community, Marcos announced that the government would not default on its $25.6 billion foreign debt and would meet interest payments on public and private debt within 60 days of the due date.

I arrived in Manila on June 6, the day the government announced the floating of the peso-dollar exchange rate on a daily basis—free exchange rates being the "theology of the IMF." The peso, which had been at 14 to the dollar, plunged 28.5% to the "official guiding rate" of 18, with the black-market exchange rate at 22-25. The black market has, in effect, become quite legal. Speculation on the fluctuating daily peso-dollar exchange rate and the anticipation that the peso could drop to the level of 30 to a dollar toward the end of the year have led many to hoard even more dollars, the opposite of the intended effect of luring the "salted" dollars into the open market. An estimated $1 billion fled the country in 1983 alone.

To meet its commitments to the IMF, the Philippine government has also adopted two new tax measures which are intended to allow the government to raise more than 4 billion pesos. Riots have already broken out in the factories and in the streets as a result of these austerity measures and the recent 22% devaluation.

President Marcos had at one time laudable plans for the industrialization of his country. While the Philippines had the confidence of the markets, the country borrowed at the rate of $2 billion every year. But this effort was ended by the IMF and commercial banks. Conditionalities on the debt forced the Philippines to cancel 6 of the 11 planned projects: an integrated steel mill, an integrated pulp and paper mill, a petrochemical plant, a diesel manufacturing plant, an aluminum smelter, and a plant for production of "alcogas," a mixture of alcohol and gasoline for fuel. Five others are retained, including a phosphate fertilizer project, and a copper smelter project.

The basic alteration forced upon Philippine economic policy has been to move from industrialization or agro-industrial development, which could have brought about a more in-depth transformation of the economy, into agriculture and agri-business only.

The IMF has adopted its usual tactic of promising an ever-elusive mirage of $630 million in credit that is supposed to re-instill confidence among the 400-odd creditor banks of the Philippines. However, some banks are saying that the IMF will release the $630 million only after the commercial banks have committed themselves to lending at least 90% of a planned $1.65 billion.

The upshot of this dilemma is that the Marcos government is being cut off from all financial support and the economy is grinding to a halt, as businessmen look to quickly sell their assets in Hong Kong, since it is impossible to acquire the imports to continue production.

The IMF's non-negotiable demand is that the Marcos government must go. But there is no force in the opposition array prepared to pick up the pieces of a shattered economy. As Marcos's Independence Day press conference and the accompanying interview with Deputy Foreign Minister Pacifico Castro show (see p. 42), there is a clear understanding of who the political enemies of the Philippines are. The accusing finger readily points to Sen. Edward Kennedy (D-Mass.) and Rep. Stephen Solarz (D-N.Y.), who are demanding aid cut-offs to the country, and to former Ambassador William Sullivan, Richard Falk, Ramsey Clark, and the World Council of Churches lot that was responsible for the Khomeini takeover of Iran (see *EIR* April 3, 1984, Vol. 11, No. 13). The finger also points to the Soviets, who have everything to gain from a destabilized Philippines, the strategic hub of the U.S. Pacific forces. However, the Marcos government—much like the Reagan administration—has not yet grasped the nature of the enemy: the IMF and the role it plays in an "economic" policy solely designed to destroy the Philippines.