

IMF collapses the Philippines' economy

by Gail G. Billington

On Jan. 29, 1985, the correspondent for the Soviet government newspaper *Izvestia*, I. Kovalyov, wrote that the "Philippine leadership is being placed in an untenable position by the harsh economic crisis . . . which has forced the Philippines to accept bondage from the International Monetary Fund and the World Bank." The IMF, Kovalyov said, "is geared to stabilizing the situation in the country in order to protect U.S. military prerogatives from being endangered by the domestic political situation."

The *Izvestia* article exemplifies how the Soviet Union has been able to play the game in the Philippines, thanks to the Reagan administration's back-up for the ruinous economic

policies of the IMF and World Bank. On the one hand, the Soviets are attempting to console the Filipino leadership; on the other, the IMF is servicing Moscow, as the conditions of economic desperation it causes in the population, force peasants and urban slum dwellers to turn to the insurgent forces of the New People's Army (NPA).

The IMF and World Bank, with the 483 commercial bank creditors of the Philippines behind them, have been the key players in the game to "apply the screws" to the Marcos government. The year 1984, when the Philippines was forced to carry out IMF conditionalities to the letter, in order to meet approval for new credit, was the worst year for the Philippines' economy since World War II! Under IMF-World Bank plans, even the best prognosis is that the country will not return to 1983's poor results until well into the 1990s. Even those projects are a fantasy; if the IMF dictatorship continues, the Philippines, as we now know it, will have ceased to exist.

Nary a peso for the Philippines

The first serious rumblings against the Marcos government from the international banking authorities were heard shortly after the 1979 oil shock. Then, following the Mexico debt disaster of 1980-81, the rumblings became threats. In

Case Study: Negros Island

IMF recruits for the NPA guerrillas

The clearest example of International Monetary Fund complicity in fanning the New People's Army insurgency is on Negros Island (see map, page 33), home of the Philippines' sugar industry. Once the producer, by conservative estimate, of 20-25% of the country's foreign exchange earnings, the image of wealth that was Negros in the 1970s has given way in recent months to pictures of starving children, staring hollow-eyed from the covers of Asian news magazines. And while the economy has collapsed, the strength of the New People's Army (NPA) has increased by 50% in the last year alone.

Negros is 90% dependent on sugar production, directly employing 400,000 of the island's 2 million population.

But the sugar industry is bankrupt. Sugar prices on the London commodity markets bottomed out at the end of 1984, reaching a low of 3 cents per pound, well below the estimated Filipino cost of production of 12-14 cents per pound. The collapse coincided with the end of price-support contracts negotiated in 1979 by the Philsocom sugar-marketing monopoly, that gave Filipino sugar a guaranteed average price of 23.5 cents per pound. Drought in 1983, and typhoons in 1984 contributed to further setbacks. Production is down by 30%, to 1.8 million tons estimated this year, from 2.3 million tons in 1984 and 2.5 million tons in 1982-83.

Producers have been caught between the collapse in prices for their sugar, the exorbitant cost of financing outstanding debts while covering current production costs, and the low efficiency rates in both farms and milling. Interest rates on crop loans average 35%, with an additional 6% pegged onto delinquent loans. One parliamentarian reported that 14 out of 15 of his plantation-owning constituents are in debt "up to their longest hair." Planters, where they are unable to diversify into other crops, are simply abandoning their plantations.

There is no bailout on the horizon for the sugar industry. The Filipino sugar and coconut industries, both run

1981, following a national plebiscite, President Marcos was forced to set up an executive committee to choose his presidential successor. The head of the committee was Prime Minister and Finance Minister Cesar Virata, the man in the cabinet considered to be on best terms with the IMF and World Bank. In 1982, as Marcos made his grand tour to the United States, the opposition launched an attack on the agreement with the United States which allows the operation of U.S. military bases in the Philippines, and the NPA insurgency first emerged as a significant, if secondary factor in pressuring Marcos. But until August 1983, Marcos was, to a certain extent, able to keep the IMF and commercial banks at bay.

The bullet that killed opposition leader Sen. Benigno Aquino on Aug. 21, 1983, put an end to Ferdinand Marcos's chicken game with his creditors. Within six weeks, the Philippines' foreign reserves plummeted from \$2 billion to \$600 million, less than enough to cover one month's imports. Marcos was forced to declare a debt moratorium on principal payments, and the 20-month long haul of negotiating began on the terms of debt rescheduling with the IMF, World Bank, and commercial banks.

The biggest swindle of all is the \$9.7 billion IMF and

commercial bank bailout of the Philippines. Delayed for over a year after the assassination of Aquino, the IMF finally signed a letter of intent with the Philippines in November 1984, but Fund disbursements were made contingent on reaching an accord with the 483 creditor commercial banks as well. Another six months passed, until the commercial banks signed with the Marcos government on May 20, 1985. Three months later, Manila is still waiting for funds to be released.

The bailout package is a most remarkable feat of financial sleight-of-hand. It consists of three pieces: a \$925 million new money facility, \$3 billion in trade credits, and \$5.8 billion for debt rescheduling. The entire package is earmarked either for debt rescheduling or, as in the case of the new money financing and trade credits components, to pay off overdue debts and current obligations. The new money facility will go to pay late interest payments, with no direct benefit to private industry. The \$5.8 billion in debt rescheduling will cover \$3.4 billion in short-term loans and \$2.4 billion in medium- and long-term loans that came due between Oct. 17, 1983 and Dec. 31, 1986. In other words, the bailout is little more than a sophisticated con game with Manila being played for the patsy.

by close "cronies" of President Ferdinand Marcos, are special targets of the IMF "stabilization" package. To planter and worker alike, that translates simply into a direct order to starve. Between March and May 1985, alone, 150,000 regular and part-time sugar workers were laid off, bringing unemployment up to approximately 50% of the workforce; the ones still working are paid piecework wages, well below even the minimum daily wage of 32 pesos (\$1.73). Since 1983, there has been a 50% increase in disease, and images of starving Negros children now rival those of the Sahel.

The NPA insurgency

The New People's Army meanwhile is having a field day in Negros. The number of active insurgents has increased 50% in the last year, with reports that units are active in one-third of Negros Occidental's towns and four of six cities. "The insurgency problem is slowly engulfing us," Franklin Fuentebella, head of a planters' association was quoted by the news agency Agence France Presse in late May. Many of the abandoned plantations have been taken over by the NPA, while 150 farms on the island have been "infiltrated by subversives." One sugar planter reported to *EIR* in early May that NPA units regularly collect

protection money from planters who stay behind. But, he added, the NPA is not just in rural areas. "They're barking at the doors of the cities."

Manila's efforts to counter the NPA threat have been hamstrung in part by a 50% decline in the Philippine defense budget in the past two years. At 1.1% of GNP, the Filipino defense allocation is the lowest of any of the ASEAN countries and has resulted in serious logistical breakdowns and materiel shortfalls. *Asiaweek* reported on March 29, 1985 that these cuts "resulted in AFP combat units being short of boots and uniforms, foraging for food during field operations, and using palm oil to lubricate weapons. They have also at times lacked transport and communications equipment, forcing commanders to use runners to transmit orders."

Growers are now asking the government for a moratorium on loan repayments and foreclosures, while restructuring their outstanding obligations on longer terms and at lower interest. Government, meanwhile, has taken steps to provide emergency food aid, and has already distributed 1,500 hectares of repossessed sugar lands to dislocated sugar workers. The watchword for the future of Negros, however, is diversification into other crops. But that, say the experts, will take three to five years.

The most important aspect of the package is not the contents of the package itself, but the agonizing 20 months during which the negotiations were being conducted, and during which the Marcos government was forced time and time again to accept harsh austerity measures in exchange for promises of improved credit rating. Living standards were ravaged, entire agricultural sectors were thrown into bankruptcy, industries were shut down for lack of critical imports and capital, the stock market was collapsed to 50% of its previous activity, and a record number of banks and lending agencies closed their doors.

IMF unleashes economic terrorism

The agreement signed with the IMF in late 1984 set the pace for the international agency's double-edged attack on the Philippines' economy: driving the population to desperation, while undercutting the power base of the Marcos presidency. The agreement called for significant revisions in taxes and lifting of government subsidies on essential food items and subsidies to state-owned and -controlled corporations. "Adjustments" included either lifting or reducing government price supports for staple foods such as sugar, rice, corn, canned milk, eggs, and pork. Tax revisions targeted elimination of a 10% tax on foreign exchange sales by banks, cutting import taxes by 50%, and scrapping tax exemptions to state-owned and -controlled corporations, exemptions totaling \$110 million a year. On top of this, the Philippine peso was devalued by 63.3% from October 1983 to October 1984.

Starting in December 1983, with the ouster of Central Bank head Jaime Laya, the IMF took over direct stewardship of the financial and monetary affairs of the Philippines, from the top down. In particular, the IMF campaign to "soak up excess liquidity" in the system was the license to kill off whole economic sectors, especially those linked to Marcos's "cronies." The IMF dictated a cap on money supply in the economy, and beginning in January 1984, the Central Bank floated debt instruments with annual yields that at one point exceeded 45%, and by late April were still at 32-39%. The impact was devastating. Interest rates across the board averaged 34-37% for the year, while inflation peaked in the fall of 1984 at near 70%.

In the first eight months of 1984, the Central Bank closed 19 banks, mostly smaller retail institutions. Two cases, the January 1985 closing of Banco Filipino and the April 1985 closing of Philippines Military and Veterans Bank, led to head-on confrontations between President Marcos and the IMF authorities, and in both cases Marcos lost, under a shower of allegations of "cronyism." The lending authorities, however, used Marcos's reluctance to enforce the monetary constraints as their excuse for stalling on signing first the letter of understanding, until late 1984, and then an agreement with the commercial banks, until May 1985.

The Makati and Manila stock markets, from first quarter

1984 to first quarter 1985, collapsed by 43% in trade volume, with total value traded down by 39%. Out of the possible 50 stockbrokers registered on either exchange, only half are officially still in operation, and only 20 (10 per exchange) are engaged in any significant business. The ones who are in operation have turned to increasingly short-term, speculative areas, in mining, oil exploration, and real estate.

As of late July 1985, the government was seeking a \$100 million loan from the World Bank to reorganize state-owned banks, allowing them to write off billions in bad peso debts. Among the banks listed in the government's filing are Republic Planters Bank, headed by coconut crony Eduard Cojuangco, the Philippine Export and Foreign Loan Guarantee Corporation, the Social Security System, Government vice Insurance System, Union Bank of the Philippines, and several other banks.

In 1984, the World Bank and Asian Development Bank issued a similar loan to the nationalized Philippine National Oil Co. (PNOC) to improve oil-refinery efficiency on condition that part be spent on a feasibility study for privatizing PNOC. Latest reports are that the Philippine National Bank and the Development Bank of the Philippines, the two biggest government firms holding the largest number of foreclosed private entities, will be pushed into wholesale auctions, in order to keep their own budgets within the constraints agreed to as part of the bailout package.

The latest statistics on the Philippines economy underline the fact that there will be no economic relief, despite the apparent *modus vivendi* reached with the country's creditors. The biggest component of the recently proposed 1986 budget of 92.9 billion pesos is 23.5 billion for debt service—the rest goes largely to current operating expenses. Growth projections are bleak. In 1984, the economy shrank by 5.5%; in the first three months of 1985, GNP declined a further 3.7%, and economists are predicting an overall fall of 3% for the year.

Unemployment has risen sharply, from 15% in 1982; the latest government figures place unemployment at 35%, while the opposition claims 45%. Interest rates, meanwhile, remain high, at an annual average of 27% for 1984, contributing in part to a 17% drop in industrial output and a 36% decline in investments in durable goods. Agriculture is the only area of the economy that has been targeted for growth, because as the World Bank says, it's cheap.

World Bank projections for the Philippines are grim. The bank's "optimistic" estimate for 1985-90, which assumes total cooperation from Manila, calls for GNP to average 4% growth annually. Per capita income in 1990 will still be 9% lower than in 1983, and employment opportunities simply will not exist for the 700,000 joining the labor force annually. The World Bank's "pessimistic" scenario, i.e., if Manila digs in its heels, allows for average annual GNP growth of only 1.1% from 1985-90, and per capital consumption by 1990 will remain 21% below 1983 levels.