

The Philippines' battle for development

Susan and Ramtanu Maitra analyze President Marcos's 20-year fight against the international bankers and the domestic feudal oligarchy.

The campaign to bring down the regime of President Ferdinand Marcos in an explosion of political and economic chaos, relies heavily on a systematic operation by the U.S. and Western media to pump out endless streams of lying propaganda about the Philippines. Though President Marcos—"the great monster dictator"—has been the principal focus of this bilge, there is also a systematic effort not only to break the economy by forcing the adoption of anti-growth policies, but to persuade the world that, economically, the Philippines was nothing but a rotten "banana republic" in any case.

In fact, as the following profile of the Philippines economy shows, freed of the cancerous debt burden, with adoption of an effective program of exchange controls and a firm policy restricting multinational involvement to areas of real technology transfer, this developing country, with a literacy rate of 85%, could move rapidly into the ranks of newly industrializing countries. Reinstating the fractured industrialization program, with a priority on building up basic, heavy industry and on improving productivity throughout, is the necessary focus for policy.

Eleven projects for development

In 1979 President Marcos placed 11 industrial development projects on the economic policy agenda, projects aimed at shifting the country's industrial structure from consumer and intermediate goods toward basic, heavy industry. The projects included an integrated steel mill, integrated petrochemical complex, integrated pulp and paper plant, integrated coconut industry, copper smelter, aluminum smelter, phosphatic fertilizer plant, cement industry expansion, diesel engine manufacturing, a nuclear power plant and alcogas development.

The President's reference point was the economies of South Korea and Taiwan, whose economic growth the Philippines had outpaced in the 1950s, only to choke on a feudal agricultural sector by the mid-1960s. Upon election to the presidency in 1965, Marcos had made building a strong and self-sufficient agricultural base a priority, a program for which he was overwhelmingly re-elected in 1969. During the 1970s martial law period, he concentrated on building up the country's infrastructure for industry.

It was not for nothing that Marcos's 1972-81 administra-

tion had tripled the size of the country's road network—from 55,544 km to 160,000 km. The number of electrified households had nearly doubled, from 1.9 million to 3.2 million. Irrigated cropland had been increased from a mere 178,158 hectares to 1.4 million hectares. Rice and corn food self-sufficiency and an export margin had been achieved. And the minimum daily wage had more than tripled, from 8 to 31.80 pesos.

The 11 projects were in a way the culmination of that by and large successful program, and were meant to propel the Philippines into the ranks of the newly industrialized countries. "Unless we get on the same fast track," President Marcos said at the time, the country will be "left behind to choke in the dust of those we follow."

When in 1982 the World Bank and the International Monetary Fund (IMF) applied financial blackmail to force President Marcos to begin "triaging" the development program, he angrily charged the large developed countries with trying to stop industrialization in the Philippines so that they could maintain and expand their own markets for finished products.

Indeed, those 11 projects are the key to the Philippines' development. Provided the economy is freed of the crippling burden of the \$30 billion foreign debt, these projects, and the introduction of advanced technologies, are the means to tackle the country's most pervasive, enduring problem—low productivity. Aborting them is not only to abort industrialization. It destroys the country's economic potentials, built up over nearly 20 years.

A colony in all but name

When Ferdinand Marcos assumed the presidency in 1965, he inherited an economy that was unbalanced and stagnant. There was virtually no infrastructure; even the most obviously vital requirements for transport and communications in a nation consisting of more than 7,100 islands, with the two largest—Luzon and Mindanao—comprising about two-thirds of the total 300,000 square km land area, were sorely lacking. Both agriculture and industry, so-called, were strictly "extractive," and controlled by a landed oligarchy and the *maistros* of the London commodity markets.

Following independence in 1946, a mix of ad hoc policies was pursued. During the 1950s the manufacturing sector

grew at a rate of 12% per annum, with the effect that the Philippines' per capita GDP grew at an annual rate of 3.6%—compared to Singapore's 1.3%, Malaysia's 1.0%, Thailand's 2.8%, and Indonesia's 1.9%. Philippines' per capita income growth was even faster than that of South Korea, which was just recovering from the Korean War.

Similarly, agricultural commodity production expanded rapidly. Coconut and sugar production for export boomed as the low population-to-land ratio prompted extensive cultivation. A substantial amount of foreign exchange was also earned through indiscriminate logging—log exports from 1955 to 1965 grew at an annual rate of 11.5%. Improvements were also made in mining, with German involvement in nickel, iron, and cobalt exploration.

But the Filipino economy was still a colonial economy in all but name. Productivity in both industry and agriculture remained at a low level. Most of the industries were developed as part of an "import-substitution" strategy, where processing or assembling of imported raw materials and supplies was emphasized—as opposed to developing basic industry.

Moreover, the precedence of the consumer industries

established a fateful trend that has had a continuing negative effect on the Philippines economy to this day, as both an engine of inflation and a usurper of domestic savings. The industries, many of which were patently inefficient, were elaborately protected. Since many of the manufacturing enterprises, such as metal-processing, ship-building (5,000-ton capacity average), construction, and tourism do not require large quantities of labor, the service sector and agriculture—despite its low productivity—expanded steadily.

But by 1960, surplus land was gone, and sugar yields began to drop to pre-war levels. Only a favorable peso-dollar exchange rate and a free-trade relationship with the United States, under which the Philippines had easy access to cheap food imports, masked the fundamental imbalances in the economy and made the commodity-export game look viable.

The central problem was the oligarchy, the landed families of Spanish imperial descent who held the economy and the political process in sway. As plantation owners with large landholdings and cheap labor at hand, they hardly put a premium on productivity. As industrialists, they enjoyed fully the protection provided by the successive administrators drawn from their ranks. They took full advantage of their feudal privileges and whatever collaboration foreign boosters offered to fill their coffers, paying no attention to the country's needs.

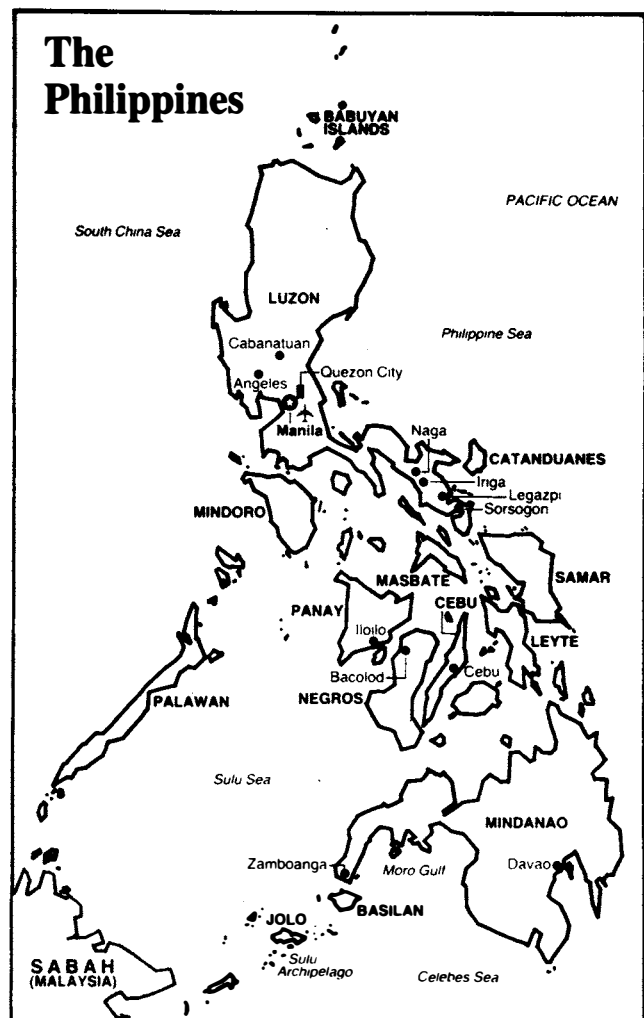
Food self-sufficiency

In 1965, President Marcos, the first head of state from a middle-class family, a "commoner" trained as a lawyer, set about to correct the fundamental flaw in the Philippines' development strategy—the failure to develop a sound food-producing base. His initiatives centered on measures to increase foodgrain productivity, development of irrigation and infrastructure in Mindanao and Luzon, and, beginning under the 1972 martial law, a sweeping land reform program.

During the first year of his administration, he established price incentives for increased output of rice and corn, the country's main foodgrains, whose cultivation had been marginalized and kept backward under the cash-commodity export regime of the oligarchic landowners. About 70% of the 9 million hectares under cultivation in the Philippines is used for the production of cereals, of which rice and corn are the most important. Rice yields have been among the lowest in Asia.

Credit and other incentives for mechanization were introduced in 1966. Use of tractors increased significantly, mostly among producers of rice. While 1,500 power tillers were sold nationally between 1960 and 1965, more than 8,000 units were sold from 1966 to 1969.

For rice, whose major growing areas are in central Luzon, irrigation development permitting expansion of double-cropped areas was a key factor in raising productivity prior to the introduction of high-yielding rice varieties (HYV) in 1967. Irrigated crop area showed little increase in the 1950s, but rose from 24% in 1959 to 45% in 1969. Further, between



1965 and 1970, more than 10,000 small irrigation pumps were imported from Japan and elsewhere. By 1971 67% of the irrigated areas and 45% of the rain-fed lowland areas were planted to high-yielding varieties of rice.

In fact, in addition to improved water, transport, electricity, and education, the suppression of smuggling, steps to revive the ailing state textile industry, and easing of credit, one of the principal reasons for Marcos's sweeping majority in his 1969 re-election was his success in the agricultural sector. Rice imports declined from 30 million bushels in 1965 to 5.7 million in 1966, and there was an actual surplus for export in 1967-68. The shift represented an annual savings of some \$50 million in foreign exchange.

But the rice output gains were at the expense of political land reform initiatives. While the new strain of HYV rice could produce five or six times more output per unit of land, it required expert handling and several times the capital outlay needed for traditional cultivation. The large, landed producers took the opportunity to insist that if the islands were to achieve food sufficiency, the size of the landlords' cultivation allocation must be enlarged.

This was no small factor in the upsurge of social chaos, anti-government activity, and peasant-based terrorism of the early 1970s.

Taking on the oligarchy

Despite the adoption of a series of land reform laws during the 1950s and 1960s, only the 1972 Martial Law gave the government sufficient muscle to enforce real agrarian reform. To the horror of the landed oligarchy, on Sept. 26, 1972, Presidential Decree No. 2 proclaimed the entire country as a "land reform area." One month later, Presidential Decree No. 27—the "Tenant Emancipation Act"—declared all tenants in lands principally devoted to rice and/or corn, about 1 million farmers at the time, owners of the land they were tilling up to three hectares if irrigated, or five hectares if not irrigated.

Provisions for amortization of the transferred land and compensation to the affected landowners were adopted in a staged program of implementation, which included complementary measures for increasing productivity. The Ministry of Agrarian Reform, created by the Code of Agrarian Reforms of 1971, coordinated all activity. The Courts of Agrarian Relations were restructured to ensure implementation, and the military was designated to help enforce the agrarian laws.

Even the severest of his critics admit that the accomplishments of agrarian reform under the Martial Law were extraordinary. By mid-1977 some 250,000 peasants farming more than 450,000 hectares of mainly rice and corn, were in effective possession of their own land.

In 1973 the government introduced the "Masagana 99" program to attain self-sufficiency in rice production. The program consisted of a "delivery system" to provide the credit facilities, fertilizers, and other production inputs necessary



United Nations

The number-one problem for the economy of the Philippines to solve: the productivity of labor.

to take advantage of the HYV seeds. Extension services were set up to guide the effective implementation of the new technology. A credit scheme was initiated to give low-cost credit to farmers, and a price support program instituted to ensure farmers stable prices and reasonable profits.

Before the Masagana 99 program, average rice yields in the Philippines were about 1.71 metric tons per hectare. By 1983 that figure rose to 2.39 tons, and between 1977 and 1983, the Philippines exported some \$153 million worth of rice. Corn self-sufficiency was achieved in 1979.

Energy and infrastructure

In addition to large and continuing investments in infrastructure, including power, roads, port and transport facilities, irrigation, flood control, and domestic water supply, the government launched an aggressive energy self-reliance program not more than a month after world oil prices quadrupled in October 1973.

Establishment of the Philippines National Oil Company (PNOC) came not a moment too soon. The country's oil bill jumped from \$187 million to \$651 million in 1974, and then soared to \$2.5 billion after the second oil shock by 1980. PNOC was directed to provide and maintain an adequate supply of oil and petroleum products for domestic needs, and in particular to promote the exploration, exploitation, and development of domestic energy resources. By 1983, oil imports to the Philippines had dropped to 63.5 million barrels, as domestic energy sources jumped 12.6% to 34 million barrels of oil equivalent. The reduction was largely due to increased energy production from geothermal, hydro, coal,

and nonconventional energy sources.

The Bataan Nuclear Power plant, undertaken in 1973, was a key part of this initiative. Its fate is living testimony to the kind of political and financial sabotage which confronted the government at virtually every step of the development process. Nuclear power is the obvious solution to this island nation's industrial power requirements. Yet, after a decade of construction, a project which should have cost less than \$1 billion is yet to be commissioned, and cost estimates have now soared to more than \$2.3 billion. Fully \$600 million of this cost-escalation and most of the delay, is the result of the Carter administration's application *retroactively* of safety regulations, adopted in the wake of the Three Mile Island nuclear plant accident in the United States. The two additional nuclear plants originally planned to provide 1,880 MW of electricity by 1985-91 were shelved under financial pressure from the IMF.

In the meantime, oil, coal, and geothermal energy have been tapped to try to fill the breach. PNOOC struck oil offshore among the islands and production began at the Nido complex in 1979. Similarly, known coal reserves of 135.6 million tons, with potential reserves estimated at 1,400 million tons, have been located. Coal output of 263,393 tons in 1979 was scheduled to reach 1 million tons by 1982 and 4.2 million tons by 1987. Geothermal power generation on a commercial scale began in 1979, and by 1980 capacity had reached 446 megawatts. Power generating capacity as of 1979 was 4157 MW total, of which 2975 MW was from oil-fired plants and 934 MW from hydroelectric.

During the martial law period, from 1973, the economy surged ahead, with nominal per capita income expanding at 3.6% per annum. In addition to agriculture, manufacturing and services expanded more rapidly in the 1970s than in any previous decade. But the gains were marred by a high inflation rate which cut into real wages. One study reports that for manufacturing firms employing 20 workers or more, real wages in Manila fell by 26% during 1970-78, while the corresponding decline outside of Manila was 49%. Real agricultural wages also fell by 10%.

The 1970s inflation is a measure of the underlying problems which it in turn exacerbated. A product in the first instance of the two successive oil price shocks and the country's energy dependence, it was sustained and fueled by continuing internal political and terrorist sabotage. More than ongoing domestic police expenditures, the turmoil and sabotage ensured continuing low productivity in the economy. High consumer expenditures and government spending on infrastructure in the context of persisting low productivity is a classic recipe for endemic inflation, quite apart from the decisive factor of foreign debt.

The fact is, that the high growth of the '70s came more from a greater use of resources than from gains in productivity. Sustained investments in manufacturing enabled industrial firms to contribute to exports more impressively than before, but the so-called manufacturing sector was dominat-

ed by consumer, assembly and, at best, light engineering industries, employing generally low levels of technology. Basic industry was weak or non-existent. The situation is dramatically characterized by the fact that although the Philippines has some of the largest iron ore deposits among the developing nations, it has no basic steel or machinery industry, imports the entirety of its machine and equipment needs, and in 1983 imported nearly half a billion dollars worth of base metals.

This import dependence, coupled with the persistent inability to raise domestic funds through appropriate and effective tax and other policies, made the Philippines hostage to international financial markets to finance its development. By 1978 the Philippines' total foreign debt outstanding was \$2.8 billion, more than half of which involved investments in infrastructure. By 1980 foreign borrowings had jumped to \$10.5 billion, and the unprecedented interest rates have compounded the indebtedness since. This boosted inflation, already fueled by the low productivity.

The pernicious continuing influence of the Filipino oligarchs, who extended their controlling reach from the land into the country's banking and investment institutions, was reflected in the government's inability to raise domestic financial resources to finance its development effort. From President Marcos's very first term, he was confronted with outright refusal by his own party to vote up the needed tax increases to facilitate the necessary expanded borrowing.

At the same time, the domestic savings level remained unusually low. In fact, it never exceeded 9%—by contrast, say, with India's 24%. The monied class was not interested in investing in the country's build-up, insisting instead on being free to reap better, speculative returns elsewhere. Inflation further undercut savings potential, and the short-sighted emphasis on the consumer goods sector massively compounded the problem.

The domestic savings deficiency was inevitably reflected in the current account deficits of the balance of payments, since increased commercial borrowing was the only way left to Marcos to finance the development effort. As a result, the country's current account deficit increased almost tenfold between 1966 and 1970, and which generally soared thereafter—increasingly nearly 12-fold from the 1971-75 period to 1976-80.

This tack might have been less devastating had Marcos enacted a strict foreign exchange control regime from the outset, and there is no doubt that with debt relief, foreign exchange controls are an essential precondition for the success of any genuine recovery program today. That recovery program rests on a full reinstatement of the 11 industrial projects begun in 1979 and reactivation of the power projects—in particular the two nuclear plants—aborted by IMF fiat in the early 1980s. Those projects remain the crux of an effective strategy to correct the accumulated problems associated with low productivity, and to put the economy on a sound and self-reliant course.