

## THE PHILIPPINES: DEBT CRISIS AND THE POLITICS OF SUCCESSION

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*The Philippine debt crisis has led the American government and the World Bank-IMF group of foreign creditors to take stronger measures to achieve political stability in the country. One set of pressures is to have the Marcos government fulfill "five requisites," among them: to establish a credible inquiry into the assassination of Benigno Aquino, Jr., and to move towards fair and credible elections in May 1984. According to the author, these pressures are not to be viewed simply as attempts by foreign capitalists to save Philippine democracy. To foreign capitalists, what matters is the preservation of a system by which it can continue to extract superprofits.*

The Philippines entered the Year of the Rat caught in a \$25-billion<sup>1</sup> foreign debt maze. Technically speaking, the country is the first in Asia to default on its maturing foreign debt obligations.

On January 16, the first 90-day moratorium on maturing loan principal that the government sought from an odd collection of 500 foreign creditors (originally reported to be only 350) in October lapsed.<sup>2</sup> The following day, the second 90-day moratorium was declared and recently, Prime Minister Cesar E. Virata and Central Bank Governor Jose B. Fernandez announced that the Philippines would be seeking another 90-day moratorium this April.<sup>3</sup> A number of private and government economists are already predicting that the debt moratorium may have to be stretched up to the second half of 1984 and early part of 1985.<sup>4</sup> The country is literally floating from one debt moratorium to another — the most vivid expression of its inability to pay its foreign obligations because it does not have the wherewithal to draw from. In short, the Philippines is bankrupt.

In the meantime, the foreign debt crisis is wreaking havoc on the economy and on the lives of the average Filipinos. The inability of the government to restore trade financing to normal levels owing to several factors — dollar shortages, failure to get new loans from abroad, and the loss of confidence on the part of foreign suppliers in the ability of their local trade partners to raise and remit dollar pay-

ments — has led to an unprecedented crisis in the letters of credit. The latter constitutes one of the lifelines of domestic industries, most of which are dependent on imported machinery, tools, spare parts and industrial raw materials from the developed industrial countries. The crisis in the letters of credit and the massive erosion of the people's purchasing power in the wake of the 53-percent devaluation of the peso<sup>5</sup> and 33-percent inflation rate in 1983<sup>6</sup> have in turn precipitated massive business closures and shutdowns, a further aggravating the problem of unemployment and underemployment, the combined rate of which had been estimated by some researchers to be over 30 per cent of the entire labor force<sup>7</sup> before the present foreign debt crisis even surfaced.

To solve the foreign debt crisis, the government has been forced to negotiate for the acquisition of new loans and the rescheduling of old maturing loans with the country's external creditors. To satisfy the foreign lenders, the government devalued the peso by 27 percent on October 5<sup>8</sup> (less than four months after the June 23<sup>9</sup> devaluation); cut the national budget for 1983, 1984 and 1985 "to the bone";<sup>10</sup> tightened credit facilities by reducing the money supply (these efforts, however, were unsuccessful in the last quarter of 1983 because of emergency rescue operations by government to save a number of tottering banks and industries);<sup>11</sup> fixed higher reserve requirements

on deposits that banks must maintain (from 18 to 24 percent)<sup>12</sup> and practically abolished the various government credit subsidies given to local borrowers; controlled wage increases in both public and private sectors; and instituted various measures to stem the hemorrhage of foreign capital. These are all bitter pills, which the government-controlled mass media unabashedly claim are impositions of the International Monetary Fund (IMF). Ironically, the net objective effect of all these "austerity" or "adjustment" measures is to reduce further the capacity of the country to produce which, in effect, means further reduction of its capacity to pay its loans. It is almost a certainty, for instance, that the Gross National Product growth rate for 1984 will be lower than that of 1983 (1.39 per cent),<sup>13</sup> which is the worst GNP performance of the country in 23 years. GNP expansion will decelerate mainly because there will be very little new government investments owing to the budget cut. Private sector investments will likewise go down because of the general environment of economic and political uncertainty, the continuing crisis in the letters of credit, the shrinking or stagnant domestic market and the incredibly high cost of money brought about by the inflation-pushing devaluation and the tight credit curbs. The latest interest figure based on the Manila Reference Rate (which is the weighted average of the rates paid by 10 financial institutions with the largest volume of deposit substitutes) is a crushing 17 7/16 per cent for a 90-day period.<sup>14</sup> Thus, the likely business scenario for 1984 (some economists even say for 1985) is: more business bankruptcies, postponement of investments planned for this year, and disinvestments by local as well as foreign investors.

And yet, despite the government's readiness to implement the IMF's unpopular measures, it still has not succeeded, at this writing, in concluding the negotiations for the \$650 million standby credit it has been seeking from the IMF since August of last year. This has derailed parallel negotiations on the rescheduling of old maturing loans the government has been conducting with the 12-bank Advisory Committee<sup>15</sup>

representing over 400 private international banks. The approval of the IMF is crucial because it will be a signal to other creditors that the country has been given a clean bill of health and, therefore, negotiations may be resumed on the Philippine request for the granting of \$3.3 billion of fresh loans<sup>16</sup> (one half coming from the so-called Official Development Assistance sources and the other half from the private commercial credit institutions) and the rollover of \$15-16 billion (the original figure cited by government officials was \$8-9 billion) of loans maturing between October of 1983 and 1985.<sup>17</sup> With the transfusion of new funds into the severely drained economy, the Philippines, the technocrats hope, would be able to start on the road to economic recovery.

The questions, therefore remain: Why have the loan negotiations with the IMF and the 12-bank Advisory Committee been so agonizingly protracted? Why is the IMF delaying the approval of the requested \$650 million standby credit despite the government adoption of the above austerity measures?

*Hidden demand: Put the political house  
in order*

A great deal of publicity has been given to the IMF's discovery of inaccurate and misleading Philippine Central Bank data on its dollar reserves (reported to have been inflated by a non-existent amount of \$600 million for purposes of enhancing the country's creditworthiness) and money supply (reported to have been understated for purposes of showing adherence to IMF-set austerity targets. Leaked last December to the *Asian Wall Street Journal* by a source from the 12-bank Advisory Committee, the embarrassing disclosure on the conjured extra dollar reserves and other discrepancies in the Central Bank's books were cited as the official reason for the withdrawal by IMF Managing Director Jacques de Larosiere of his earlier recommendation<sup>18</sup> to the IMF Board for the approval of the Philippine request for the \$650 million standby credit, thus pushing back to square one the loan rescheduling talks. The

bookkeeping scandal also led to the relief of Central Bank Governor Jaime C. Laya and his replacement by banker Jose B. Fernandez.

The spurious Central Bank data became the excuse for another procession of IMF missions to the Philippines in the first quarter of 1984 (since August of 1983, there has not been single month with no IMF mission in town) just to investigate the books of the Central Bank and other government agencies.<sup>19</sup> Accordingly, the books are now properly adjusted and a revised Philippine Letter of Intent, the contents of which are still a mystery to the Filipino people, will now be processed by the IMF. However, the IMF approval is not expected to be given until June at the earliest.<sup>20</sup> Then after the IMF loan approval, the loan rescheduling talks with the private lenders, represented by the 12-bank Advisory Committee, and ODA lenders, represented by the Paris Club,<sup>21</sup> can finally begin in earnest. Thus, the likelihood is that the debt moratorium will have to be extended until the end of the year.

In reality, the much-delayed loan negotiations indicate the hard bargaining going on between foreign creditors and the beleaguered government of President Ferdinand E. Marcos on what newspaper accounts call the "non-economic issues," a euphemism for the political demands being raised by the supposedly non-political IMF and other foreign bankers.

Of course, in the light of the worst post-war political and economic crisis now gripping the country, it is only logical that the foreign creditors feel wary. Why should they continue lending to a regime whose unpopularity among its own people was manifested in the massive outpouring of grief and protest in the country after the dastardly assassination of Marcos political rival, Benigno S. Aquino, Jr. while the latter was in government custody? Why should they support a government whose leader may go anytime — due to sickness, old age, assassination or other reasons — without any clear identifiable successor or succession system? In short, why should they expand their loan exposures in a country where the rules of

lending and investing may change abruptly precisely because of the volatility and unpredictability of the general political and economic situation?

On the other hand, these international lenders are bedeviled with the problem of ensuring that their loans will not go down the drain and that they will be able to recover, if not now, sometime in the future, the full amount of the credit they have extended plus all the interests earned and penalty charges caused by the delays in the payment of the principal. Moreover, inherent in their role as vanguard of the world market economy is the overriding concern to keep the Philippines within the capitalist orbit and to maintain her as a stable political and economic outpost for global capital. This, in the first place, is the main reason why they have allowed the country to fall heavily indebted to them. This is also the reason why they are now raising the "non-economic issues" via the protracted loan negotiations.

Of course, these international lenders are very much aware of the commanding role they are now playing in Philippine society. They can decisively influence events in the Philippines through the mere waving of dollars. They can ease or deepen the economic crisis by the mere mechanism of facilitating or holding back the release of much-needed funds to revive the economy. In the process, therefore, they can literally retain or unmake the Marcos government. In other words, they are in a position to demand their pound of economic and political concessions from the current regime. With their much-strengthened clout, they can determine to a great extent how the economic and even political landscape in the Philippines will take place.

This is exactly what they have been doing. Events since August 1983 suggest that the foreign lenders have been very much in the business of putting both the Philippine economic and political house in order, that is, in accordance with their own vision of development and governance. In this regard, the

primordial role belongs to the US government, which is the main power in the IMF-World Bank group of ODA institutions and the chief guarantor of the American transnational banks, the biggest private commercial lenders to the Philippines. The leading position of American business interests in the Philippine economy, and the traditional RP-US "special relations" brought about by the colonial experience — all these make the role of the US government a very important one. There is, in fact, a great deal of consultation going on between the IMF and the US State Department. Whatever the IMF-World Bank economists cannot articulate openly (because of the political character of the issues being raised) is left to the State Department officials to take up.

#### *Foreign debt and the May 1984 Elections*

The deliberate attempts by the IMF-State Department group to use the foreign debt crisis as a leverage to extract political concessions favored by foreign capital is nowhere more explicitly illustrated than in the forthcoming elections to the regular legislative body or *Batasang Pambansa* on May 14. Jaime Ongpin, a leading critic of the Marcos regime and a leader of a group of businessmen with strong connections with the foreign business community, succinctly described the situation as follows:

The involvement of the US government and the foreign bankers is of special significance, because for the first time in his 18-year reign, Mr. Marcos is confronted with a political crisis in which he cannot ignore, much less manipulate or coerce the most crucial participants. The US government and the foreign bankers have become the most crucial elements in the political equation because they alone control the purse strings that hold the one thing Mr. Marcos cannot do without — US dollars. For unless the US and the bankers loosen those purse strings, Mr. Marcos is not going to get out of the \$25-billion hole he has dug himself and the rest of us into. Despite all their public

denials to the contrary, neither the US nor the foreign bankers are about to throw more billions of dollars down the drain by letting Mr. Marcos have as much money as he wants without substantive and credible political reforms. And there can be no more substantive or credible evidence of the start of such reforms as the conduct and outcome of the forthcoming elections. In fact, I am willing to bet my last devalued peso that the US and the bankers consider the elections so crucial that they will find some excuse to delay any actual implementation of our foreign debt rescheduling until after the elections.

Why do the US and the bankers want clean and credible elections? Because if the elections are marked by the usual fraud and violence, and if the opposition is consequently unable to establish at least a significant minority in the new *Batasan*, it will become impossible to begin the difficult process towards political normalization and genuine reforms.<sup>22</sup>

As pointed out earlier, the debt rescheduling will not be discussed in earnest until June 1984, that is, after the May elections. David Pflug, a ranking official of Manufacturers Hanover Trust Co., Chairman of the 12-bank Advisory Committee, commented that "noneconomic factors" have emerged as a major consideration in the IMF approval of the standby credit, one of the most important of which is the "political will of the people" as expressed in the elections.<sup>23</sup>

The call for clean, honest and credible elections where opposition candidates are given an even chance of winning is echoed by other US government officials, foreign bankers and Western mass media. One of the first to articulate this call is John C. Monjo, US Deputy Assistant Secretary of State for East Asian and Pacific Affairs, who, three weeks after the August 21 assassination of opposition leader Benigno S. Aquino, Jr. spoke before the US House Asian and Pacific Affairs subcommittee and said:

We cannot foretell how the political events will play out. For our part, we hope

that both the government and the moderate opposition will deal with this new political reality in a way that contributes to political stability. . . In this regard, it is more important than ever that the May 1984 parliamentary election be one in which the legitimate opposition will have a free and fair opportunity to participate. If the ground rules for the election permit the legitimate opposition to participate, then it could be the most significant electoral exercise in the Philippine since the declaration of martial law in 1972.<sup>24</sup>

In November, US Ambassador to the Philippines Michael Armacost, in a speech before the Rotary Club of Makati (the country's commercial capital), said that "we have no desire to meddle" in Philippine affairs and then in the next breath urged the conduct of "free and fair elections," stressing that "no help from outside will produce durable results unless accompanied by actions which will restore the confidence of Filipinos in the future economy and the stability and predictability of political arrangements."<sup>25</sup>

At about the same time, a delegation from the American Chamber of Commerce in the Philippines met with President Ronald Reagan when the latter was in Korea. They reported that Reagan had voiced concern about the "normalization of the electoral process" and had expressed keen interest on the proposed restoration of the office of vice-presidency, abolished when martial law was declared.

Today, the US State Department's interest in the forthcoming elections is reaching feverish pitch. Philip S. Kaplan, staff director of Secretary of State George Shultz's policy planning council, came to the Philippines in March and told a number of Filipino diplomats that the elections are "important to you, to us" and that they will help gain the confidence of the international and commercial banking community.<sup>26</sup>

The American officials, however, have not limited themselves to making passing commentaries on the need for clean and credible

elections. They have increasingly distanced themselves from the Marcos administration while intensifying contacts with Filipino opposition leaders, even receiving some of them like heads of state when they visit the United States.<sup>27</sup> Ulrich Strauss, country director for Philippine affairs of the US State Department, who was also in the country in March, made the rounds of Filipino opposition and community leaders, going as far as the turbulent South.<sup>28</sup>

If the talks making the round in Manila coffee shops are true, the campaign funds of some opposition candidates are even being bank-rolled by the Americans.

#### *The American political game plan*

Credible returns in the May parliamentary elections are only a part of the total political package that the Americans are imposing on the Philippines. In his September 13 statement, US Deputy Assistant Secretary of State John S. Monjo stressed that the importance of "fair and equitable" elections lies in their ability to "contribute significantly to stability and the avoidance of political polarization". Along this line, he also underscored the necessity of having a "thorough and impartial" investigation of the Aquino assassination.<sup>29</sup>

The key phrases then are maintenance of political stability and avoidance of political polarization, which are, of course, essential elements in a secure investment climate. But these are precisely the elements that were lacking in the Philippines even before the Aquino murder owing to the prolonged economic crisis, gross violation of human rights, corruption in high places of the bureaucracy, festering unrest in some parts of the country, the undying Muslim rebellion in the South, the concentration of power in the South, the concentration of power in the military and close associates of the First Couple, and the regime's denial of the basic political and civil rights of the people.

In this sense, the continued authoritarian rule of Marcos, the increasingly ominous role of the military in society, the special favors that

the Presidential cronies are able to get and the high-profile activities of the First Lady Imelda R. Marcos are perceived by the American analysts as fueling political polarization and therefore, undermining the stability of the country.<sup>30</sup>

A few weeks after the Aquino assassination, former US Ambassador to the Philippines William H. Sullivan emphasized these points when he wrote "we must not miss the opportunity in the Philippines, as we did in Iran, to assist in the emergence of a new, democratic government." Urging an American policy of "constructive intervention," Sullivan, who was Ambassador to Iran before the Khomeini-led revolution, argued:

The Reagan administration must face the fact that Mr. Marcos has run out of his political string. Our national interests and our obligation to the Filipino people require us to protect them from civil war, and the Administration must take action, however messy, to assist a peaceful and democratic transition in Philippine politics. Only we can lead such a transition but we will have the overwhelming majority of Filipinos as our allies if we act quickly, wisely and decisively.<sup>31</sup>

However, Sullivan was not recommending the outright political overthrow of President Marcos for that could lead to "a violent revolution, one that Mr. Marcos would fight tooth and nail." Rather, he wants "a formula for political transition", "a compromise that would be acceptable to the Marcos government and the leaders of the democratic opposition."<sup>32</sup>

Apparently, Sullivan's idea of "a formula for political transition" has gained acceptance at the top policy-making circles of the US State Department and among those involved in the loan negotiations. The key elements in the American game plan are clearly reflected in one of the political scenarios outlined by Business International (BI), a big international consulting firm for transnationals, in a political report dated October 22, two months after the Aquino killing and barely a week after the

effectivity of the first 90-day debt moratorium. Entitled *Outlook for the Philippines*,<sup>33</sup> the BI report came out with four scenarios: President Marcos fulfillment of "five requisites"; Marcos making cosmetic changes to bolster short-term stability; takeover by the First Lady Imelda Marcos and Gen. Fabian Ver who will be able to hold on to power for at most 18 months; and a coup d'etat by US-trained military officers.

Business International clearly favors the first scenario and a review of political events in the last few months indicate that this seem to be unfolding, with subtle and not too subtle pressures from the American government and big business. BI, in fact, hinted that for President Marcos to accept the five requisites, the "only lever likely to create such recognition (on the part of Marcos) in the short term is the Philippines' dire need for debt rescheduling."

What then are these "requisities"? These are:

1. Establishment of a "credible inquiry into the assassination of Aquino."

2. "Delineation of a reasonably clear and reliable succession," which BI pointed out, required "changes in the country's constitution."

3. "Removal from influential public posts . . . of individuals whose prominence undermines the government's credibility." These include: Mrs. Marcos, Gen. Fabian Ver, Eduardo Cojuangco, Roberto Benedicto and several of the First Lady's relatives. However, BI stipulates that these individuals need not be publicly embarrassed and they can be re-deployed "in areas (with) no significant influence over key domestic political and economic decisions."

4. "Dismantling of major economic fiefdoms like the sugar and coconut monopolies of Benedicto and Cojuangco."

5. "Moves toward fair and credible elections currently scheduled for May 1984."

At this writing (March 1984), the Marcos regime appear to be moving toward the fulfillment of the above five requisites, although items

3 and 4 appear to be difficult nuts to crack, as expected even by BI. On the first item, the President abolished the much-criticized first commission formed to investigate the Aquino assassination. This was headed by Chief Justice Enrique Fernando who is reputed to be subservient to the First Couple. The commission was then replaced by another one led by former Justice Corazon Agrava. This commission is now considered very credible because of its courage to seek out witnesses and hear testimonies debunking the military version of the killing. Local as well as foreign media have very high regard for the work of the Agrava-led commission.

On the succession issue, which was raised by the American Chamber of Commerce of the Philippines last November as the single most important concern of the foreign businessmen, the regime's response was to abolish the unwieldy and Marcos-dominated Executive Committee and restore, via a hastily-organized Constitutional plebiscite, the office of the vice-presidency. The succession formula as worked out by the Marcos regime appears to be satisfactory as the severe American criticisms on the succession problem, aired constantly last year in the local and American media, have already died down.

In the same plebiscite held last January, the Marcos regime submitted for ratification by the people a set of electoral reforms meant to give the opposition candidates "a sporting chance to win" in the May elections. This is the system of voting for Batasan delegates by district instead of by region, which entails more campaign expenses and a well-oiled political machinery. The Marcos regime also made moves to abolish the notorious system of bloc voting and to relax the accreditation of opposition parties.

As to the issue of "economic fiefdoms", one Marcos crony, Roberto Benedicto of the Philippine Sugar Commission, announced that the National Sugar Trading Corporation (NASUTRA) that he heads and which used to monopolize sugar trading will no longer force sugar planters to sell solely to this firm. How-

ever, the announcement was met with consternation by a number of sugar planters, considering the fact that it was timed when the world market price for sugar is very low and NASUTRA still enjoys the relatively higher prices it obtained through the long-term agreements it contracted a few years ago.

Then there is the government announcement that the First Lady as well as daughter, Imee Marcos-Manotoc, will not run for public office, proof of which is their non-inclusion in the list of candidates for the Batasan (as of the time this article is being written, i.e., March 1984). The President himself has made a strong denunciation of the efforts of some of his own party men in the Kilusang Bagong Lipunan or KBL to set up political dynasties in certain regions of the country.<sup>34</sup>

Overall, therefore, it is clear that the Marcos regime is being forced to meet all five requisites although it is trying to do it in a piecemeal and half-hearted manner, aware of the logical consequence of such measures: diminution of the regime's hitherto absolute exercise of political power although the measures themselves will not necessarily lead to its downfall. The resistance is most evident in the case of the demand for electoral reforms and so-called "redeployment" of the controversial friends of the regime to less visible areas of government and business. Many of the electoral reforms being demanded by the opposition (which are echoed by the American media) are being ignored or simply resisted, such as the revamp of the Commission on Elections, the repeal of anti-democratic laws, and the abolition of the decree-making power of the President, which is an aberration in a democratic set-up where a legislative body has been set up.

In this light, it is not surprising that the American pressure for the Marcos regime to liberalize the political system continues unabated, this time the emphasis shifting to the forthcoming elections (last year, the pressure was on the need to clarify the succession rules). The pressure comes in many forms, e.g., a highly critical US State Department report on

human rights abuses in the Philippines,<sup>35</sup> a US congressional move to halt military aid to the Philippines,<sup>36</sup> red-carpet treatment of Filipino opposition leaders visiting the United States, and the like.

*US government, foreign creditors: Saviours of Philippine democracy?*

Based on the foregoing, are the United States government and the IMF-led group of foreign creditors then playing the role of a saviour or restorer of democracy in the Philippines, which had been debased by 12 years of authoritarian rule?

History tells us businessmen would welcome any form of political system, as long as it protects their interests. For example, upon the declaration of martial law in 1972, the American Chamber of Commerce sent a congratulatory telegram to President Marcos for providing "Heaven-sent relief" from a chaotic situation considered akin to the "worst of the Wild West."<sup>37</sup>

Today, the international actors in Philippine politics are simply interested, as they themselves put it, in maintaining political stability and preventing political polarization, which are vital elements in maintaining an investment climate hospitable to foreign capital. They see in the political liberalization measures that they are able to extract from the Marcos regime hopes of restoring political stability in a country rocked by the Aquino assassination, an oversized external debt and a general crisis of everyday living. Moreover, the distancing act from the Marcos regime, the links forced with the various opposition leaders and the clearer rules of succession — lessons they have undoubtedly learned from Iran and Nicaragua — are ways of insuring their own future in the country should anything untoward happen to the current power holders. In this regard, American efforts to build up so-called "moderate" opposition elements (some are in the ranks of the ruling KBL party) as alternative and potential leaders in the post Marcos period assume great significance indeed. And if worse comes

to worst, and the smooth "politics of transition" does not work because of the non-cooperation of the Marcos regime or to whatever unpredictable reason, there is always scenario number four to fall back on: an American-sponsored military take-over.

Note that the Americans never question the character of the economic system that the Marcos regime, with the able assistance of its Western-trained technocrats, has nurtured under the martial law period. Deliberately being ignored is the fact that the main cause of the present economic crisis is the costly reorganization of the national economy along the World Bank-IMF dictated agro-industrial thrust of export orientation and reliance of foreign investments. In fact, the main beneficiaries of martial law are not the cronies, which through the World Bank-IMF-US government pressures are collapsing anyway,<sup>38</sup> but the American, Japanese and European transnational corporations which are shopping for cheap sites for their labor intensive, low-technology and segmented jobs as well as new agricultural areas for the production of export-oriented agribusiness products and raw materials required by their industries. This reorganization of the national economy entailed massive borrowings to finance the infrastructures required by an export-oriented, labor-intensive agro-industrial development. It also necessitated the suppression of political and democratic rights of the people, especially the workers' right to concerted action, which are anathema to foreign investors. The high cost of foreign borrowings and increasingly unpopular authoritarian rule in the name of the World Bank-IMF development strategy are not haunting the Marcos regime.

There is certainly no reason why the US government and foreign creditors will give up on the Philippines. This is amply illustrated in the tightrope handling by the foreign creditors of the debt crisis itself. While deliberately holding back the approval of the Philippine request for fresh funds and loan rescheduling to press their political and economic conditions on the Marcos regime, they are also trying to stave



off the total collapse of the economy, which could result from a prolonged dry spell in foreign exchange. The approval of the series of debt moratoriums itself is one way of preventing the formal default of the Philippines, which would have very serious political and economic ramifications not only in the country itself but also throughout the world capitalist bloc. The granting of limited amounts of "bridging" loans by the World Bank, Asian Development Bank, US Export-Import Bank and Japan's Overseas Economic Cooperation Fund to finance the limited importation of industrial inputs that will sustain the operations of some of the local industries is another sign of their efforts not to let the economy go under or grind to a halt. However, the targeted beneficiaries of the "bridging" loans are the export-oriented and foreign-affiliated companies. Thus, the debt crisis is resulting in the rapid collapse of dollar-starved independent Filipino enterprises, on one hand, and strengthening the role of the subsidiaries of transnational corporations and other foreign-affiliated companies in the economy, on the other. This development is further reinforced by the issuance by President

Marcos of Presidential Decree No. 1892, which allows foreign investors the right to hold 100 per cent equity (from the previous statutory limit of 40 per cent) in non-pioneering industrial enterprises. One response of the transnationals to the new decree is to convert their raw material imports into equity.

Overall, therefore, what the foreign creditors want is a *continuity* of the re-organized economic system, regardless of whether Marcos or another individual is at the helm of the political system. Of course, such continuity is possible only in an environment characterized by political stability.

Now that the Marcos government has been the focus of the people's massive resentment arising from the deepening economic crisis and the lack of political and democratic rights, the US government and the World Bank-IMF group of foreign creditors which supported the regime in the latter's efforts to reorganize the national economy are engaging in a distancing act. To foreign capital, individual rulers are dispensable. What matters is the preservation of a system by which it can continue to extract superprofits.

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### Notes

<sup>1</sup>In the third quarter of 1983, the figure often cited by the government as the total amount of the foreign debt of the country is \$18 billion. However, when the debt moratorium was declared in October, the Central Bank was forced to admit that the total foreign debt "were about \$24-25 billion as of September 30 (See Central Bank's Economic and Financial Developments (January-September 1983), Report to the President, October 25, 1983. Still there are speculations that the \$25 billion figure is still on the low side. At any rate, the amount must have swollen now to \$30 billion or more because of the new bridging loans from official development sources, the unpaid interest charges and the penalties charged to the unpaid maturing principal. Since the October announcement, the Central Bank has not released any new figure for the total foreign debt.

<sup>2</sup>The figure given in various newspaper accounts on the number of foreign bankers ranges from 350 to 500. The issue of *Bulletin Today*, November 28, 1983 put the figure at 425, with the following breakdown of bank creditors on a country-by-country basis:

United States, 105; Japan, 50; United Kingdom, 36; Middle East, 34; West Germany, 29; France, 25; Hong-kong, 20; Singapore, 14; Netherlands, 7; Italy, 7; Australia, 6; Malaysia, 6; Austria, 5; Spain, 5; Philippines, 5; India, 4; South Korea, 4; Bahamas, 2; Brazil, 2; Thailand, 2; Sweden, 2; Cayman Islands, 1; Czechoslovakia, 1; Denmark, 1; Finland, 1; Iran, 1; Ireland, 1; Israel, 1; New Zealand, 1; Hungary, 1; Panama, 1; Soviet Union, 1; and Taiwan, 1. Including the foreign creditor governments, their bilateral lending agencies and the multilateral institutions such as the World Bank and Asian Development Bank, the number of foreign creditors is indeed closer to 500.

<sup>3</sup>Rigoberto D. Tiglao and Tara S. Singh, "RP to seek third moratorium," *Business Day*, March 14, 1984.

<sup>4</sup>"Moratorium up to '85"?, *Business Day*, March 15, 1984.

<sup>5</sup>In December 1982, the peso-dollar rate was ₱9.06 to \$1; in December 1983, ₱14 to \$1.

<sup>6</sup>Rigoberto D. Tiglao, "Inflation hits 33.3% in January," *Business Day*, March 19, 1984.

<sup>7</sup>For instance, see Rosa Linda Tidalgo and Emmanuel Esguerra, *Philippine Employment in the 1970s*, PIDS Working Paper No. 82-02, July 1982.

<sup>8</sup>From ₱11 to ₱1, the peso dropped to ₱14 to ₱1.

<sup>9</sup>It was a 7.8 per cent depreciation of the peso (from ₱10.20-₱1 to ₱11-₱1 exchange rate).

<sup>10</sup>The 1983 budget was scaled down by 18 per cent at the beginning of 1983 because of the pressure from the International Monetary Fund, which imposed the measure in exchange for a \$315 million standby credit. The 1983 budget, however, was further reduced owing to the foreign debt crisis. The budget cuts in the latter part of 1983 and in 1984 were intended to reduce the 1983 budget deficit of ₱7.6 billion to ₱6.5 billion or even lower by the end of 1984. (See "Huge government cuts set," *Philippine Daily Express*, November 6, 1983).

<sup>11</sup>See: IMF wants further curbs on RP's liquidity growth," *Business Day*, October 3, 1983; George T. Nervez, "CB tightens credit screws," *Philippine Daily Express*, October 21, 1983; Conrado R. Banal III, "Credit control program threatened," *Business Day*, November 24, 1983; and Rigoberto D. Tiglao, "CB may slow down most lendings," *Business Day*, February 21, 1984.

<sup>12</sup>"Banks see more credit tightening," *Business Day*, November 9, 1983.

<sup>13</sup>Daniel C. Yu, "GNP '83 growth at record low," *Business Day*, February 8, 1984.

<sup>14</sup>"Rediscount facility overhauled," *Business Day*, March 19, 1984.

<sup>15</sup>The 12-Bank Advisory Committee is composed of the private banks with the biggest loan exposures in the Philippines, accounting for about one fourth of the total private bank lendings. Manufacturers Hanover Trust is chairman of the committee; Bank of Tokyo, deputy chairman. The members are Bank of America, Barclays Bank, Chase Manhattan Bank, Chemical Bank, Citibank, Dredner Bank, Fuji Bank, Bank of Montreal, Morgan Guaranty and Banque National de Paris (see "FM gets progress report on loan talks," *Philippine Daily Express*, November 2, 1983). The original committee set up in October consisted only of 11 members, hence, the earlier newspaper reference to an "11-bank" committee.

<sup>16</sup>Rigoberto D. Tiglao, "RP expected to incur forex shortfall of \$4B this year," *Business Day*, March 27, 1984.

<sup>17</sup>See Rigoberto D. Tiglao, "Rescheduling covers \$15B," *Business Day*, January 5, 1984; and Loreto Cabanez, "\$16 billion for restructuring," *Bulletin Today*, February 22, 1984.

<sup>18</sup>IMF executive director Jacques de Larosiere gave

his original approval to the Philippine request early November (see "IMF loan release slated in January," *Business Day*, November 27, 1983). Then the bookkeeping scandal cropped up. The re-negotiation of the Philippine request, began early March, after the IMF economists were reported to have found the new bookkeeping adjustments satisfactory (see Rigoberto D. Tiglao, "Advisory Committee meets March 6, for IMF briefing on RP situation," *Business Day*, March 1, 1984).

<sup>19</sup>1983 will go down in IMF-Philippine history as the year with the biggest number of IMF missions sent to the Philippines. Aside from the usual IMF missions sent to study the economy preparatory to the annual meeting of the Consultative Group of Creditor Countries for the Philippines and the various loan and follow-up missions, the IMF sent special missions to make a mid-year review of the Philippine compliance with the terms of the 1983 IMF standby credit (the deviations led to the freezing of the two-third portion of the loan), to assess the debt situation in the country following the August-September-October crisis, to work out the wording of the new Philippine Letter of Intent to the IMF (a requirement in the processing of the standby credit application), and to investigate the Central Bank's bookkeeping "errors".

<sup>20</sup>Tiglao, "RP expected to incur shortfall of \$4B."

<sup>21</sup>The Paris Club "is a forum, within which countries negotiate the restructuring of public sector debt owed to the 17 governments of the development assistance committee (DAC) of the organization for Economic Cooperation and Development" (see Paris Club debt talks set January," *Bulletin Today*, December 8, 1983).

<sup>22</sup>Jaime V. Ongpin, "A report on the political situation," *Business Day*, March 2, 1984.

<sup>23</sup>David Pflug is the Senior Vice President of Manufacturers Hanover Bank, chairman of the 12-bank Advisory Committee. Pflug was quoted here in the March 1984 issue of *Business Journal*, the journal of American Chamber of Commerce in the Philippines (ACCP), p. 4.

<sup>24</sup>"Monjo Testimony to U.S. Congress," *Who*, October 5, 1983, pp. 39-40.

<sup>25</sup>Jesus Bigornia, "Armacost has pricked Filipino sensibilities," *Bulletin Today*, November 22, 1983.

<sup>26</sup>Marites Danguilan-Vitug, "Polls draw US attention," *Business Day*, March 19, 1984.

<sup>27</sup>Note, for instance, how a number of American senators, congressmen and State Department officials received former Senator Salvador Laurel, head of the United Nationalist Democratic Organization (UNIDO), and Agapito Aquino, brother of late Senator Benigno S. Aquino, in their recent visits to the United States.

<sup>28</sup>Danguilan-Vitug, "Polls draw US attention."

<sup>29</sup>"Monjo Testimony."

<sup>30</sup>Even before the Aquino assassination, American mass media had been harping on these issues against the Marcos regime. However, the barrage of negative American media reporting on the Marcos government plays down the role of the technocrats and the transnational corporations in the economic crisis in the country.

<sup>31</sup>William H. Sullivan, "The Lesson of Teheran," *Who*, November 9, 1983.

<sup>32</sup>Sullivan, "Lesson of Teheran."

<sup>33</sup>"FM expected to introduce changes," *Business Day*, March 12, 1984.

<sup>34</sup>The character of the traditional political system is such that it will be difficult to dislodge "political dynasties" from the scene.

<sup>35</sup>See Marites Danguilan-Vitug, "US State Department details human rights abuses in Philippines," *Business Day*, March 5, 1984.

<sup>36</sup>See Mercedes Tira-Andrei, "US solons foresee some controversy on aid shift," *Business Day*, March 2, 1984.

<sup>37</sup>Cited in Renato Constantino, "The Crisis as an Opportunity," *Bulletin Today*, February 2, 1984.

<sup>38</sup>The IMF-imposed measures such as the tight credit curbs, draconian budget cuts, abolition/reduction of subsidies to private sector, open-door policy to foreign goods and foreign investments and restriction of government involvement in industry are effective ways of preventing the growth of government-backed domestic conglomerates, which may pose competition to foreign companies.

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