The Political Economy of Philippine Tariff Reform

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A Brief History

The protection of Philippine industries began in the 1950s with import and exchange controls. Like a number of economic policies, these measures were instituted as a result of balance of payments crisis. Tariff started to be used as an instrument of protection in 1957 with the passage of the Tariff and Customs Code of the Philippines (R.A. 1937). Under this law, finished consumer goods were levied duties from 100% to 250%.

The first half of the 1960s saw the gradual dismantling of export and exchange controls. Both critics and supporters of a more open Philippine economy consider this a watershed period. Decontrol stimulated traditional exports via a devaluation and made imports easier by removing restrictions. It was at this period that tariff became the dominant tool of protection for Philippine industries. Beginning 1962, tariff rates were increased to offset the effect of decontrol on the manufacturing sector. The protection enjoyed by a portion of the manufacturing sector diminished as a result of the shift from controls to tariff. But this shift did not necessarily reduce the levels of protection for all sectors of Philippine manufacturing.[1]

It is generally accepted that Ferdinand Marcos adopted and pursued an export-oriented development strategy. But during his first term as an elected President import controls on a number of manufactures that were produced domestically were reintroduced. Trade reform was clearly not in the agenda in the second half of the 1960s as a result of the agitations of the manufacturing sector most affected by decontrol.

With the imposition of Martial Law (and the subsequent abolition of Congress) the tariff bill which Congress failed to enact for a decade became law. The new tariff code (PD 34) set a ceiling of 100% and a floor of 0% for Philippine tariffs. Aside from simplifying tariff rates, it also granted Philippine

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industries protection against unfair competition and discrimination. But, as Shepard and Alburo observe "No coherent trade policy package can be discerned from the complex of differing directions pursued by trade and related policies in the early 1970s."[2] Indeed, duringthe first semester of Marcos' authoritarian rule, "the already protectionist regime was further bolstered when the non-tariff barriers became more restrictive."[3]

The nature of protection that was created in 1949 remained until 1980. In the main, the producers of consumer goods were better protected than producers of intermediate and capital goods. According to Norma Tan:

> In general, the primary and agriculture sectors have much lower Effective Rate of Protection (ERP) than the manufacturing sectors, which indicate, the protective bias for the domestic processing industries. Export oriented industries have mostly negative ERPs implying a bias against exports in the protection structure.[4]

The decade of the 1980s was a different story. During this period, two different regimes--authoritarian and elite democracy--actively pursued trade reform of the tariff cutting variety.

The 1981 trade reform came into the Philippine via a World Bank structural adjustment loan. This reform, according to the World Bank,

> ... marked a fundamental shift from inward-oriented policies of the previous three decades. Unlike trade liberalization efforts of the early 1960s and 1970s, which were aimed at redressing balance of payments disequilibria and providing partial support to exports, the [1981] trade reform package aimed at correcting in a more comprehensive manner the adverse incentive effects of the trade regime by reducing the level and variability of protection.[5]

The Philippine government describes its trade reform efforts beginning in 1981 in largely the same terms.[6] From the other end of the political spectrum, Robin Broad recognizes that the 1981 trade reform "altered in a pronounced manner" the qualities of the Philippine political economy.[7]

International Context

The recent attempts to topple the Philippine protectionist walls must be linked to what has been described as the global "triumph of neoclassical economics."[8]

In the 1980s a new orthodoxy seized policy-makers in the developing world. According to Biersteker, "Virtually everywhere, developing countries began liberalizing their domestic trade and investment regimes, privatizing state-owned enterprises, and pursuing a variety of economic reforms more generally."[9] This development was in sharp contrast to the developing world's economic nationalism of the 1960s and the 1970s.

The liberalization fever raged beyond the developing world. Loius Turner and Michael Hodges insist that the "Thatcher-Reagan revolution" swept the advanced capitalist world in the 1980s. It is characterized by "an unquestioning acceptance of the virtues of the free-market economy."[10] The revolutionist's preferred weaponsare privatization and deregulation. Within national economies it was first felt in the until-then tightly-regulated sectors of telecommunications, aerospace and financial services.

These stirrings of the 1980s led to what is currently described as "the biggest reorganization of world economic activity since the cataclysms of World War I and World War II."[11]

Undoubtedly the economic recession of the 1980s, arguably the worst economic crisis that ravaged the capitalist world since the great depression of the 1930s, partly explains the increased acceptance of neoliberal ideas among the world's policy-makers.

The ever tightening web of global economic interdependence, made possible by rapid technological changes, is also part of the explanation. As noted by Gilpin, "Greater economic interdependence has meant that national differences in governmental regulatory and private business practices have become increasingly important barriers to international commerce."[12]

For that matter, the role of multilateral institutions that champion neoliberal ideas cannot be disregarded. This is particularly true in the countries with chronic balance of payments problems.

In reviewing the abovementioned variables, Biersteker suggests that the three critical factors that explain the triumph of neo-liberal economics are the following:

1) the deep economic shock of the early 1980s recession, 2) the fact that this system-wide shock coincided with an historical opening (the perceived failure of the policies of the past), and 3) the ascendance of an epistemic community within the state committed to neoclassical ideas and reinforced strongly by the actions of international institutions.[13]

Below is a schematic representation of Biersteker's thesis:

Deep GLOBAL RECESSION (early 1980s)
in the midst of secular trends:

1. globalization of production
2. increase in competitive pressures
3. exhaustion of prior models (ISI)

combined with the effective introduction of

NEOCLASSICAL IDEAS

(initially articulated in the US and UK, strongly backed by international INSTITUTIONS, the IMF and the IBRD)
invigorated and empowered

Nascent domestic INTEREST (within the state)
who forced through (or forged) new coalitions which produced

Major CHANGE in ECONOMIC POLICY Direction

(whose sustainability is contingent on the extent to which it can create new interests)

As a moderately open economy, these global trends affected the Philippines in a particular and unique way. Filipino economists have documented the sensitivity of the Philippine to external shocks.[14] According to Lamberte, et. al., the current account deficits of the 1970s and the 1980 is largely explained by external shocksemanating from deteriorating terms of trade, increased interest rates, and world trade slow down.[15]

Trade is of course one of the transmission lines that links the Philippine to the world. Trade's share of the country's GDP is about 43-44 percent.[16] Between 1977 and 1980, the Philippines' 43.2% trade share of GDP is better than Brazil's 16.5% trade share of GDP, India's 15.2%, Mexico's 20.6% and Turkey's 16.0%.[17]

Within East Asia, the Philippines is just about in the same league as Indonesia's 47.6% and Thailand's 49% trade share of GDP. However, Korea (66.5) and Malaysia (99.3) are more open economies.

Consumer goods account for a mere 10% of Philippine imports. The dominance of producer goods (machinery and semi-manufactured raw materials and supplies) in Philippine imports betrays the high import dependency of the industrial sector. Agricultural and primary products dominate the exports of the Philippines. In the mid 1970s non-traditional, manufactured goods became significant Philippine exports. The country's top two trading partners are the US and Japan, accounting for about 50% of total trade. The US is the only major trading partner with whom the Philippines has a positive trade balance. But an analysis of RP-US bilateral trade shows the political basis of the trend: goods imported by the US from the Philippines enters duty free under GSP and MFN.

The Philippine terms of trade did not deteriorate in the period 1955 to 1960. Beginning 1961, it deteriorated sharply. The country's balance of payments story is one of chronic deficit. Until 1962, current account deficit was financed by withdrawals from the country's reserves. After 1962, foreign borrowing became the prime source for paying the country's deficits.

Foreign borrowing also became a pillar of Marcos' development strategy. Debt became such an important element in the economy that the period between 1970-1983 has been characterized as the period of debt-driven growth.[18] At this time,accessing foreign savings became the main government instrument to address the balance of payment deficit and pallid investment rate. Subsequently, the country's debt ballooned. According to Montes, from 1972 to 1983, Philippine external debt swelled by 22 percent per year.[19] Its debt-to-GNP ratio increased from 33.9 percent in 1972 to 92.9 percent in 1986.[20]

This brief review of some of the lines that link the Philippines to the world illustrate how vulnurable the country is to external shocks. For better or for worse, a number of these external shocks led to significant political changes in the domestic front.

Reform Under Authoritarian Rule

The 1975-79 period has been characterized by expansionary investments and export promotion programs.[21] During this time the economy registered an average growth rate of 6.44%. Per capita GNP rose from US$300 in 1974 to

US$590 in 1979. The early 1980s was a different story. Growth rates fell to less than 5% in 1980, to less than 3.5% in 1981, and finally to only slightly above 1% in 1982 and 1983.

But even during the relatively good years of the mid-1970s, the Philippines continued to experience balance of payments difficulties. In fact, during the whole of the martial law years, it was only in 1982 that the Philippine did not seek IMF help in alleviating the country's balance of payments deficit. At the time when the Philippines began its trade reform its balance of payments deficit was already over 5% of GNP.[22] Compounding matters for the Philippines was the tightening international credit market brought about by the second oil shock of 1979-1980.

It was within the context of economic difficulties that the Philippine negotiated a World Bank Structural Adjustment Loan (SAL). Trade reform was an important part of the SAL package. The 1980 trade reform had two programs: a tariff reduction program (TRP) and an import liberalization program (ILP). The TRP called for a reduction of peak tariff rates from 100% to 50% and the creation of a floor rate of 10%. The ILP called for the abolition of quantitative restrictions on imports and export taxes.

Trade reform was suspended beginning 1983 in the wake of the deepest post-war recession that the Philippines suffered. The gains from 1981 were reversed with the reimposition of foreign exchange restriction, import controls and additional tariffs and export taxes.

The interesting issue is why the Philippines agreed to trade reform only in 1980.

Economic difficulties provided the context and justification for reforms but by itself will not explain why a particular policy was adopted to solve the perceived problem. As early as 1962 the IMF attempted to induce the Philippines to undertake tariff reform. Until 1978 the Philippine government succeeded in resisting the IMF. The pressure did not come only from the outside. Within the Marcos cabinet were partisans of trade reform. But the efforts of Economic Planning Secretary Gerardo Sicat, Finance Secretary Cesar Virata and the Industry Secretary Vicente Paterno in the 1970s to legislate a uniform tariff rate of 30% for all products were unsuccessful.

An interesting explanation is given by Robin Broad who talks of the shift in the balance of power in favor of the 'transnationalists'--those who are interested in a more open Philippine economy and market-oriented reforms--in the Marcos cabinet.[23] The shift occurred when Roberto Ongpin was recruited into the Cabinet in July 1979 and bolstered the transnationalist forces which included Sicat and Virata. The recruitment of a battalion of mid-level bureaucrats who marched under the transnationalist banner also helped tilt the balance for trade reform.[24] Their importance and eventual dominance in the Marcos cabinet is a result of "intensebehind-the-scene pressure exerted on Marcos by the Bank and the US government."[25]

Broad's transnationalists are popularly known as technocrats. It was during the Marcos years that this new player in Philippine politics emerged. Without a power base of their own, this western educated corps of experts served at the pleasure of the dictator. Their commitment to the market often pits them againsts the rent-seekers in the Marcos ruling group. Since they share the same vision of development as multilateral lending institutions it is generally accepted that their emergence as a force in Philippine politics is partly attributable to World Bank-IMF patronage.

Critics of the Bank's role in the Philippines give the technocrats a less flattering role in Philippine politics. According to one analyst, technocrats "serve as the field officers of the multilaterals as well as their public defenders and theoretical apologists."[26] This technocrat-as-WB-cadre view is visible in Broad's analysis of the transnationalist role in 1981 trade reform. Contrary to an interpretation that the "government spontaneously undertook... to lower the average level of tariff protection...", Broad contends that the Philippines undertook tariff reform after "years of intense "policy dialogue" between the Bank and top government officials..."[27] In her account, the idea and the motive force behind the trade liberalization is the World Bank. Technocrats are mere implementors of World Bank policies for the Philippines.

Another interpretation belies the claim that these men (and they are all men) are mere Philippine representatives of the Bank and the Fund. According to one recently published study, the 1981 trade reform "came about as a consequence of the evolving views of a number of 'technocrats' in government, their alliance with the World Bank, and authoritarian political conditions."[28]

Wilhelm Ortaliz, a member of the Philippines' version of the best and the brightest, insists that "The World Bank did not make us do anything we didn't wantto".[29] Bienvenido Noriega, then a mid-level NEDA functionary, attempts at an explanation of the relationship between the Bank and the technocrats:

> We're using the World Bank (structural adjustment) loan as leverage... to do things NEDA has wanted to do, but hasn't been able to... With this World Bank backing, NEDA has more strength vis-a-vis other ministries."[30]

Given this relationship it is not surprising that technocrats were eager to secure agreements with multilateral lending agencies and welcome their strict conditionalities. From this perspective conditionalities are weapons that technocrats can brandish against those in the Marcos clique who will obstruct the execution of reforms. Indeed, it is not beyond this group to (mis)represent their preferred course of action as World Bank or IMF imposition.

Two studies of the 1981 trade reforms confirm that those enjoying protection were strongly opposed to reform. Broad's and Mosley's studies document the resistance of a sector of the business class to trade reform. Mosley asserts that

> Opposition to the weakening of the protective shield had always been there, both in the form of voice (in the shape of counter-pressures from the Phil Chamber of Industry) and exit (most notoriously Dewey Dee...) These pressures Marcos had felt well able to resist... as coming in large part from a protected industrial sector which continued to be beholden to him for favors; and resisted they were through 1981 and 1982.[31]

Proof was the rapid progress in the implementation of tariff reduction. By August 1981 the government was able to bring down its maximum tariff rate to 50%. Consequently, average nominal tariff rate fell from 43% in 1980 to 29% in 1983 and average effective protection rate moved down from 52% to 28%.[32]

Broad shares Mosley's view that the protected industrial sector was politically weak. She disagrees with him on the residual strength of this group. Broad asserts that Marcos succumbed to protectionist pressures. Her evidence is Marcos' decision, by the end of 1980, to order the slow down of the implementation of tariff reform as called for in his own Executive Order 609. But Broad believes that this merely"bought some of the most vocal domestic businessmen more time and more hope because the dictator's new edict (Executive Order 632A) merely decelerated the reform but "did not change or realign the final 1984 rate."[33]

A closer analysis of the episode reveals that the protectionists, or at least some sections of it, gained a clear victory. Chulia Azarcon, former Chairman of the Tariff Commission, admits that the protectionists were able to elude the 1981 tariff reforms.[34] She claims that this occurred when the government agreed to disproportionately lower tariffs on the inputs of the protected industries. Thus, even when tariffs on consumer goods were reduced the level of protection they enjoyed is maintained.

This ingenious strategy accomplishes two things for Marcos. First, it allowed Marcos to claim that his government is following Bank prescription. He merely had to point to lower nominal tariff rates and the decreasing average nominal tariff rates. Second, since the protective shield of the protected industries are not actually lowered, he continues to enjoy the support of this still potent group.

The other component of the 1981 trade reform, the import liberalization program, was also an arena for a bruising battle between the reformists and the protectionists. Initially, the latter had an unlikely ally in Central Bank Governor Licaros, who has control over the government's import control office. Licaros was outmaneuvered by the transnationalists and was eventually ousted from office. But even when a technocrat--Jaime Laya--was Central Bank Governor, the protected industrialists were successful in keeping some of their products in the restricted list.

The trade liberalization war was momentarily stilled when the economy collapsed and Marcos was overthrown. However, it was immediately joined soon after a new government was installed.

Reform Under Elite Democracy

Import liberalization became the focus of the Aquino administration's early trade reform. Florian Alburo, the first of Pres. Aquino's Deputy Secretaries of Economic Planning, explains why: "While codal tariff rates fell during [the 1981 reform] episode, they did not really matter significantly as import restrictionsdominated foreign trade."[35] The Aquino import liberalization program was a continuation of the Marcos-era program and was conducted in two phases. By 1991, about 85 percent of the 2,883 items that were regulated a decade earlier have been liberalized.[36] The Aquino program was responsible for liberalizing the entry of half (1,444) of these items.

In implementing Aquino's ILP, Alburo experienced what the Marcos technocrats weathered--the ferocity of import-substitution industrialist in defending their domain.[37] Products that are not produced locally were easily de-listed from the restricted list. But those produced by big Filipino manufacturers were another story. The speed of liberalization of products became a function of the political and economic clout of the producers of these goods.

The commitment of some of Aquino's economic advisers to market-friendly reforms, including trade reform, became immediately apparent to the World Bank. As one analyst noted "the World Bank could see that it was pushing at an open door."[38] But the Aquino coalition also included member of the Philippine import-substitution industrialist. Jose Concepcion, who led the PCCI efforts against the 1981 trade reform, was Aquino's Secretary of Trade and Industry. The balance of forces during the early days was such that then Undersecretary of Trade and Industry, now Sen. Gloria Macapagal-Arroyo, was able to read into the 1987-1992 Medium Term Philippine Development Plan a commitment to "to eventual industrialization with qualified protection" and "efficient import substitution."[39]

If economic difficulties provoked the 1981 reform, the 1991 tariff reform was a response to a highly charged political environment. The failed 1989 coup against Aquino fed on popular dissatisfaction and fueled the anti-elite feeling of the populace. The crisis atmosphere made the need for economic reforms urgent. At the political level, a cabinet revamp saw Jesus Estanislao take the helm at Finance. The high levelshuffle also elevated Cayetano Paderanga as Secretary of Economic Planning when Estanislao replaced Vicente Jayme as Aquino's alter ego at Finance.

The first Aquino effort at tariff cutting took the form of an executive order promulgated four days before Congress was reopened in 1990. Executive Order 413 called for a four-tier tariff system with rates of 3, 10, 20, and 30 %. According to Macapagal-Arroyo, EO 413 "reduces tariff rates on finished goods and on raw materials/intermediate goods, but more so on the former."[40] Two weeks after its proclamation, Aquino suspended EO 413's implementation in response to the outcry from Congress and some sectors of the business class. Aquino withdrew her tariff code in October and promulgated a new one (Executive Order 470) on July 1991.

Montes discusses the significant feature of the new tariff code (EO 470):

> [it] includes the original four tariff rates of 3, 10, 20 and 30%, plus five other rates (0, 5, 15, 25, and 50%). Four of these are scheduled to be discontinued after four years, which will result in a significant simplification of tariff rates. Instead of a maximum tariff rate of 30%, the highest tariff of 50% will be retained. Some 179 items, for each of which there is an important domestic producer/assembler, will enjoy the 50% rate on a "permanent" basis, while certain other products will enjoy a 50% rate for four years and 30% afterward.[41]

By agreeing to increase from 30% to 50% the maximum rates for items domestically produced, the government clearly buckled to pressures from the ISI bourgeoisies. What follows is the story behind this surrender.

Estanislao's transfer to Finance and Paderanga's appointment to NEDA bolstered the reformist wing in Aquino's cabinet. It was not only that Estanislao gained an ally (Paderanga), but the protectionists also lost a champion in Jayme. But Concepcion proved to be a tenacious adversary. According to Paderanga, it took a number of bruising Cabinet meetings (without Aquino who detests dissonance in her Cabinet) in February 1990 to generate a consensus on the need for an outward oriented economy. The issue was not resolved immediately because Concepcionrefused to back down. By June 1990 Aquino was compelled to ask Estanislao and Concepcion to thresh out their differences with Science and Technology Secretary C. Foliosco as arbiter. Estanislao won the day with Foliosco's support. After this meeting Aquino backed the reformists and EO 413 was promulgated.

Having lost the fight in the Cabinet, the forces for protection simply shifted their lobbying efforts toward the newly-revived Congress. Their success in stalling the implementation of EO 413 was followed by tough negotiations over specific tariff rates that will be included in a new tariff code. Azarcon acknowledges that, with Congress' participation, the consultations on tariff reform became a bargaining session between reformists and protectionists. On the side of the protectionists, these consultations were dominated by the need to protect individual rather than general interest. She relates that their instructions from NEDA at that time was to try maintain the gains of EO 413 as much a possible.

Paderanga believes that despite Aquino's backtracking much has been gained in terms of liberalizing trade. He attributes their success to a strategy that begins with getting a consensus within the cabinet on broad principles like an "outward oriented economy." Once this principle is accepted, trade reform logically follows. From there on it is a matter of designing a tariff-cutting program that minimizes lobbying by specific interest.

Paderanga also believes that they caught those interested in continuing protection offguard by promulgating a new tariff code before Congress was convened. The reformists were concerned that it would be difficult to get Congress to legislate a liberal tariff code. The difficulty in getting Congress to act on a reform bill was not lost on then-head of Tariff Commission Chulia J. Azarcon. A career civil servant who served most of her time at the Tariff Commission, Azarcon remembers well the plight of the draft legislation that was to amend RA 1937. As was noted previously, the bill submitted by the Tariff Commission languished for 10 years in Congress. Vested interests lobbying in the legislature prevented a revised Code. It took Marcos' martial law powers to transform that bill into law. Having jumped the gun on the protectionists, the latter were forced to defensive action.

Unlike in the 1981 reform, the World Bank is largely absent in the 1990-1 tariff reform square off. Montes notes:

> What is notable about the 1990 tariff reform program and Secretary Estanislao's overall reform package is that there was a conscious, and largely successful, effort to design a "Philippine package," that is, a set of reforms independently designed and implemented by the country in its own interest. In particular, at the time it was proposed, the tariff reform program wentbeyond the items that were under discussion with the World Bank and the IMF.[42]

This is not to suggest that multilateral institutions were not used to justify action on the trade front. Paderanga admits that the reformists used the Uruguay Round negotiations as a pretext to get trade reform going. They also employed the Brussels UR negotiations round to justify passing the new tariff code before Congress opens. Paderanga also used international commitments, like membership in AFTA, as a means to prevent regression on trade reforms. He describes their action as akin to an "individual using whatever firewood he can get to throw in the fire."[43] In terms of International relations theory, their actions can be explained by Putnam's "two level games".[44]

And The Winners Are...

Theory predicts that domestic producers of manufactured goods resist trade liberalization. Since most of the Philippine manufacturing enterprises were nurtured by control, it is expected that they will not look at trade liberalization with favor. Coupled with the characteristic of Philippine domestic bourgeoisie to rely on government for revenue a tough fight against reform is expected. It is usually the PCCI that acts in behalf of the domestic producer in political fights. How successful is the ISI bourgeoisie in keeping the high levels of protection to Philippine industries?

It cannot be denied that protection via tariff has been diminished. The average nominal tariff in 1972 was 43.01%, in 1993 it was 23.51, by 1995 it is projected to be 20.13%. But not all sectors of Philippine economy are affected equally.

Azarcon documents the industries that have fared better than others in maintaining their level of protection via tariff.[45] These "hold-outs" are the producers of the following: Ham and Bacon; Sausages; Marble; Ceramic Tiles;

IncandescentBulbs; Fluorescent Lamps; Common Finishing Nails; Crown Cups; Paints; Caustic Soda; Kraft Paper and Paperboard; Lead Storage Battery; Air Conditioners (2 hp and below); Refrigerators; and, Plastic Eyeglass Frames.

It is easy enough to determine the major companies that produce the articles identified by Azarcon. A leading business daily publishes a list of the country's Top 1000 Corporations. There are also a number of studies on the major Filipino business elites. The result of this exercise, Table 1 (And the Winners Are...), is a list of the companies with protected industries and the individuals behind them. The list includes the notables of Philippine business as like Ayala, Gokongwei, Concepcion, Coseteng, Yulo, Soriano, Chiongbian, Palangca, and Santos. Table 1 also provides information on the other businesses and business linkages of the protected sector of the economy.

Table 1
AND THE WINNERS ARE...
(some companies and key persons behind protected industries)

1. HAM, BACON AND SAUSAGES (Tariff Hdg. 1602 and 1601)

a. Purefoods Corp.
Date of Incorporation (DoI): October 30, 1956

Among the major stockholders of Purefoods (as of 1987) were the Ayala Corp. and Antonio Floirendo Jr.

The Ayala Corp. is run by the Zobel de Ayala family. Enrique Zobel headed the corporation until 1983. The expansion of the Ayala group was made possible when Enrique's uncle, Joseph McMicking, came up with the idea of converting the family's Makati hacienda into a modern city. The profits derived from this Makati development was invested in banking, investment finance, hotels, tourism, and manufacturing. Most of the manufacturing investment went into San Miguel's shares, making the Ayala the largest shareholder by the late 1970s, before it sold its shares to the Cojuangco group in 1983. In 1969, Ayala Corp. bought a controlling interest in Bank of the Philippine Islands.

Antonio Floirendo Jr. is the son of billionaire Antonio Sr. who is a "banana king" based in Davao, Mindanao. Antonio Sr.'s big break came in the early 1970s when he was awarded the lease of Davao Penal Colony land for banana production, thanks to his close ties with former President Marcos.

Interlocking directorate with Bank of the Philippine Islands (BPI) (controlling interest in '88) in '88, '84 and Insular Bank of Asia and America (IBAA) in '78

b. Universal Robina Corp. (Hunt-Universal Robina Corp.)
DoI: Sept. 27, 1983

The Gokongwei Family, regarded as billionaires, is behind this corporation. In 1990, John Gokongwei Jr. was a member of the board of directors.

> *John Gokongwei Sr. was born in Fukien and grew up in Cebu. He ventured into trading during WW II. He then engaged in the import and distribution of second-hand clothing and into food manufacturing. He set up Consolidated Foods Corp., Universal Corn Products, and Robina Farms. During the martial law period, he obtained large loans from the government and set up hotels (Manila Midtown Ramada and Manila Garden) and a department store (Robinson's).*

Interlocking directorate with Far East Bank and Trust Company (FEBTC) in '89,'84,'78 and Philippine Commercial and Industrial Bank (PCIB) in '88.

c. RFM Corp.
DoI: October 13, 1958

Among the incorporators of RFM were Salvador Araneta, Jose Concepcion Sr. and Albino SyCip. At present, the Concepcions are the key persons behind this corporation.

> *Salvador Araneta, son of Gregorio, bought real estate with the money he obtained from his law practice. In 1930, Gregorio Araneta, Inc. was established to manage the properties of family. After the Pacific War, this real estate company ventured into trading, and this led to manufacturing at the time of import substitution (GA Machineries, Refrigeration Industries and RFM). Salvador was also active in politics, and held ministerial positions during the Quirino and Magsaysay Administrations.*

> *Jose Concepcion Sr. was with the American trading company, Edward J. Nell Co., for over thirty years. After this, he worked for Aircon, Inc., a company organized by another American trading company, Theo H. Davies, to assemble household electrical appliances. He then left this company to establish his own company in the same field, Concepcion Industries. In the late 50s, he joined Salvador Araneta in establishing RFM. Later, his son Jose Jr. married Salvador's daughter and took over the company. His other son, Raul, took over Concepcion Industries after Jose's retirement.*

Albino Sycip, a lawyer, set up the trading company Yek Hua, with his brother Alfonso. He helped organized China Banking Corp. in 1920. In 1940, he took over the management of the bank from Dee C. Chuan, and headed the bank until the mid-1970s. His sons Washington is the chairman of the accounting firm SGV.

Interlocking directorate with: BPI in '78; Rizal Commercial and Banking Corporation (RCBC) in '78; China Banking Corporation (CBC) in '78; and United Coconut Planters Bank (UCPB) in '84 and '87.

2. CERAMIC TILES (Tariff Hdg. 69.07/08)

a. Fil-Hispano Ceramics Inc.
DoI: July 17, 1967

Among the incorporators of the company were Jose Marquez-Lim, a billionaire, and Alice M.L. Coseteng, a quarter billionaire. But Fil-Hispano was actually organized in the 50s by Emerson Coseteng.

Emerson Coseteng is the son of a pre-war lumber merchant, Eduardo Coseteng. In 1953, he organized Fil-Hispano with Jose Marquez-Lim (Emerson is married to his daughter, Alicia) to manufacture ceramic ware. In the 1960s, he decided to sell the company. A few years later, wanting to return to ceramics production, Emerson organized Mariwasa Manufacturing.

Interlocking directorates with FEBTC in '78

b. Mariwasa Manufacturing Corp.
DoI: Nov. 5, 1963

Among the incorporators were: Emerson and Alice M.L. Coseteng, and Eduardo Marquez-Lim. As of May 17, 1990, Jose Laurel III, a half billionaire, and Edison Coseteng, a quarter billionaire, were members of the Board of Directors. Jose Laurel III was once the Philippine Ambassador to Japan and is the brother of former Vice-President Salvador Laurel. As of Dec. 31, 1989, prominent stockholders included Ricardo Silverio, Edison Coseteng and Jacinto Sy.

Interlocking directorate with Philippine Banking Corp. in '88.

3. INCANDESCENT BULBS AND FLUORESCENT LAMPS (Tariff Hdg. 85.39)

a. Philips Electrical Lamps Inc.
DoI: Aug.28, 1956

As of June 22, 1990, the N.V. Philips Gloeilampenfabrieken, a Dutch firm, owned 100% of the stocks.

b. Philippine Electrical Mfg. Corp.
DoI: October 29, 1947

Among PEMCOs incorporators were Jose Yulo and Andres Soriano.

Jose Yulo is better known as a lawyer, government official, and politician. In the late 1940s, he bought Canlubang Sugar Estate from Madrigal, which, it appears, would not have been possible without his connections with PNB.

Andres Soriano was brought into San Miguel Corp. by his uncle, Antonio Roxas. A year later, Roxas entrusted the management to Soriano and in the next 45 years, the latter transformed the beer company into one of the top companies in the Philippines. He succeeded in controlling the management of San Miguel without owning much equity. He depended on the confidence of investors in his management capability. After he died in 1964, he was succeeded by his son, Andres Jr. who died in 1984. Today, Andres III, heads the management of San Miguel.)

Interlocking directorate with FEBTC in '78

4. PAINTS (Tariff Hdg. 32.09)

a. Dutch Boy Phil., Inc. (formerly National Lead Co.)

In 1977, Berger Paints of Australia, a member of the Intenational Hoechst Group of Companies, bought out National Lead (USA's) share of the company. However, the Zobel and Ayala families retained the company's controlling interest.

Interlocking directorates with UCPB in '88

b. Century Chemical Corp.
DoI: October 12, 1962

In 1991, members of the Board of Directors included: Vicente Ong Sue, Wilson Ong, and Harry Ong. Among the main stockholders at present are: Harry, Wilson, Willy, and William Ong. They are all centimillionaires.

c. Fuller O'Brien Paint Co., Inc. (formerly Fuller Paint Mfg. Co.)

Major Stockholders (as of Sept. 30,1990) include Fuller O'Brien Corp. (USA) and Aboitiz and Co. Inc..

> *The Aboitizes are classified as billionaires. Ramon Aboitiz is the founder of Aboitiz and Co.. The company initially dealt in abaca, then diversified into copra and other Philippine produce. The company's distributional function led to inter-island shipping. In the post-war period, it participated in the establishment of a flour mill in Mindanao.*

Interlocking directorate with Union Bank (UB) in '88 and IBAA in '84

d. Nippon Paint Philippines, Inc.
DoI: Feb. 15, 1968

Among the incorporators were Felix Maramba, a half billionaire, and his son, Felix Jr.

5. CAUSTIC SODA (Tariff Hdg. 28.15)

a. Union Ajinomoto Inc.
DoI: May 9, 1958

Leonardo K. Ty, a half billionaire, and his brother Alejandro, were members of the Board of Directors (as of April 30, 1990).

> *In 1955, Alejandro became an agent for the Japanese taste enhancer, Ajinomoto, and in the 1960s he went into its production, first under license and later together with the Japanese company. His business in household utensils led to the formation of Union Metal Manufacturing Co., which was later renamed Union Industries. This company also started assembling household electrical appliances under license from Hitachi. Working with Alejandro in building up these companies was his brother, Leonardo. In the late 80s, the brothers decided to split up, and Union Chemicals went to Leonardo.*

b. Mabuhay Vinyl Corp.

Among members of the Board of Directors (as of December, 1990) were: Ricardo Guevara, a centimillionaire, Victor Chiongbian and Victor Y. Lim Jr., a member of the Lim conglomerate.

c. International Chemical Industries Inc.
DoI: August 7, 1967

One of the incorporators of this corporation is Yao Shiong Shio, a half billionaire and the brother of Jose Campos. Stephen Ong, a half billionaire, was a member of the Board (as of March 16, 1987).

> *Yao was born in China in 1902 and came to the Philippines in the late 1920s. Having helped his father in copra trading, he set up his own company to import and distribute cigarettes in the mid-1930s. After WW II, cigarettes became the mainstay of his business. Columbia Tobacco, which he set up in 1950, began around 1960 to manufacture under license famous American brands such as Lucky Strike, and through this grew to be one of the Philippines' largest cigarette manufacturers.*

Interlocking directorate with FEBTC in '78 and '87

6. KRAFT PAPER AND PAPERBOARD (Tariff Hdg. 48.04)

a. Paper Industries Corp. of the Phils.
DoI: April 1, 1952

Among the Board of Directors (as of June 15, 1990) were: Eduardo Soriano, Juan de Ibazeta, a centimillionaire, Victor Chiongbian of the Chiongbian conglomerate and Jose Ibazeta. As of June 15, 1990, the main stockholders were the National Dev't. Co., San Miguel Corp., Andres Soriano Corp.

Interlocking directorate with: Equitable Bank (EB) in '88; RCBC in '84 and '78; UCPB in '84; International Corporate Bank (ICB) in '88; and BPI in '78.

b. Holland Pacific Paper, Inc.
DoI: 1961

Prominent incorporators include: James and Alexander Chiongbian and Antonio Martel Jr. and Jose Martel, members of the half billionaire Martel Family.

c. Aclem Paper Mills, Inc.
DoI: Sept. 1956

Among the major stockholders (as of 1986) and 1992 members of the Board of Directors were: Lim Se Keng, centimillionaire, Victoriano Limsenben, Benito Limsenkeing, a prominent business executive, and other members of the Lim family.

d. Bataan Pulp and Paper Mills, Inc.
DoI: February 7, 1957

Among the incorporators were Vicente Rufino, Carlos Palanca, Eugenio Puyat and Alexander Sycip (son of Albino). Prominent members of the Board of Directors (as of March 31, 1987) included: Ernesto Rufino and son Ernesto Jr. (Ernesto Sr. is a half-billionaire), Antonio Rufino, and Carlos Palanca Jr., a half billionaire.

> *Carlos Palanca, born in Fukien, came to the Philippines at the age of fifteen. In 1902, he branched out into distillery in Tondo, naming his company La Tondena. His business prospered, and he came to be called "the alcohol king." After his death in 1950, his son, Carlos Jr., took over, expanding La Tondena and becoming involved in a number of other businesses. In 1967, he made a splash with the take-over of the American owned Lepanto Consolidated Mining Co.*

7. LEAD STORAGE BATTERY (Tariff Hdg. 85.07)

a. Ramcar Inc.

The Agustines family, led by centimillionaire Manuel Agustines, is behind this company.

b. C.C. Unson Co. Inc.

The company's 1990 Board of Directors included centimillionaire Ernesto B. Rufino Jr. and Paul SyCip.

8. AIR CONDITIONERS (Tariff Hdg. 84.15 1010)

a. Concepcion Industries Inc. (aircon and refrigerator)
DoI: December 5, 1961

Among the members of the Concepcion conglomerate who are behind this corporation are Jose Sr., Herminia, Raul, Reynaldo, and Jose Jr. The Concepcions are classified as billionaires. (for more info., refer to RFM Corp.)

b. Alen Engineering Corp. (aircon and refirgerator)
DoI: October 8, 1964

Prominent members of its '91 Board of Directors included Alfredo Lagman, a centimillionaire, and son, Alfredo Jr. and Engracia Lagman, a prominent business executive.

9. REFRIGERATORS (Tariff Hdg. 84.15 1010)

a. General Heat Corp.
DoI: Aug. 23, 1972

The Tagle Family is behind this corporation. Among its incorporators, stockholders, (as of December 31, 1985) and members of the Board (as of March 14, 1990) were centimillionaires Teodoro, Mariano and Conchita Tagle.

b. General Electric Phils., Inc.

As of June 15, 1990, General Electric Co. USA (American) owned majority of the stocks.

Interlocking directorates with RCBC in '78.

c. Phil. Appliance Corp.
DoI: August 6, 1963

Among those who incorporated Philacor was Dante Santos Teodoro Henares, and Felix K. Maramba Jr. As of May 31, 1990, Gen. Electric Phils. Inc. (American) owned majority of the stocks. Half billionaire Dante Santos is also a major stockholder.

Dante Santo formed Philacor in the mid-1960s. In the initial phase, Philacor received technical assistance as well as equity capital from Westinghouse. In the mid-1970s, Westinghouse divested its interest, and General Electric became its major partner. Philacor has also been producing Mitsubishi's electric appliances under license since 1975.

SOURCES:

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Yoshihara, Kunio. The Rise of Ersatz Capitaliast Asia. Quezon City, Metro Manila: Ateneo de Manila University Press, 1988.

Editha Tan "Interlocking Directorates" The Philippine Review of Economics and Business 30:1 (June 1993)

The list generated by this exercise has real limitations. For example, those industries with niches in the 'hold-out' list but are not big enough to make it to the country's Top 1000 Corporations are not identified. Some firms and individuals identified may not necessarily be protectionist. The case of Dante Santos' Philippine Appliances Corp comes immediately to mind. It also does not include the firms' officers (non- incorporators and/or major stockholders) who became Cabinet members or key government officials. The list is simply an initial guide to those interested in mapping the trade in influence.

An interesting, but not surprising, feature of the list is the presence of a number of multinational corporations (like General Electric, Fuller O'Brien, and Philips). Political economists suggest that pro-trade liberalization forces include "multinationals who tend to favor free trade because they are able to compete efficiently on international markets...." [46] This general observation must be refined in the case of the Philippines. As Montes notes, we must distinguish between foreign firms domestically located in the Philippines and those that are not. The former, which invested in the country before tariff walls were erected "find a common cause with large Filipino business firms."[47] They too are interested in subsidized exchange rates, import controls, tariff protection, and tax exemptions. These MNCs invested in the country during the period of control and have extensive links with the domestic producers.[48]

On the other hand, foreign capital not directly situated in the Philippines, like the country's creditor banks, are the ones interested in liberalization efforts. They find common cause with multilateral lending institutions and technocrats on trade reform. Their strength has increased in proportion to the country's indebtedness.

Another pro-liberalization force whose influence has increased are the Philippine exporters. This is to be expected given that political power is correlated to economicpower. Nontraditional exports became a significant portion of total Philippine exports beginning the mid-1970s. Rivera notes that in 1983 "ISI industries accounted for about 86% of gross value added in manufacturing while export-oriented industries accounted for only 14%." [49] During the same year, only 15 among the biggest 120 Philippine manufacturing corporations are exporters.

Writing in 1990, Mosley notes that Filipino exporters were no match to protectionist forces.[50] This is changing. The Philippine Exporters Confederation (Philexport) now claims over 1,800 members organized into sixteen regional chapters. Philexport members produce about 70% of the country's export earnings. Indicative of the strength of the organization is its estimated 1993 assets of about 150 million pesos.

Two important developments, beginning in the late 1980s, help explain the emergence of the exporters as an important voice in Philippine politics.[51] The first development was the transformation of the popular perception of exports from extractors of natural resources to producers of world class goods. This new image equates exporter with progress. Compared to the highly concentrated ISI industries, exporters are usually small and medium scale industry. This allows the latter to play David to the ISI's Goliath. The second was the unification of two exporters associations--Confederation of Philippine Exporters and Philippine Exporters Foundation--into the Philippine Exporters Confederation. The unification of the exporters under a new leadership gave a stronger organization that projects a more coherent and powerful voice. Thus, exporters are now a player to reckon with in Philippine politics.

Nationalism and Protectionism

Azarcon laments that labor groups and consumer groups do not seem to know where their real interest lie because they side with protectionists. Consumer groups are expected to be pro-liberalization because trade barriers may lead to limited consumer choice and higher priced but lower quality goods. On the other hand, labor is not expected to act as a class on trade issue. As Frey notes, during trade reform

.... interests organize along *industry* or *sector*, and not along factor, lines... In an industry which gains monopoly profits, the trade unions will attempt to get a share of these rents. As a result, the industry will be characterized by high wages and barriers to entry in the factor market of this industry.[52]

In the Philippines, a section of the working class receive a share of the rent generated by protected firms. According to the World Bank the manufacturing "[s]ubsectors with higher concentration and those with higher levels of trade protection (as measured by effective rates of protection) paid higher wages in both 1983 and 1988"[53]

While sharing some of the rents with the workers may explain the behavior of a section of the working class, it does not explain why labor, as a class, and consumers, as a group, are anti-trade liberalization. Nationalism, and the success of the protectionist lobby to link trade liberalization with foreign dominance of the economy, explains the position of Philippine trade unions and consumer groups on trade reform.

Philippine nationalism is described by scholars as "defensive" in nature and normally anti-imperialist. "Defensive nationalism in the post-independence period," according to Alexander R. Magno, "revolved around two issues: nationalization of the economy and the presence of the US military bases."[54] The economic goal of a "self-reliant economy" has a conservative and progressive bent. Shielding the Philippine economy from foreign control is clearly beneficial to the Filipino manufacturing elite. But why do consumer and labor groups buy the national capitalism argument? Part of the reason is the pervasive influence of the Philippine left's version of nationalism on these groups.

National democracy posits that the Philippines, being a semi-feudal and semi-colonial society, need to pass through a national democratic stage before the socialist stage. This ideology identifies the national bourgeoisie as an objective enemy of imperialism, hence an ally of the revolution. The acceptance of a number of consumer and labor groups of the principles of national democracy predispose them to an anti-trade liberalization stance.

The pervasive role of the Bretton Woods agencies on the trade liberalization issue merely reinforce the belief that trade reforms are meant to perpetuate foreign control of the Philippines. For instance, Broad characterizes the 1981 tariff reform episode as a battle between transnationalists and nationalists. For Broad, the 1981 reform "demonstrates the growing skill of the [World] Bank and its transnationalist Phililippine allies in effectively neutralizing an important social class, the national entrepreneurs, during the molding of a new tariff policy."[55]

The vulnerability of trade reforms to nationalist criticism is not lost on technocrats. The Marcos years saw technocrats using the World Bank and/or the IMF as a prod to get reforms accepted by other members of the Marcos power bloc. That they had to bank on the World Bank for support is indicative of their strength (or lack of it) within the Marcos camp. The Aquino technocrats are clearly cognizant of the limitations of this strategy (even if they are not beyond using it). For instance, Alburo insists that for trade reform be sustained over time,

> It is important that such a policy be perceived as an indigenous decision, arrived at by Filipino policymakers and a Filipino political system. Congruency (with the World Bank interest) can be admitted but attribution must be national.[56]

With the growing political sophistication of technocrats and the growing power of the export sector the Philippine bourgeoisie will be hard pressed to maintain a protection. Their ability to oppose trade reform may well be determined by their success in rallying the nationalist forces under their banner. This is a prospect that is not as bright as it was only a few years ago.

Endnotes

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[12]Robert Gilpin "Economic Multilateralism vs. Economic Regionalism" in Richard J. Ellings (ed) *Americans Speak to APEC: Building A New Order with Asia* (Seattle,WA: The National Bureau of Asian Research, 1993), p. 12.

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[16]World Bank *The Philippines: An Opening for Sustained Growth*, p. 208.

[17]from Robert Summers and Alan Heston "The Penn World Table (Mark 5): An Expanded Set of International Comparisons, 1950-1988" cited in World Bank, *The Philippines: An Opening for Sustained Growth*, p. 209.

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[20]Ibid.

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[22]Paul Mosley "The Philippines" in Paul Mosley, Jane Harrigan and John Toye (eds) *Aid and Power: The World Bank & Policy-based Lending* (London & New York: Routledge, 1991), p. 44

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[29]cited in Broad *Unequal Alliance*, p. 73

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[32]Ibid., p. 51.

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[36]Gloria Macapagal-Arroyo, "Recent Trade Reforms in the Philippines" *The Philippine Economic Journal* No. 70 (1991), p. 85.

[37]Interview with Florian Alburo, 30 March 1994.

[38]Mosley, "The Philippines" p. 55

[39]Macapagal-Arroyo "Recent Trade Reforms", p. 65

[40]Macapagal-Arroyo "Recent Trade Reforms in the Philippines" p. 88.

[41]Manuel Montes "The Politics of Liberalization: The Aquino Government's 1990 Tariff Reform Initiative" in David Timberman (ed) *The Politics of Economic Reform in Southeast Asia : The Experience of Thailand, Indonesia and the Philippines* (Makati: Asian Institute of Management, 1992), p. 107

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[43]Interview with Cayetano Paderanga, Jr. 16 March 1994.

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[54]Alexander R. Magno "Filipino Nationalism and the Bilateral Relationship" *Solidarity* 137-138 (January-June 1993), p. 109

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