IMF holds Marcos to a no-win game

by Linda de Hoyos

After more than 11 months of negotiations, Philippine Prime Minister Cesar Virata, who also functions as finance minister, arrived in Washington Sept. 18 to sign a letter of intent with the International Monetary Fund. In October of 1983, the country's creditor banks refused to finance the Philippines' $26 billion debt and demanded that the Marcos government gain the seal of economic approval from the Fund. For 11 months, that approval has not been forthcoming.

But now, according to bankers and Philippine officials, an agreement is about to be reached, "knock on wood," as one banker put it. The outlines of the letter of intent are reportedly as follows: a floating peso, a decrease in imports, and a curbing of the domestic money supply. But the Philippines still has several hurdles to go through before it will receive the $8.6 billion loan package it is seeking. The letter of intent must go before the IMF Board, led by director Jacques de Larosigére, where specifications on industrial and trade policy will be hammered out. The Marcos government must then begin talks with the banking consortium, led by Manufacturers Hanover and the Bank of Tokyo, for new credits and agreement on debt restructuring.

The critical points of the concessions wrung out of the Marcos government are not to be found in the letter of intent, but in the timing of, and the political assumptions embedded in, that agreement.

The Oct. 11, 1983 withdrawal of bankers' credit from the Philippines was a direct response to the upsurge against Marcos in the wake of the Aug. 21 assassination of opposition leader Beningo Aquino. In exchange for a 90-day moratorium on its debt payments, the IMF imposed a 20% devaluation of the peso, which caused a 30% jump in food prices. Factories were forced to shut down for lack of foreign exchange for the import of supplies, and the country's remaining development projects ground to a halt.

There was no push on either side to gain an agreement prior to the May 14 parliamentary elections. According to congressional sources, both the Fund and the State Department informed Marcos that the opposition had better receive 30% of the vote, or else. For his part, Marcos had no intention of imposing an even harsher austerity package on the Filipino population before the elections, but on May 16, the government announced a 5% cut in spending and a 3% hike in fuel prices, measures which sparked rises in consumer fuel and food prices.

Still, the IMF refused to budge. The Fund's real demand is to break the back of the ruling power base in the country, the so-called Marcos "cronies" who run the sugar and coconut monopolies. Marcos has a choice: He can either go after the crony system himself or be swept aside in his refusal to do so. These monopolies were originally set up in the mid-1970s as a protective mechanism against cut-throat competition which caused the country to undersell its products. No matter what abuses the crony system has since introduced, its destruction now upon the order of the IMF and the creditor banks is designed to open up the Philippines to wholesale looting and "vertical integration" into multinational agribusiness.

Taking the point on behalf of the IMF in the Philippines has been Prime Minister Virata and central bank head José Fernandez. On Aug. 27, Fernandez announced measures for streamlining the Filipino banking system, including the prosecution of bank managers for "mismanagement" and permitting the central bank to act as a broker to arrange buy-outs, mergers, and acquistions.

These measures will be used to target the cronies. For example, the central bank is now targeting the Republic Planters Bank run by sugar baron Roberto Benedicto, a crony. With the commodity price of sugar 8-9¢ below the 12-14¢ cost of production, the Republic Planters Bank has run into deep trouble, with liquid assets falling 50% since June and total deposits dropping nearly 24%. A presidential order last year decreed that the bank's overdrafts be treated as loans; now Fernandez says that Republic Planters must abide by the normal rules.

According to Fernandez, this is one of the items contained in the program negotiated with the IMF. Of course, by the same criterion most of the Philippines' creditor banks in the United States backing the IMF in this demand, would be declared bankrupt.

Fernandez has not pushed through this program without opposition from the President. But Marcos's agreement may have been forced by the Aug. 7 denial of agreement by the U.S. Treasury for a $150 million World Bank agricultural loan to the Philippines. In a loud and clear warning to Marcos, Treasury claimed that it did not believe the money would be used effectively.

There is talk within the Marcos administration and the opposition of joining the Ibero-American debtors cartel as the only way out. As with the Ibero-American countries, the signing with the IMF will not solve the crisis but deepen it. Both politically and economically, Marcos is being asked to attack his own power base, while simultaneously carrying out measures that will decrease the standard of living even further for a population that already suffers at least 50% malnutrition. As even bankers and U.S. liberals will admit, the only force to benefit from that proposition is the fast-growing Soviet-backed New People's Army.