

# For the Philippines: democracy or debt?

by Linda de Hoyos

When Corazon Aquino campaigned for the presidency, she promised in speeches that the Philippines' foreign creditors would grant far easier terms and concessions to a Philippines under new leadership. The banks will be far more lenient, she claimed, just as they had been with President Raúl Alfonsín of Argentina. But in the first 100 days of her administration, the realization of these promises has not been forthcoming.

To be sure, the U.S. military coup that overthrew the government of Ferdinand Marcos had the active approval of the Paris Club of the Philippines' foreign creditors. The international bankers are breathing a "sigh of relief" at the "peaceful transition of power in the Philippines," wrote one financial daily on Feb. 27, two days after Marcos had fled the country. "It's a real plus what has happened," said Robert Winn, senior vice-president at Morgan Guaranty. Although there were rumors that Aquino might become the "García of the Philippines"—and follow the Peru model for the partial moratorium on its debt—the bankers were not apprehensive. The general mood from Wall Street was summarized by one banker: The new government is "not going to scuttle what the International Monetary Fund has done and all the hard work the banks have done."

So far, this prognostication from New York, echoed in London and Switzerland, has proven correct. As per insistent recommendations from Bank of America (chaired by the brother of Undersecretary of State Michael Armacost) and Bankers Trust of New York "to form a technically able economic team," the new government retained monetarist José Fernandez as president of the Philippines Central Bank, and named Jaime Ongpin as finance minister.

Not only has the Aquino government taken active steps to assure its creditors of its intention to fully pay the \$26 billion debt and \$4.2 billion owed this year, but the new government has opened the doors for debt-for-equity schemes, by which the foreign creditors take ownership of Philippine property titles. According to sources in Manila, within a week of the February revolution, Bankers' Trust, American Express, and Bank of Hawaii, were looking to buy up 40% of the Philippines' commercial banks.

By May, barely three months after Marcos's ouster,

American Express did succeed in taking over 40% of the Philippines' International Corporate Bank (Interbank). Amex converted \$15-20 million in "exposure" in Philippine debt into 40% ownership of Interbank. Other such deals are in the works.

Debt-for-equity, however, will not begin to solve the economic crisis faced by the new government. Three years of the IMF program of austerity conditionalities, including devaluations of the peso, has reduced per capita income in the country by 15% over the last 24 months. Industry is running at 30-40% of capacity. Even with a moratorium on principal since 1983, *a full 70% of Philippine export earnings go to debt service.*

"I frankly don't blame the IMF for what they did" to the Philippines economy, said Finance Minister Ongpin in an interview with the *Asian Wall Street Journal* March 5. "If I were in their shoes, I would have been worse. . . . We hope we will not be treated as a bunch of thieves."

## Not unanimous

However, there is no unanimity around Ongpin's demand for full acquiescence to the International Monetary Fund. In March, the Philippines dropped a stand-by facility negotiated by the Marcos government with the IMF, because the government could not hope to meet IMF targets. Negotiations are now ongoing with the Fund. Specifically, the Aquino government has refused to proceed with IMF demands for tariff liberalization, a demand the Marcos government had also adamantly resisted. Speaking before foreign businessmen in Manila May 21, Trade and Industry Minister José Concepcion vowed that he would "resist all attempts of all sectors to totally allow the liberation of all imports. Today many of our industries are operating at 30 to 40% capacity. They have been bothered by high interest rates in the last three years, and many of them no longer have the capital and are in the intensive care unit." In May, the Aquino cabinet also announced that it would not impose increased oil taxes, as demanded by the Fund.

According to the *Far Eastern Economic Review*, if a vote were taken in the Aquino cabinet, the government would indeed opt for a "Peruvian solution" to the debt problem. The leading spokesman for this view in the government is Solita Monsod, chairman of the National Economic and Development Agency, who traveled to Peru and Mexico at the end of June to survey government leaders in those countries on their approaches to the debt crisis.

In mid-May, debate in the Aquino cabinet reached its height, with Monsod arguing for partial debt repudiation. However, "Central Bank president Fernandez and Finance Minister Ongpin are holding to the line that there is no way for the country to undertake a policy of selective repudiation or even putting a cap on interest payments," reported the Philippines' *Business Day*.

Monsod argued that the "ravaged" Philippine economy cannot even begin to recover within even three years' time, unless the heavy burden of 70% of export earnings going to debt service is lightened. The debt service must be reduced by "at least 22-25% this year," she said on May 22, if the government economic program for increased agricultural productivity and employment is to proceed. Monsod has also bitterly complained that foreign banking sources are not giving the new government any breathing space through issuing new loans. "All we're getting is sympathy," she told the cabinet.

But so far, Monsod and other members of what is called the "nationalist" faction in the government have been unable to break the stranglehold of the Fernandez-Ongpin nexus over monetary policy. In an interview May 7, Mrs. Aquino stated that proposals for the repudiation of certain loans—loans believed to have been siphoned off by Marcos cronies—"are not possible, because if we did that, nobody would be willing to help us anymore. We have a word of honor and we have to borrow."

Finance Minister Ongpin has set as his goals: the stengthening of the foreign-exchange reserve position; keeping the inflation rate at a single-digit level; bringing down interest rates; and encouraging the private sector to once again lead the country's economic growth, a role which "unfortunately was pre-empted over the last two decades by a combination of state capitalism and crony capitalism."

Ongpin's program is coherent with the economic program coming out of the National Economic Development Authority, which calls for pump-priming measures to foster government employment programs to build roads and other infrastructure projects that would raise agricultural productivity.

### No break in IMF line

But the initial actions of the government, aside from permitting debt-for-equity re-colonialization policies to go through, indicate no break from the IMF austerity outlook. In the days immediately following the Feb. 7 national elections, Fernandez hiked domestic interest rates to between 24 and 30%, from the 18-24% that prevailed previously. He explained that the measure was necessary to "dry out excess liquidity in the economy." The rate increase delivered another blow to Philippine industry, already at a standstill due to the escalated prices of necessary imports.

The first 100 days of the Aquino administration have also not been a boon to the farming sector. In March, the National Food Authority ceased purchase of agricultural goods, thus ending an effective subsidy to farmers already hit by low prices. This has forced farmers to sell to private traders, depressing prices further. Simultaneously, the Ministry of Food and Agriculture froze farm production loans. The Farmers League of the Philippines declared that the freezing would lead to a "very critical condition" in the farming sector,

since the loans were needed immediately for the purchase of vital farm inputs to ensure the next planting. Without the loans, the FLP stated, the Philippines would face another severe rice and corn shortage. With the freeze, some 200 million pesos, out of the fund's allocated 720 million pesos, sat idle in Fernandez's Central Bank.

The Aquino government also appears to have made a final decision to scrap the \$2.1 billion Bataan nuclear plant, built by Westinghouse Corp., on "environmental grounds." In this case, Aquino lived up to a campaign promise. A push to repudiate the loans acquired for the plant's construction were put to rest by a Rene Saguisag, who made a special trip to Washington for that purpose. "Wholesale repudiation of the [\$1 billion] loan is not something the Aquino government is looking for," Saguisag assured Washington. The Bataan plant will stand idle, even while it costs the country \$350,000 a day in interest alone, according to the *Far Eastern Economic Review*.

### Fair warning

In a speech before the Foreign Policy Association in New York on June 4, U.S. Secretary of State George Shultz hailed the Aquino government and its "free market sentiments, which I heartily endorse." Presaging July negotiations with the IMF, he declared that the Philippines must look forward to:

- "—tax reform . . .
- "—business deregulation;
- "—reducing and streamlining the activities of government financial institutions;
- "—selling off a major portion of public sector corporate assets; and
- "—dismantling the notorious crony monopolies of sugar, coconut and other basic commodities."

Within the context of the debt-for-equity deals already in place, Shultz's prescription is a call for the effective dismantlement and takeover of the Philippine economy by its foreign creditors. The Philippines today faces the same life-or-death crisis that the Ibero-American countries of Mexico and Peru face.

An apt warning of the consequences of such policies was delivered by Deputy Foreign Minister Leticia Shahani in March. The debt "is the albatross which hangs around Cory Aquino's neck," stated Shahani, the sister of Chief of Staff Fidel Ramos. "It is mainly the poor people who will have to repay this debt and we cannot just rely on striped-pant diplomacy to solve this problem. . . . One must be careful when economic problems contribute to social unrest and this in turn becomes an explosive political issue."

Even now, given the continuing unrest in the country, the growing insurgency of the New People's Army, and the fundamental divisions within the government itself, foreign investors are not expected to bail the country out. It will not be long before Aquino will be forced to face the question: "Democracy or debt?"