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**Working Paper**

## Intentions vs. Implementation of Philippine Economic Reforms Under Aquino Government, 1986-1992

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Philippine Institute for Development Studies

## Intentions vs. Implementation of Philippine Economic Reforms Under Aquino, 1986-92

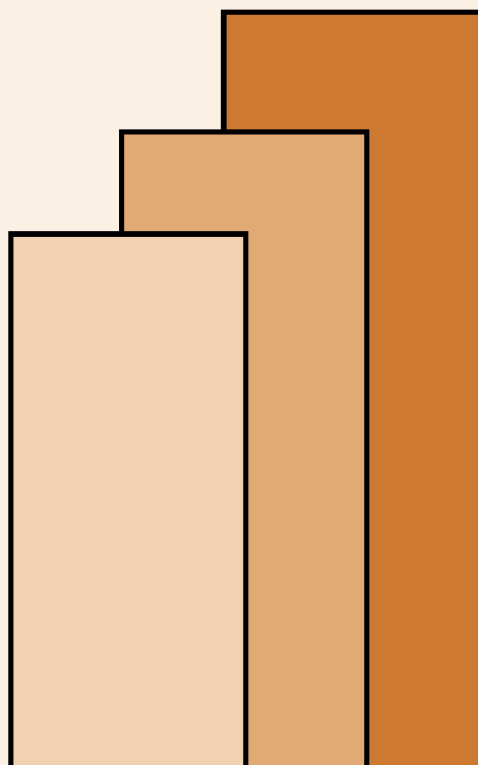
*V. Bruce J. Tolentino*

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March 1994

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## Intentions vs. Implementation of Philippine Economic Reforms Under Aquino, 1986-92<sup>1</sup>

by  
V. Bruce J. Tolentino<sup>2</sup>

*Yamal wa ki kara.  
Mood determines state.*<sup>3</sup>

- Japanese proverb

### Introduction

The imperative to reform the strategies and policies for economic growth and development was obvious upon the ascendance of Corazon Aquino to the Presidency of the Philippines in February, 1986. The need for broad political and economic reform was in fact the principal reason for the overthrow of Aquino's predecessor Ferdinand Marcos. The Filipinos has finally realized that Marcos was not the leader who would fulfill his promise "to make this nation great again". After twenty years of Marcos as President, it had become painfully apparent that he could not institute reform and that he was in fact, part of the problem. No less than fresh leadership, imbued with a new mandate was now clearly necessary for the arduous challenge of national renewal and recovery.

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<sup>1</sup> Prepared during a fellowship at the Institute for Developing Economies, Ministry of International Trade and Industry, Tokyo, January-April 1993. The generous support of the IDE is gratefully acknowledged.

<sup>2</sup> Research Fellow, Philippine Institute for Development Studies.

<sup>3</sup> Many hours of discussion with Mr. Shinichi Nozoe, Director of the International Exchanges Department of the IDE, gave me a unique window on Japanese history and policy making. His valuable insights are acknowledged.

But while in 1986 it was clear that economic recovery and sustainable growth were the ultimate goals of reform, much less transparent was the path and the specific vehicles toward that ultimate objective. By the mid-1980's the economic development literature already treated as a "stylized fact" the pattern of rapid growth in agricultural productivity and rural non-farm employment as the key impetus for the accelerated development of agricultural-based economies like the Philippines. Yet the agricultural-led development strategy has not been implemented in the Philippines. While the country recognized and adopted an agricultural-based, outward-looking development strategy in its official statements, its actual policy mix has generally kept on the path of import-substituting industrialization (ISI). Such a policy environment has persisted even as the Philippines' neighboring countries have rapidly turned from the inward-looking ISI to more outward-oriented, trade-dominated development strategies.

Certainly the Philippines' policy makers have not been oblivious to the potentials of the agricultural-based strategy. The series of Medium-Term (five-year) Development Plans (MTDP) that have been produced by the Philippine government since the early 1960s have recognized the dominant contribution of the agriculture and rural sector to economic output<sup>4</sup>. The plans also uniformly pointed to the relatively low productivity of the agricultural sector (Sakai, 1989). The plans also decried the extent of poverty, particularly in the rural areas. Thus the plans almost always declared as policy goals the reduction of poverty, the acceleration of the process of industrialization, the generation of employment and the modernization of both agricultural and industrial production.

---

<sup>4</sup> So far, eleven Medium-Term Development Plans have been formulated by the Philippine Government, from the 1962-67 plan under President Diosdado Macapagal to the new, 1992-96 MTDP under President Fidel Ramos. For reviews of the MTDPs until the 1987-92 MTDP, see Sakai (1989) and Miralao (1988).

The record of development and poverty alleviation in the Philippines over the past three decades is however eloquent testimony to the discrepancies between the official objectives and the actual accomplishments of Philippine economic development policy and strategy. It is clear that any judgements about the Philippines' development record have to be made with care, principally because of wide gaps that may be observed between:

- a. planners/ policy makers and implementors,
- b. pronouncements and actual policies,
- c. planned timetables and actual implementation schedules, and
- d. policy intentions and actual effects.

Objectives. This paper attempts to provide some explanations of the gaps as enumerated above, as observed in the Aquino administration's record of implementation of policy reform. The discussion focuses on the comparison between announced actions with actual actions, with some emphasis on the record of implementation of an agricultural-based strategy of development. The comparison between policy reform objectives with economic outcomes is made with care, since outcomes clearly result from many other factors aside from government policy. The rest of Chapter 1 provides some information on the agricultural and rural sector and the recent economic experience of the Philippines. Chapter 2 of the paper will set out the framework which will organize our discussion of the reform process. Chapter 3 will describe the Aquino government's program of reforms. Since the set of reform activities attempted in the 1986-92 period is large and complex, we expand on selected aspects of the reform process to illustrate, in depth, our analysis of the process of implementation in Chapter 4. Chapter 5 summarizes the lessons that may be learned from the review, with some notes and a general outlook of the prospects



for successful economic reform in the new government of the Philippines led by President Fidel V. Ramos.

1.

## The Recent Performance of the Philippine Economy

The Philippines is classified as a medium-sized, middle-income country in the *World Development Report 1992*. GNP per capita stood at \$750 at year-end 1992.

Growth. The record of growth of the Philippine economy over the last decade has been disappointing to most analysts. While over the 1970s economic real per capita economic growth averaged a relatively respectable 3.5%, in the 1980s the rate dropped close to zero, and was at minus 3.3% in 1981-85 (Intal and Power, 1990). In fact, the middle third of the decade of the 1980s saw the Philippine economy through a period so dismal that most Filipinos were actually optimistic - they thought the only way to go was up and for the better.

The economy shrank in 1984 and 1985 - the first time ever in the Philippines' post-World War II experience (Table 1). Many felt that clearly - things just couldn't get worse. Opinion polls which have tracked the population's outlook indicate that people's spirits were at their lowest - and that there was just very little optimism for the immediate future. For example, Social Weather Stations, Inc. reported that in July 1985 fully 74% of the population rated themselves as poor (Chart 1), and that 56% thought that they were worse-off than they were the year before (Chart 2).

Table 1				
Growth Rates of GDP and Subsectoral GVA, 1981-91				
Year	GDP	By Industrial Origin Agriculture Fisheries & Forestry	Industry	Services
	(1985 Million P)	(1985 Million P)	(1985 Million P)	(1985 Million P)
1981	3.47	3.81	4.65	1.92
1982	3.57	0.60	2.48	6.82
1983	1.87	-3.38	1.52	5.56
1984	-7.32	-0.93	-11.51	-6.53
1985	-7.31	-1.88	-15.75	-2.08
1986	3.42	3.68	2.30	4.23
1987	4.78	3.22	5.37	5.23
1988	6.25	3.24	7.55	6.93
1989	6.06	3.01	8.21	5.97
1990	2.42	0.48	1.81	4.04
1991	-0.99	0.70	-3.25	0.04
Source: 1992 NSCB Statistical Yearbook				

Chart 1

**Self-Rated Poverty, Philippines, 1983-91**

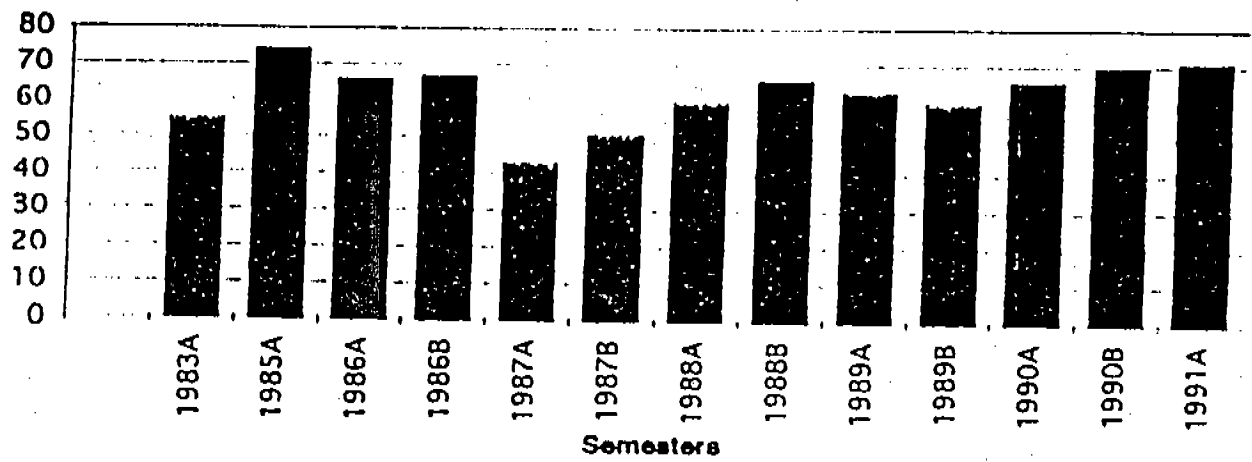
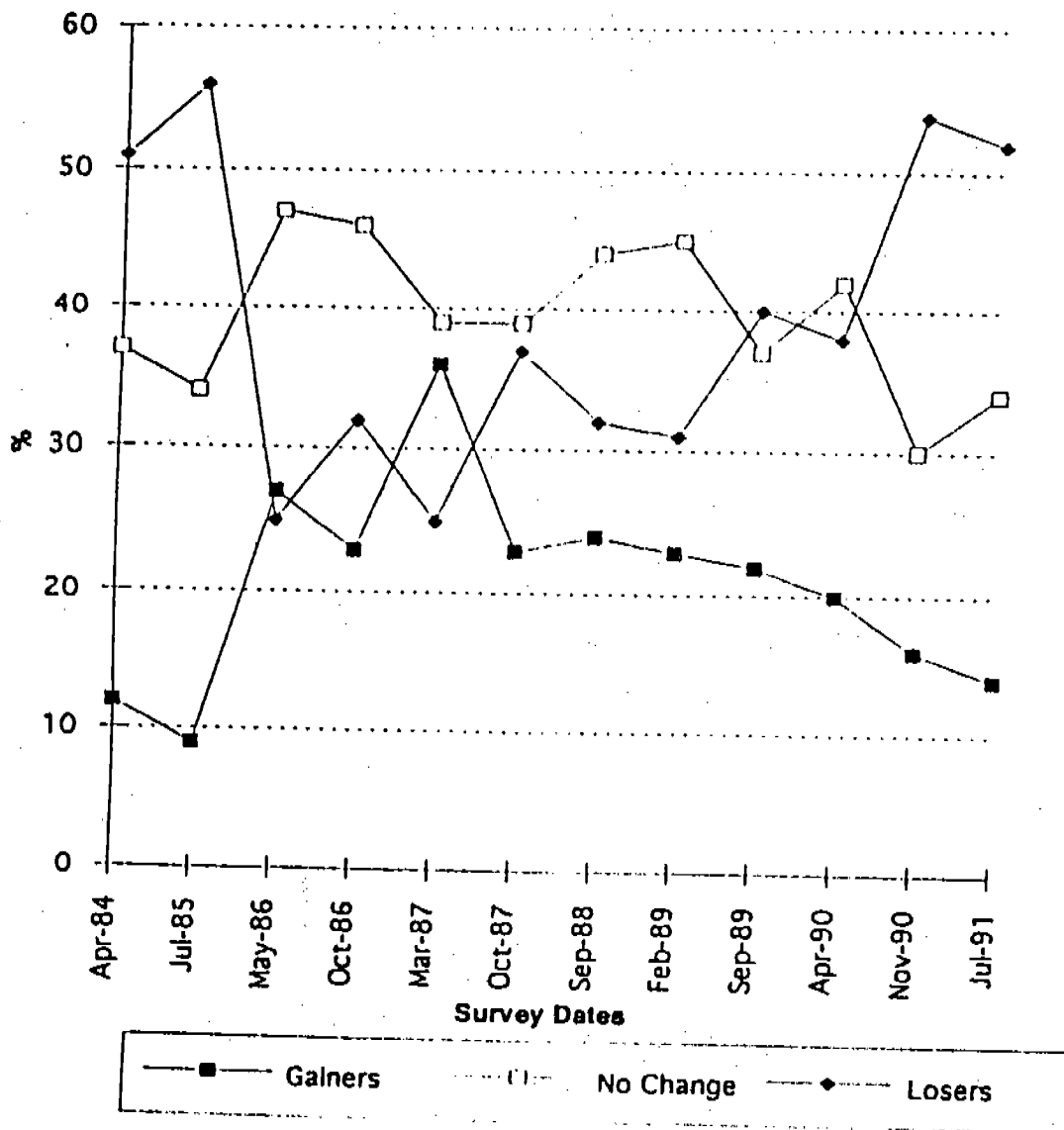


Chart 2

### Losers vs. Gainers, Philippines, 1984-91



The Beginning of the Honeymoon. The entry of the administration of President Corazon Aquino on the surge of the "people power revolution" of February 1986 was seen by most of the Filipino population as the answer to their long-chanted prayers. President Aquino was widely seen as the person who could deliver the population from the so-called "kleptocracy" of the Marcos regime. Hope and anticipation pervaded the atmosphere surrounding Aquino's entry into government.

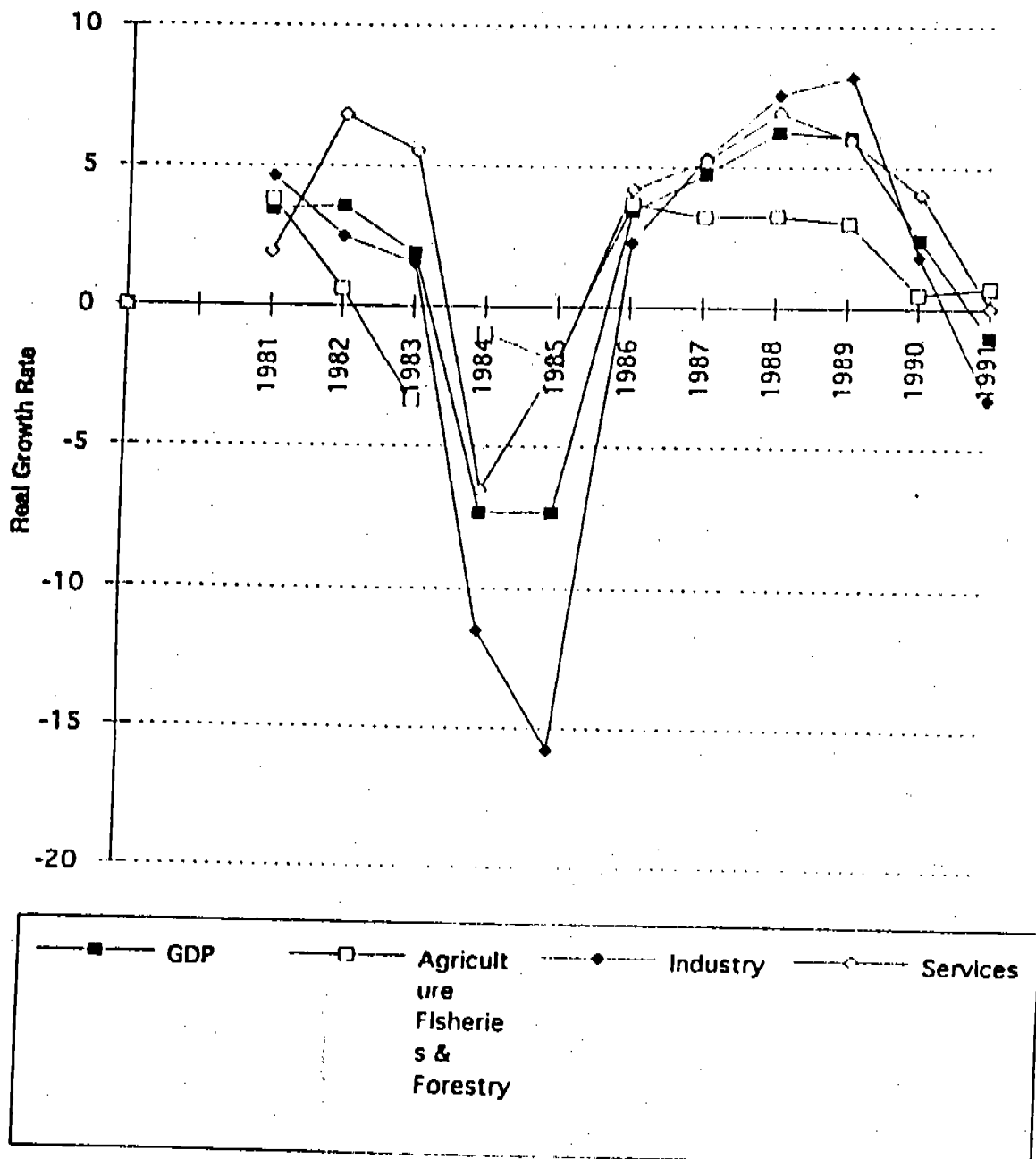
The Roller-Coaster. Indeed, the first two to three years of the Aquino period were heady. The surge in economic activity after the "people power revolution" from which Marcos fled in February 1986 was wonderful to see. The real (1985 Pesos) growth of Gross Domestic Product (GDP) recovered from the negative -7.3% between 1984 and 1985 to a relatively stratospheric 6.25% in 1988 to 1989 (Table 1). Pent-up demand was unleashed. Consumption and retailing boomed. And, with the government moving rapidly to free the economy from the most evident shackles of crony privilege and monopoly, investment began to respond.

The economic boom was short-lived, however. As if riding a roller-coaster, the economy plunged into decline in 1984, abruptly recovering in 1986, climbing relatively steeply until 1988, and again dropped to a minus -0.99% in 1991 (Chart 3).

Trade and Balance of Payments. The Philippines is less trade-oriented than Thailand and even Indonesia. In 1982 imports and exports as a percentage of GNP in the Philippines was 32%, compared with 40% in Thailand and 44% in Indonesia. In 1992 the ratio for the Philippines has grown to about 42%, while that of Thailand and Indonesia have both surpassed 60%. This indicates that the Philippines has continued on the path of primarily inward-looking, import-

Chart 3

### Real Growth of GDP and Major Industries



substituting Industrialization (ISI), even in the face of the abandonment of the ISI by the Philippines' neighbors who have now attained the enviable status of "newly-industrialized countries".

The Philippines' imports have usually outstripped its exports. Combined with a highly distorting trade policy, this combined to make the economy highly prone to Balance of Payments (BOP) crises. Thus the Philippines did experience such BOP crises intermittently since the end of World War II. The 1949-50 crisis ushered in the era of foreign exchange and trade controls of the 1960s. The 1960 crisis led to the first decontrol and devaluation program beginning in 1962. A third crisis in 1969 precipitated the 1970 devaluation of the Peso. The most recent and serious episode lasted between 1963 and 1965 and its control again required a major devaluation.

Savings and Investment. National savings, helped along by foreign savings of 4 - 5%, rose sharply from 20% to 25% of GNP between 1973 to 1981 - the "good years" of recent economic history (Lamberte, *et al.*, 1992). Savings of households and unincorporated businesses were also quite high, at 8 - 10% of GNP. Real gross investment similarly climbed from 21% to over 31% of GNP. The crisis years of the early 1980s saw the national savings rate dropping to 15% in 1984. Investment correspondingly fell to only 14% in 1985. The Aquino government attempted to pump-prime the economy in 1986 to 1988, but savings followed only quite weakly. The pump-priming spending could not be sustained by the government which had inherited a heavy burden of debt service, recovery and bureaucratic maintenance. Recent analyses conclude that massive inflows of foreign-sourced borrowing and aid assistance induced a great deal of savings and consequent investment during the 1970s and early 1980s. Public investment was

made possible by such external resources, and private/ corporate investment was induced by public activity (Lamberte, et al, 1992).<sup>5</sup>

### The Agricultural and Rural Sector

The Philippine economy is basically rural and agricultural. Through the past three decades, majority of the population has resided in the rural areas, and agriculture has provided about half of all employment. Moreover, the Philippines has continued to produce between 21% to 28% of its GDP from the agricultural, forestry and fisheries sector (Table 2). This pattern is quite unlike those of the Philippines' NIC neighbors like South Korea and Taiwan, or of its recently rapidly growing neighbors in Southeast Asia - Thailand and Indonesia.

The continuing dependence of the economy on the agricultural sector has been interpreted by some analysts as indicative of the Philippine economy's failure to industrialize - that is, to shift in structure such that over time more of its production will originate from the industrial, not the agricultural, sector (APST, 1986). Such a shift would be consistent with the pattern of development that has been observed as a "stylized fact" of international development experience. Indeed, the share of the agriculture in GDP has dropped from an average of 26% in the latter seventies to 22% in the most recent five-year period. Yet the shift of production did not go from agriculture to industry - instead the slack was taken up by low-productivity services. While the contribution of industry remained at about 35%, the contribution of services to GDP rose from 36% in 1980 to over 44% in 1991 (Chart 4).

---

<sup>5</sup> The so-called complementarity hypothesis of investment where public investment "crowds-in" private investment. A. Chibber and M. Dailami (1990) observe that public infrastructure spending complements private investment, but public investment in productive sectors crowd out private spending.



Table 2

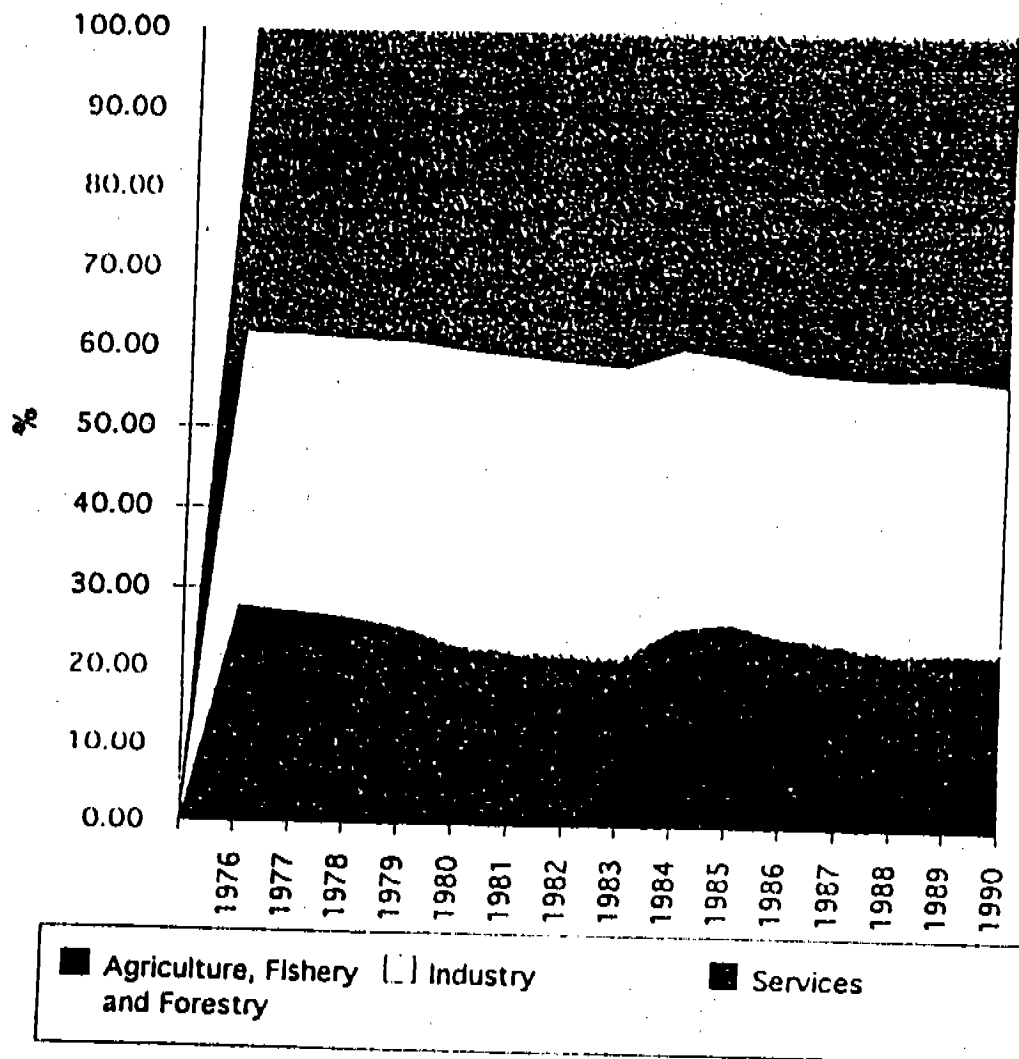
## Value and Share of Production by Industrial Origin

Year	Share in GDP			GDP	Value of Production		
	Agriculture, Fisheries & Forestry	Industry	Services		Agriculture, Fisheries & Forestry	Industry	Services
	(%)	(%)	(%)	(Current Mill P)	(Current Mill P)	(Current Mill P)	(Current Mill P)
1976	27.81	34.08	38.12	135272	37615	46095	51562
1977	27.22	34.43	38.35	154226	41982	53100	59144
1978	26.66	34.49	38.85	177869	47360	61281	69028
1979	25.53	35.36	39.10	217543	55543	76934	85066
1980	25.12	38.79	36.10	243749	61219	94545	87985
1981	24.89	39.17	35.94	281596	70092	110309	101195
1982	23.35	38.83	37.82	317177	74055	123154	119968
1983	22.37	39.23	38.40	369077	82545	144801	141731
1984	24.75	37.91	37.34	524481	129824	198819	195838
1985	24.58	35.07	40.35	571883	140554	200548	230781
1986	23.95	34.58	41.48	608887	145807	210528	252552
1987	23.93	34.65	41.42	685068	163927	237398	283743
1988	22.87	35.51	41.63	802519	183515	284937	334067
1989	22.70	35.42	41.88	925181	210009	327667	387485
1990	21.96	35.11	42.95	1074280	235956	377173	461450
1991	21.18	34.29	44.45	1238686	262342	424712	550593

Source: 1991, 1992 Statistical Yearbooks, National Statistical Coordination Board

Chart 4

### Shares of GDP By Sector, 1976-91



The inability of the industrial sector to grow much more rapidly than the services and agricultural sectors has been attributed to the Philippines' much delayed abandonment of the ISI strategy so popular in developing countries through the 1950s and 1960s. Thus the country's industrial sector has continued to be protected - only in the domestic market - and thus internationally uncompetitive. The system of protection has in turn imposed constraints and costs on the rest of the economy. The protracted continuation of this system has thus not only stunted, but also stymied the growth of the Philippine economy as a whole, making the process of adjustment to outward-looking, competitive strategies all the more difficult and painful.

The rate of growth of the Philippines' agriculture, forestry and fisheries sector has been weak by ASEAN and East Asian standards. While the agricultural sectors of Thailand and Indonesia have experienced continuing growth of 6-7% per year over the past decade, the Philippines lagged at barely over 2%. The earlier stages of the development of the economies of Taiwan and South Korea were also dominated by agriculture, but the shift to domination by the industrial sector in the post-war Korean War period occurred quite rapidly. Domestically, however, the agriculture-dominated experience of the Philippines has been seen in a somewhat favorable light, in the sense that while the industrial and services sectors were shrinking in 1984 and 1985, the agriculture sector continued to grow, albeit at a low rate of about 3% in 1972 Pesos (Lamberte, 1991).

Even a cursory examination of the data on the contribution of the agricultural, forestry and fisheries sector will lead to a conclusion that the sector is a critical segment of the Philippine economy. Yet even this conclusion may be based on an underestimation. The full impact of agriculture may be revealed and better appreciated in three more ways: (1) by separating the contribution of the forestry, and also possibly the artisanal fisheries sectors, (2) through a

disaggregation of the output of the industrial and services sectors, and (3) by an examination of the Philippines' Input-Output (I-O) Matrix.

Separating Forestry and Artisanal Fisheries. The contribution of the forestry sector to overall growth has shifted from positive to negative as the nation's reserves of woodland and forest products have dwindled, and policy has been forced to emphasize conservation rather than exploitation. This shift is particularly evident in the mid- to late 1980s, when the growth rate of the agriculture sector is consistently greater with the exclusion of forestry. Given the opposing directions of current development policy between agriculture and forestry, as well as the difficulties in adjusting the national income accounts to reflect the "true" market value of forest resource exploitation, the data on forestry should be reported separately from the performance of agriculture and fisheries.

The same reasoning on the impact of forestry on total agricultural sector growth can also be applied to fisheries. It is evident that the artisanal, coastal or municipal fisheries sector of the Philippines has become overexploited. Thus bans and closed seasons have been declared for areas in particular distress, like Manila Bay and one or two other fishing bays. The behavior of the fisheries sector has in fact been quite erratic, with growth as high as 20% in 1981-82 and even declining by -18% in 1984 (Table 3). Clearly the analysis of agricultural sector performance should thus also consider a different framework for the fisheries sector.

Table 3			
Growth In Real GDP, Total Agriculture and Fisheries GVA			
Year	GDP	Agriculture, Fisheries & Forestry GVA	Fisheries GVA
	%	%	%
1980			
1981	3.76	3.81	20.05
1982	3.62	0.60	1.99
1983	1.87	-3.38	8.21
1984	-7.32	-0.93	-18.78
1985	-7.31	-1.88	8.19
1986	3.42	3.68	18.26
1987	4.78	3.22	-10.37
1988	6.25	3.24	2.41
1989	6.06	3.01	-5.45
1990	2.42	0.48	0.16
1991	-0.99	0.70	2.97
Source: 1992 NSCB Statistical Yearbook			

### The Agricultural Content of Philippine Industry.

The importance of agriculture in the Philippine economy is often underestimated due to the design of the statistics reporting on sectoral contributions. The agricultural, fisheries and forestry data incorporate only primary, farm-level production. Reported in such a manner, the share of agriculture is between 21% and 28% (Table 4). Yet a closer examination of the data categorized as Industry and services reveals that agriculture is much more pervasive than a first glance will reveal.

The Dominance of Manufacturing. A breakdown of subsectoral contributions to total Gross Value Added shows that the manufacturing subsector of Industry, by itself, already contributes a large proportion, averaging over 24% over the period 1976 to 1991. As a subsector to Industry, manufacturing contributed at least 61% to as much as 74% of industrial output since 1976. This pattern is consistent with the experience of many countries which have successfully completed the transition to industrialization (Chenery, *et al.* 1986). Furthermore, manufacturing turns out to be dominated by food processing, which has composed from 31% to 45% of manufacturing output (Table 5 and Chart 5). This figure may even be an underestimate, because the farm-level output of the large, integrated plantations of the large, multinational agribusiness firms like Dole and Del Monte may be reported as lumped in the total production of the integrated operations of the corporation - and thus may be counted as industrial, not agricultural output.

This finding is supported by the observation that many of the Philippines' largest corporations and business conglomerates are based on agriculture, agribusiness and food manufacturing. These include the international giant San Miguel Corporation and its subsidiaries Magnolia Corporation, Campofrio, Coca-Cola Philippines and B-Meg Feeds, among others. The other large food and

Table 4

## Shares of GDP By Sectoral Origin

Year	Agn, Fisheries & Forestry	Mining & Quarrying	Manufac- turing	Construc- tion	Utilities	Transport	Trade	Finance & Housing	Other Services
	%	%	%	%	%	%	%	%	%
1976	0.23	0.02	0.24	0.07	0.03	0.05	0.14	0.08	0.22
1977	0.27	0.02	0.24	0.08	0.03	0.05	0.14	0.08	0.22
1978	0.27	0.02	0.25	0.07	0.04	0.06	0.15	0.08	0.23
1979	0.25	0.03	0.24	0.08	0.04	0.06	0.15	0.08	0.23
1980	0.25	0.02	0.26	0.09	0.06	0.05	0.12	0.08	0.21
1981	0.25	0.02	0.26	0.10	0.07	0.05	0.12	0.08	0.20
1982	0.23	0.02	0.25	0.10	0.09	0.05	0.13	0.08	0.21
1983	0.22	0.02	0.24	0.11	0.11	0.05	0.13	0.08	0.21
1984	0.25	0.02	0.25	0.09	0.10	0.05	0.14	0.06	0.19
1985	0.25	0.02	0.25	0.05	0.11	0.06	0.14	0.06	0.20
1986	0.24	0.02	0.25	0.05	0.11	0.06	0.14	0.06	0.21
1987	0.24	0.02	0.25	0.05	0.10	0.05	0.14	0.07	0.21
1988	0.23	0.02	0.26	0.05	0.11	0.05	0.14	0.07	0.21
1989	0.23	0.02	0.25	0.06	0.10	0.05	0.14	0.07	0.21
1990	0.22	0.02	0.25	0.06	0.10	0.05	0.14	0.07	0.21
1991	0.21	0.01	0.25	0.05	0.12	0.06	0.14	0.07	0.21
								0.10	0.24

Source: Source: Estimates from data in the 1991 and 1992 NSCB Statistical Yearbooks

Table 5

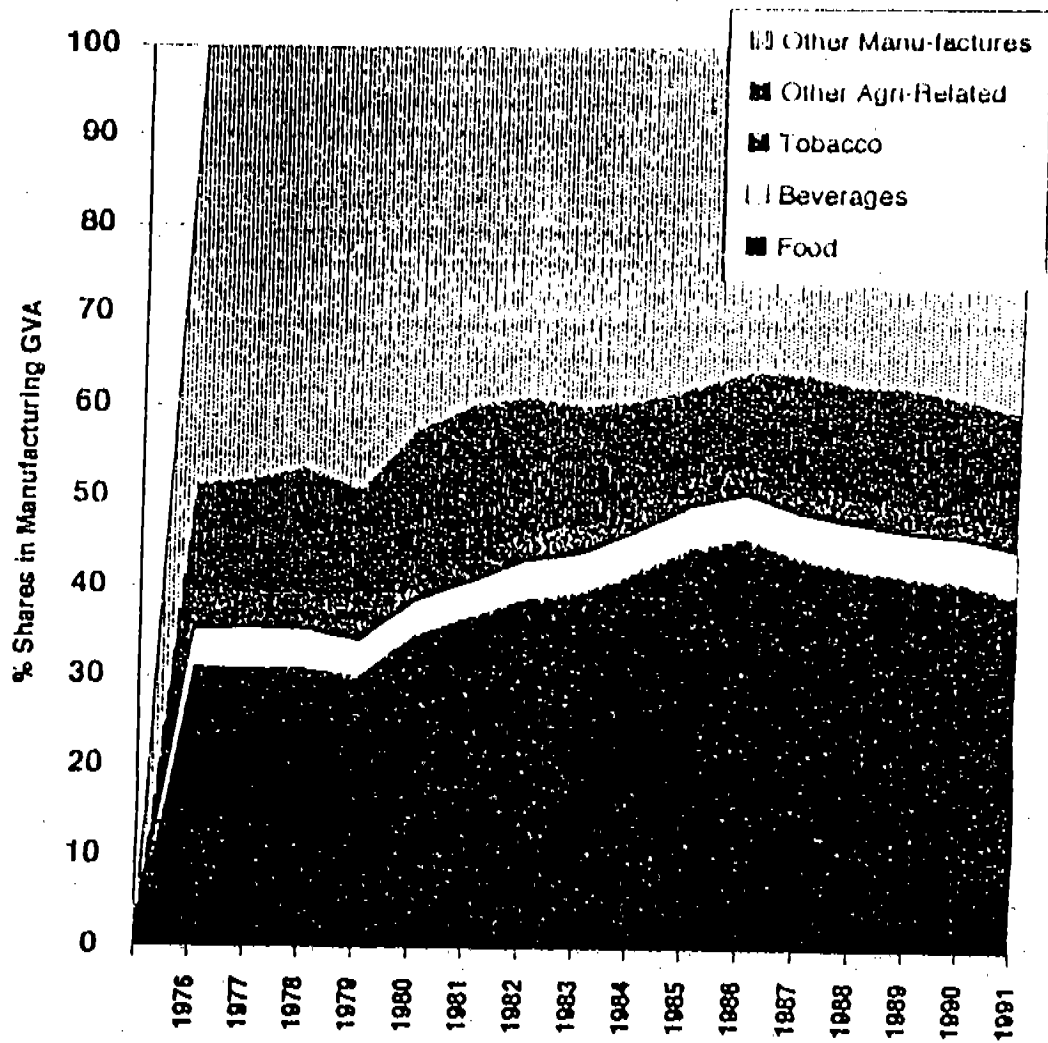
**Agribusiness Elements In Manufacturing**

Year	Breakdown of Manufacturing GVA, %				
	Food	Beverages	Tobacco	Other Agri-Related	Other Manufactures
	%	%	%	%	%
1976	31.27	3.98	4.79	11.29	48.67
1977	31.11	4.37	4.74	11.71	48.08
1978	31.15	4.21	4.45	13.42	46.77
1979	30.30	3.86	4.10	12.61	49.14
1980	34.94	3.59	3.21	15.81	42.44
1981	36.95	3.77	3.33	16.12	39.84
1982	39.06	3.94	3.41	14.71	38.88
1983	39.78	4.09	3.40	12.85	39.88
1984	42.15	4.19	3.18	11.20	39.27
1985	44.77	4.49	3.46	9.54	37.75
1986	45.90	4.57	3.54	9.79	36.19
1987	43.69	4.81	3.61	11.61	36.28
1988	42.58	4.75	3.63	11.46	37.58
1989	41.74	4.62	3.30	12.51	37.82
1990	41.20	4.56	2.91	12.34	38.99
1991	39.81	4.67	2.75	12.45	40.32
Source: Estimates from data in the 1991 NSCB Statistical Yearbook					



Chart 5

### Agribusiness Components of Manufacturing GVA



agricultural-based firms include Republic Flour Mills and its subsidiaries, Purefoods Corporation and its subsidiaries, Vitarich Corporation, Pepsi-Cola Bottlers Philippines, and so forth.

The I-O Table. A third method of appreciating the enormity of the contribution of agriculture to the Philippine economy is by an analysis of the input-output (I-O) table of the Philippine economy. This method is in fact the more comprehensive of the three mentioned in this report, since it quantifies not only the final outputs of the sectors but also breaks these down into inputs. Thus the interlinkages between the sectors can be shown. Morgan (1991) recently performed such an analysis for the Philippines. Morgan's estimates indicate that the food and feed processing sector "... has a pivotal role in purchasing raw food products from farms and labor, services and products from other sectors... the sector has some of the most important interindustry linkages in the economy. For instance, 13% of its input costs are for transportation." The food and feed processing sector also turns out to be the most important purchaser of primary agricultural products - buying about 90 percent of rice, corn, coconut and sugarcane production. Note that fully 56% of the "other crops" - which include fruits and vegetables, are sold directly to households in fresh form. This indicates broad scope for value-added processing of these commodities.

The "business and employment multipliers" estimated by Morgan are summarized in Table 6. These multipliers indicate the additional business activity or employment that may be generated in the economy in response to an additional investment in a particular sector. The agricultural and natural resources sectors have the highest-ranking business multipliers. Thus these sectors activate the greatest levels of business activity in the rest of the economy in response to an additional peso of business in the sector. The food and feed processing industry has the second-highest multiplier, following livestock and poultry. Food and feed

Table 6

### Business and Employment Multipliers By Sector, Philippines

Sector	Business Multiplier	Rank	Employment Multiplier	Rank
1 Rice	3.41	4	1.41	16
2 Corn	3.24	7	1.33	19
3 Coconut	3.64	3	1.54	14
4 Sugar	3.35	5	1.45	15
5 Other Crops	3.00	12	1.37	17
6 Livestock & Poultry	3.77	1	2.05	12
7 Agri Services	3.02	11	1.35	18
8 Fishing	2.95	13	1.59	13
9 Logging	2.47	17	2.42	10
10 Mining	1.60	19	3.89	5
11 Food /Feed Processing	3.75	2	17.52	1
12 Manufacturing	2.51	16	5.74	4
13 Fertilizer & Pesticides	2.35	18	6.29	3
14 Construction	2.92	15	3.25	7
15 Utilities	3.21	9	7.10	2
16 Rail and Road	3.24	8	2.48	9
17 Ocean Transport	2.93	14	3.43	6
18 Other Transport	3.28	6	3.19	8
19 Services	3.06	10	2.31	11
20 Households	4.17	•		

Source: Morgan, 1990.

processing also generates relatively greater levels of employment than most other sectors.

#### Agricultural Employment, Value of Production and Exports

A striking feature of Philippine agriculture is that the structure of agricultural-based output has not diversified from dependence on traditional commodities. A breakdown of the value of agricultural production through the 1980s shows that the shares of the value of agricultural production have not changed in the last decade as dramatically as the structures of the Asian NICs, nor even of the fast-growing ASEAN neighbors of the Philippines. The respective shares of crops, livestock and fisheries in the total value of agricultural production were 57%, 12%, and 16% in 1980. In 1991 the shares had changed only slightly to 54%, 21% and 18%, respectively.

A further disaggregation of the value of agricultural production is even more revealing:

Crops. The composition of the value of agricultural crop production barely changed through the 1980s (Table 7). The largest contributors to crop production remain to be paddy, coconut, sugarcane and bananas. Together, these five commodities provided 63% of all crop value in 1991. In fact, the contribution of paddy and corn grew from 24% in 1983 to 28% in 1991. The contribution of corn also grew from 9% in 1983 to 12% in 1991, while the shares of coconut, sugarcane and bananas dropped slightly.

Livestock. Similarly with crops, there has been a tendency toward more concentration also in the livestock and poultry sector. Over the 1980s, the livestock sector has come to be much more dominated by hog and poultry output (Table 8). In 1983 the respective shares of hogs and chicken (plus chicken eggs)

Table 7

## Shares of Total Value of Crop Production, by Crop

Year	Paddy	Corn	Coconut	Sugarcane	Banana	Pineapple	Coffee	Mango	Tobacco	Abaca	Rubber	Cacao
	%	%	%	%	%	%	%	%	%	%	%	%
1983	24.30	9.12	12.97	9.75	5.23	1.99	3.05	3.36	1.05	0.60	0.50	0.17
1984	22.13	8.51	16.01	9.42	5.56	1.97	4.10	3.43	1.41	0.67	0.73	0.18
1985	21.79	8.55	24.57	7.43	5.22	1.88	4.07	3.44	1.39	0.65	0.85	0.17
1986	27.75	10.43	17.35	5.59	5.02	1.73	3.28	2.79	1.07	0.49	0.64	0.18
1987	25.42	9.88	11.88	4.86	4.95	2.17	4.79	3.98	0.97	0.39	0.75	0.21
1988	24.31	11.33	13.93	5.78	4.49	2.69	3.59	3.67	1.67	0.49	0.95	0.25
1989	24.60	10.10	15.45	6.70	3.82	3.03	3.12	3.98	1.07	0.59	0.67	0.18
1990	26.83	11.75	15.18	6.90	3.39	3.60	2.25	2.57	1.38	0.61	0.55	0.12
1991	28.05	11.69	11.59	6.73	4.44	2.92	1.63	3.26	1.35	0.54	0.64	0.14

Source: Estimates made based on data in the 1991, 1992 National Statistical Coordination Board (NSCB) Philippine Statistical Yearbooks

### Shares of Total Value of Crop Production (Continued)

Year	Camote	Cassava	Peanut	Mongo	Onion	Garic	Tomato	Eggplant	Cabbage	Citrus	Other Crops
	%	%	%	%	%	%	%	%	%	%	%
1983	1.52	1.80	0.45	0.30	0.36	0.63	0.63	0.54	0.30	20.43	20.43
1984	1.42	1.49	0.36	0.31	0.88	0.75	0.75	0.55	0.29	18.42	18.42
1985	1.15	1.67	0.36	0.30	0.52	0.73	0.73	0.45	0.36	12.90	12.90
1986	1.23	1.92	0.34	0.29	0.56	0.60	0.60	0.42	0.33	16.67	16.67
1987	1.28	2.04	0.39	0.31	0.45	0.70	0.70	0.47	0.41	22.38	22.38
1988	1.11	1.73	0.33	0.25	0.51	0.60	0.60	0.50	0.29	20.11	20.11
1989	0.99	1.83	0.28	0.25	0.34	0.68	0.68	0.45	0.29	19.46	19.46
1990	0.97	1.82	0.25	0.25	0.40	0.51	0.51	0.47	0.34	18.10	18.10
1991	1.11	2.14	0.43	0.25	0.32	0.57	0.57	0.44	0.32	20.19	20.19

Table 8

### Shares of the Total Value of Livestock Production, By Major Commodity

Year	Carabao	Cattle	Hogs	Goats	Dairy	Chicken	Ducks	Chicken Eggs	Duck Eggs
	%	%	%	%	%	%	%	%	%
1983	3.16	8.11	34.89	0.96	0.00	31.75	7.51	12.94	0.67
1984	3.38	8.39	36.49	1.09	0.14	31.12	6.29	11.91	1.19
1985	3.70	8.81	42.11	0.96	0.10	26.29	4.78	12.31	0.94
1986	3.28	9.66	39.61	1.40	0.28	28.89	4.56	10.47	1.84
1987	3.87	8.70	41.68	1.38	0.25	28.74	3.72	10.25	1.40
1988	3.40	8.37	43.05	1.44	0.24	27.28	3.77	10.60	1.86
1989	3.62	7.08	48.41	1.31	0.20	25.15	3.03	9.68	1.52
1990	4.07	6.90	49.28	1.28	0.17	25.27	2.58	8.89	1.55
1991	3.11	5.99	41.96	2.04	0.14	36.20	1.97	7.07	1.51

Source: Estimates based on data in the 1991, 1992 NSCB Statistical Yearbooks

were 35% and 45%. In 1991 these shares were 42% and 41%. With hogs and chicken dominant, the output from carabao, cattle and ducks have dropped. The contribution of goats, dairy and duck eggs have remained quite small.

Fisheries. Unlike the cases of crops and livestock, there has been a definite shift in the structure of the fisheries sector (Table 9). The contributions of commercial and artisanal fisheries have fallen, while that of aquaculture has increased. In 1983 the respective shares of commercial, municipal and aquaculture fisheries were 29%, 49% and 23%. In 1991 the shares of commercial and municipal fisheries had dropped to 24% and 37%, while the contribution of aquaculture had risen to 39%.

#### Agricultural and Rural Employment

Over the past two decades primary agricultural (along with fisheries and forestry) production has contributed about one-quarter of all economic output, and employed close to one-half of the labor force (Table 10). In 1991 the sector absorbed 44% of the total labor force. Combined with the relatively rapid rate of population growth, the stunted growth of the economy, particularly of industry, has seen the agricultural sector forced to shelter more and more of the population. Labor productivity has thus stagnated and even declined (Table 11). Real (1985 Pesos) per capita agricultural GVA was P16,528 in 1980 and was P15,559 in 1991.

A basic indicator of the economy's health is its capacity to generate opportunities for employment - particularly in being able to shift labor from agricultural to non-agricultural then industrial occupations. This shift has however not occurred in the Philippines. Ranis and Stewart (1989) have ascribed this phenomenon to the country's continuing entrapment in a strategy of import-substituting industrialization. The ISI strategy has created a dualistic



Table 9			
Shares of the Value of Fisheries Production, By Major Subsector			
Year	Commercial	Municipal	Aquaculture
	%	%	%
1983	28.91	48.56	22.53
1984	24.46	50.26	25.28
1985	25.42	46.25	28.33
1986	25.10	47.02	27.88
1987	24.80	46.16	29.04
1988	26.29	43.13	30.58
1989	24.39	39.49	36.12
1990	23.97	39.19	36.84
1991	23.79	36.99	39.23
Source: Estimates on data in 1991 NSCB Statistical Yearbook			

Table 10

**Agricultural Employment, Philippines  
1970 - 1991, in Millions**

Year	Total Employment	Agricultural Sector Employment	
		Number	% of Total Employment
1970	10.73	5.61	52.30
1971	11.58	5.61	48.40
1972	12.09	6.34	52.42
1973	12.71	6.73	52.99
1974	13.08	7.07	54.03
1975	13.44	7.08	52.64
1976	14.45	7.60	52.59
1977	14.55	7.28	50.02
1978	15.74	8.12	51.58
1979	16.73	8.08	48.27
1980	16.79	8.67	51.65
1981	17.63	9.05	51.33
1982	16.73	9.31	51.73
1983	18.54	9.63	50.96
1984	18.55	9.55	49.66
1985	18.97	9.74	49.44
1986	19.63	10.20	49.77
1987	20.80	9.73	48.53
1988	21.50	9.92	46.78
1989	21.85	9.90	45.18
1990	22.53	9.98	44.94
1991	22.98	10.03	45.01

Source: 1991 Statistical Yearbook, National  
Statistical Coordinating Board

Table 11

### GVA, Employment and Labor Productivity In Agriculture, Fisheries and Forestry

Year	Real Agricultural Gross Value Added	Employment in Agriculture, Fisheries and Forestry	Labor Productivity
	(Mill 1985 P)	(Mill 1985 P)	(1985 Pesos)
1980	143295 00	8 67	16527 68
1981	148749 00	9 05	16436 35
1982	149641 00	9 31	16073 15
1983	144586 00	9 63	15014 12
1984	143247 00	9 55	14999 69
1985	140554 00	9 74	14430 60
1986	145725 00	10 20	14286 76
1987	150414 00	9 73	15458 79
1988	155292 00	9 92	15654 44
1989	159964 00	9 90	16157 98
1990	160734 00	9 98	16105 61
1991	161859 00	10 40	15558 88
CB Statistical Yearbooks			

economy where the modern, highly capital-intensive sector has provided some growth, but not jobs. Such development has further been concentrated in the Metro-Manila area, which now accounts for about a third of the country's GDP, and half of all of manufacturing's value-added. Bautista (1990) further observes that the Philippine economy's sector with the greatest abundance of labor - the rural non-farm sector - was not enabled to nurture rural non-farm enterprises - the small and medium sized, labor-intensive activities that primarily multiply and flourish with agricultural productivity and growth.

#### Agricultural Exports

The contribution of the agricultural sector to the economy has remained at about one-quarter of total GDP over the past two decades. The proportion of agricultural products in the country's exports has however changed greatly. In 1970 agricultural exports were dominant, with its gross value accounting for 56% of total gross exports. In 1991 the contribution of agriculture was only 17% (Table 12). Note however, that these are data gross of imported inputs. Philippine agriculture in general, is low-input. Chemical fertilizer is the major input which has to be imported. Thus the import content of Philippine agriculture is low, compared to the import content of say the country's largest exports in gross terms - textiles and garments. These manufactured outputs require imported inputs of at least 60% of their value.

Table 12			
Total Exports and Agricultural Exports			
Year	Total Exports	Total Agricultural Exports	Agricultural Exports as % of Total Exports
	(FOB Mill US\$)	(FOB Mill US\$)	%
1970	1142	644	56.39
1980	5788	2262	39.08
1981	5720	2502	43.74
1982	5021	2060	41.03
1983	5005	1966	39.28
1984	5391	2107	39.08
1985	4629	1510	32.62
1986	4842	1473	30.42
1987	5720	1582	27.66
1988	7074	1741	24.61
1989	7821	2392	30.58
1990	8186	1416	17.30
1991	8840	1476	16.70
Source: 1990, 1991 NSCB Statistical Yearbooks			

## II.

### The Literature and Analytical Framework

Another of the age-old questions in economics is: "Why do governments, more often than not, choose policies, and/or choose to act in ways that are (analytically) considered to be economically sub-optimal?" Indeed, there are many examples of such behaviour: governments often impose prohibitive tariffs on imports to protect domestic producers, when subsidies provided to the same producers will be more efficient. The tariffs raise the price of the protected good across the entire economy, forcing all consumers to bear the cost of the protection provided. Yet targetted subsidies financed from the government budget will certainly cost less, and that cost will be borne by far fewer taxpayers.

Similarly, food and agricultural parastatals are common in developing countries, where the cost of such government intervention in production and/or marketing has often rapidly mounted to dangerously high and unsustainable levels. Governments have set up and maintained such public enterprises, even when much smaller amounts could have been devoted to irrigation, rural roads, research and technology which would have permanently boosted productivity, kept food prices low, and even allowed local farmers to be internationally competitive.

Another major example is the tenacity with which governments have clung to import-substituting industrialization strategies, to the neglect of their rural and agricultural sectors - often their most productive resources. The Philippines is a particular example of a case in which the effects of import-substituting policies and strategies have lingered - even though officially these have been reformed.

### The New Political Economy

Of course it is known that political factors affect the formulation and implementation of economic policies. The problem has always been the complexity of political and social phenomena and behavior, and consequently the great difficulty of understanding such and determining the embedded patterns and rules of conduct. Such difficulties have led some analysts to comment that "...political economy is simply the pretense at knowing what is not knowable."<sup>5</sup> Thus most economists have chosen to strictly delimit the factors that they cover in their analysis, and treat social and political factors as given. Yet the demands for analysis and understanding of international development experience, particularly in the post World War II period, has rendered the dichotomy between economics and political science increasingly untenable.

Efforts to explain the economic behavior of governments in consideration of the effects of and interaction with political factors have now produced a large and rapidly-growing body of literature on the political economy of development policy and strategy, and on the political determinants of policy making, particularly in the context of the recent macroeconomic stabilization and structural adjustment experiences of the developing countries. This body of literature - while new, tackles a topic which has always been one of the great, continuing themes of economics - that of the role of the state in the economy.

T. N. Srinivasan has defined the new political economy<sup>5</sup> as:

"The 'new political economy' is often defined as the neoclassical economic theory of politics... I define it narrowly by the axiom that agents behave rationally; that is, they have a consistent set of preferences over the outcomes of their actions, and they choose an action whose outcome is preferable to the

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<sup>5</sup> Srinivasan (1991), interpreting Frank Hahn (1985).

outcomes of other actions they find also feasible, given the constraints within which they act... 'political economy' will be restricted to analyses that are based on the postulate of rational behavior by all agents in economic and political spheres (Srinivasan, 1991)."

Given that the field is growing so rapidly, it is useful to briefly review the NPE literature from the perspective of its development within the recent decade. In general, the NPE literature has progressed through three major phases<sup>6</sup>: analyses of the political economy of agricultural policy, focus on the political feasibility of policy reforms, and most recently, the investigation of endogenous policy making.

#### The Political Economy of Agricultural Policy

The analyses of the political economy of agricultural policy first attempted to explain: (a) why less developed countries tax, while developed countries subsidize their agricultural sectors, and (b) why do governments intervene at sharply differing levels across commodities? Such research led to the literature on the political economy of: (a) taxation in developing countries (Krueger, *et al.* 1988), (b) the transition from taxation to protection in the newly-industrializing countries (Anderson and Hayami, 1986) and (c) commodity price support in the developed countries like the U.S. and some European countries (Gardner, 1987; Peit *et al.*, 1987).

The political-economy explanations and interpretations in the literature have, in general, utilized the "stylized facts" of the development process that have been commonly observed: the falling share of agriculture in GNP and employment, a rising share of marketed surpluses, increasing fixity of factors in agricultural production, a fall in the relative incomes of farmers, a declining

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<sup>6</sup> This summation relies substantially on de Janvry and Sadoulet (1992)



share of food in consumers' budgets, a decreasing price elasticity of food demand, a falling elasticity of wages with respect to food prices, a shift in comparative advantage from agriculture to industry, more agricultural diversification, lesser reliance on trade taxes and more on direct taxes, and an increased capacity to decouple incomes from commodity price supports.

### The Political Feasibility of Policy Reform

As the inefficiency and costs of existing policies have mounted, the inevitability of reform and of the difficulties met in initial reform efforts have led to the development of the literature on the understanding as well as the determination of the political feasibility of policy reform. These analyses have been expanded in the examination of reform in relation to macroeconomic stabilization and structural adjustment (Nelson, *et al.*, 1990); the transition to import-substitution to outward orientation (Magee, *et al.*, 1989), and the shift from centrally-planned to market-oriented economies.

The above literature indicates some of the determinants of politically successful reform to include: (a) more favorable macroeconomic economic context for reform; (b) smaller redistributive effects of reform; (c) appropriate sequencing of reforms, with experience pointing to the following chain: exchange rate adjustment and inflation control, followed by trade and tax reforms, then financial liberalization and public sector adjustment, and finally productive sector reforms; (d) packaging of reforms in mutually-reinforcing and thus more politically-palatable sets; (e) the greater coincidence between the distribution of the gains from reforms with the distribution of economic power; (f) a high level of state autonomy; (g) lower levels of political polarization; and (h) greater social consciousness.

### Endogenous Policy Making

Some advances have also been made in the modelling of policy making as the result of interactions between policymakers and those affected by the policy. In this context, the view is taken that "Policy is itself the endogenous outcome of a social process (de Janvry, 1992). These modelling efforts have partaken of the game-theoretic frameworks developed in the public choice literature. Included are the theories of government behavior under lobbying by interest groups, and the theories of time consistency and credibility in policy making (Persson and Tabellini, 1990).

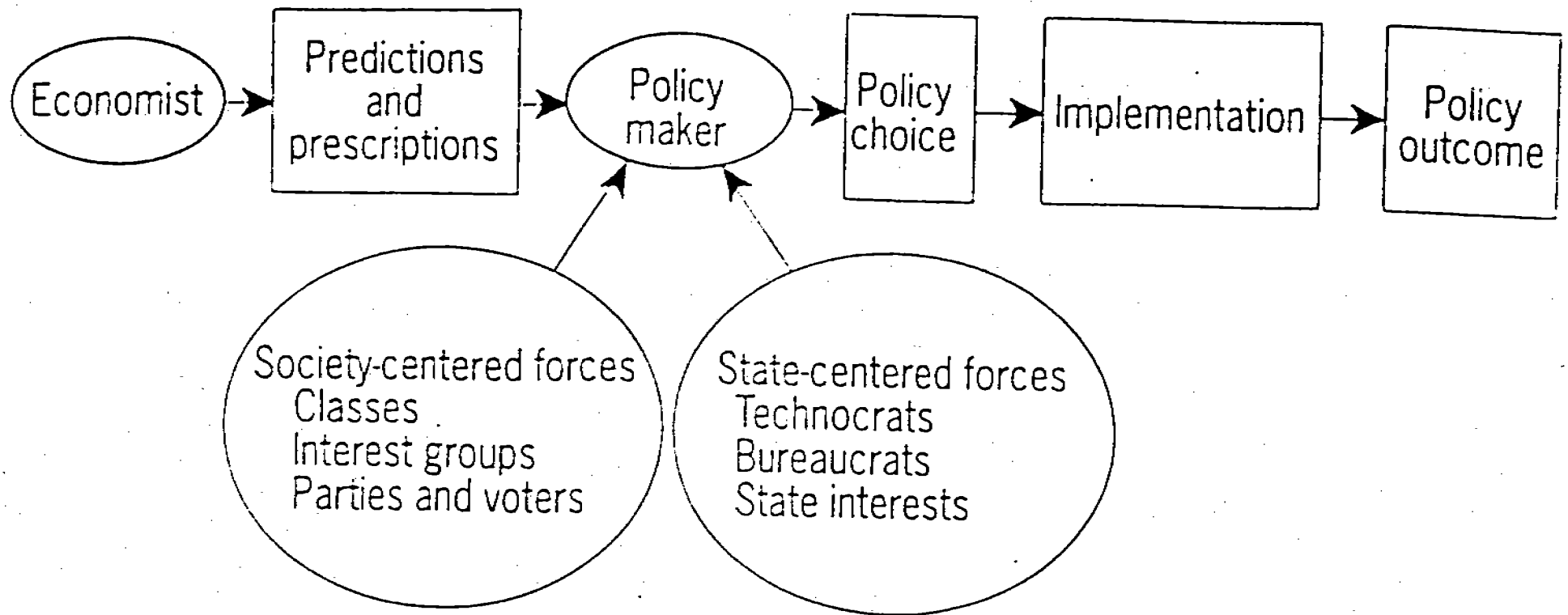
### Policy Substance Plus Policy Process

Meier (1990) provides an illustration (Chart 6) to depict the various forces that bear on the policy maker in the decision process. Meier's representation provides the opportunity to discuss not only the linear progression of policy from the economist to a policy outcome, but also to examine the "society-centered" or "state-centered" forces that bear upon the policy maker. In the society-centered approach, the government is passive. Policy choice is dependent on societal inputs. The state-centered approach, in contrast, views government as possessing its own agenda. The state is autonomous, and technocrats are influential.

This paper adds to Meier's representation, by making a distinction between policy makers and implementors, and also of the forces at work on these separate actors (Chart 7). It is clear from experience that governments are not a homogenous whole. Top government officials do make policy decisions, but these decisions have to be implemented, and in the process are often modified. The extent of the modification is dependent upon the consistency between the views of the policy maker and the latitude of the implementor, and on the success of lobbying and influence efforts directed specifically at the implementors of the policy.

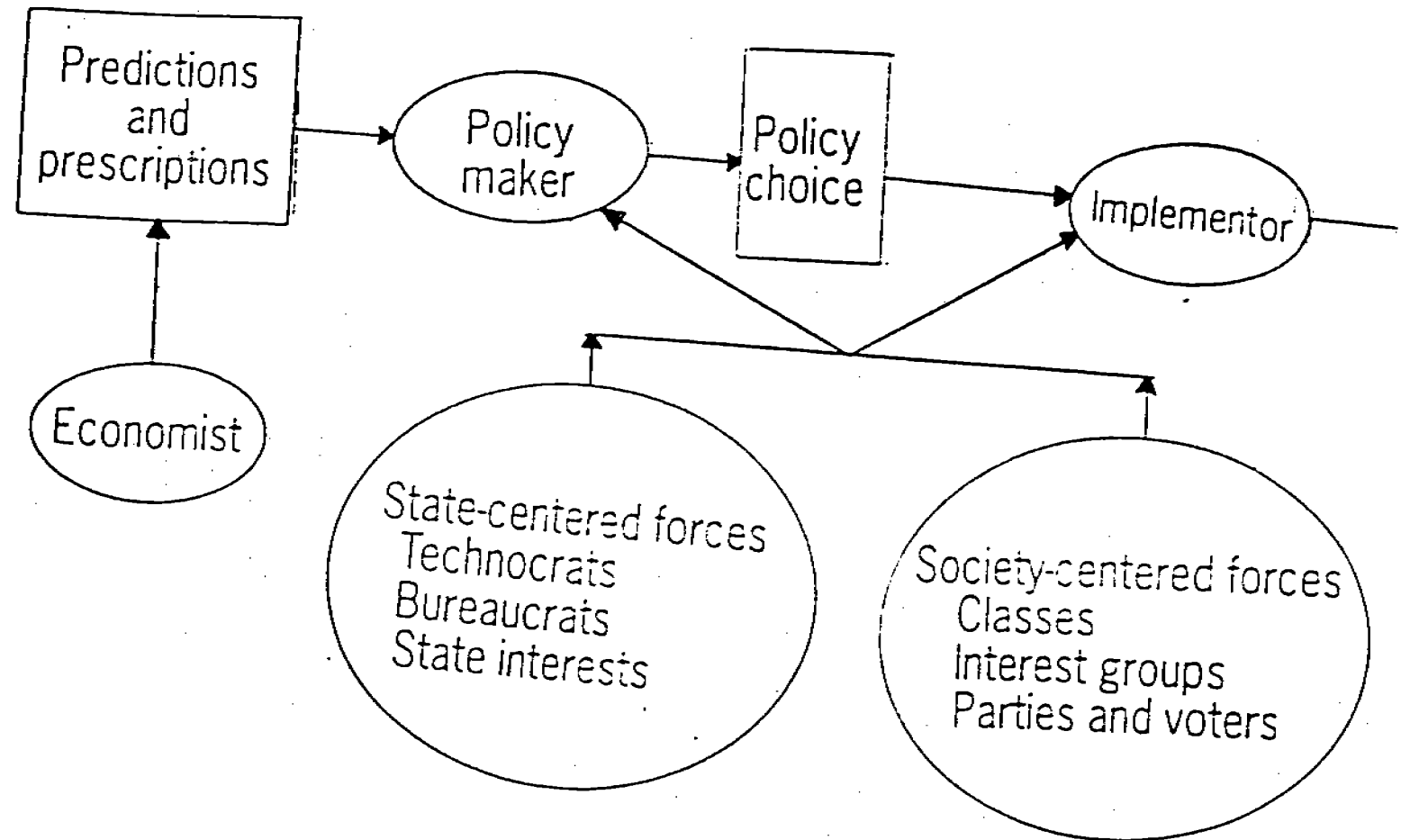
Chart 6

## The Policy Formation Process



SOURCE: Gerald M. Meier.

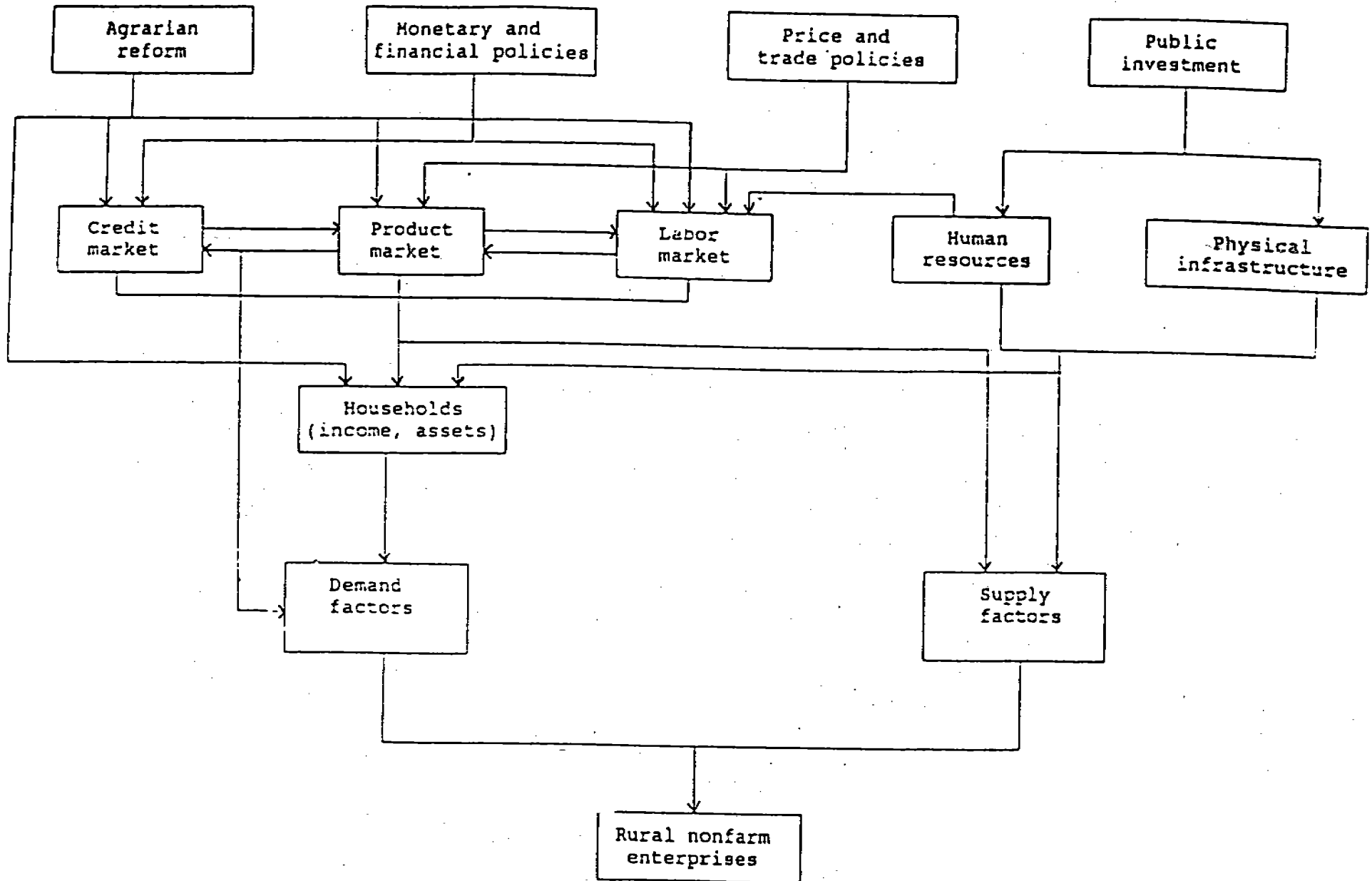
Chart 7



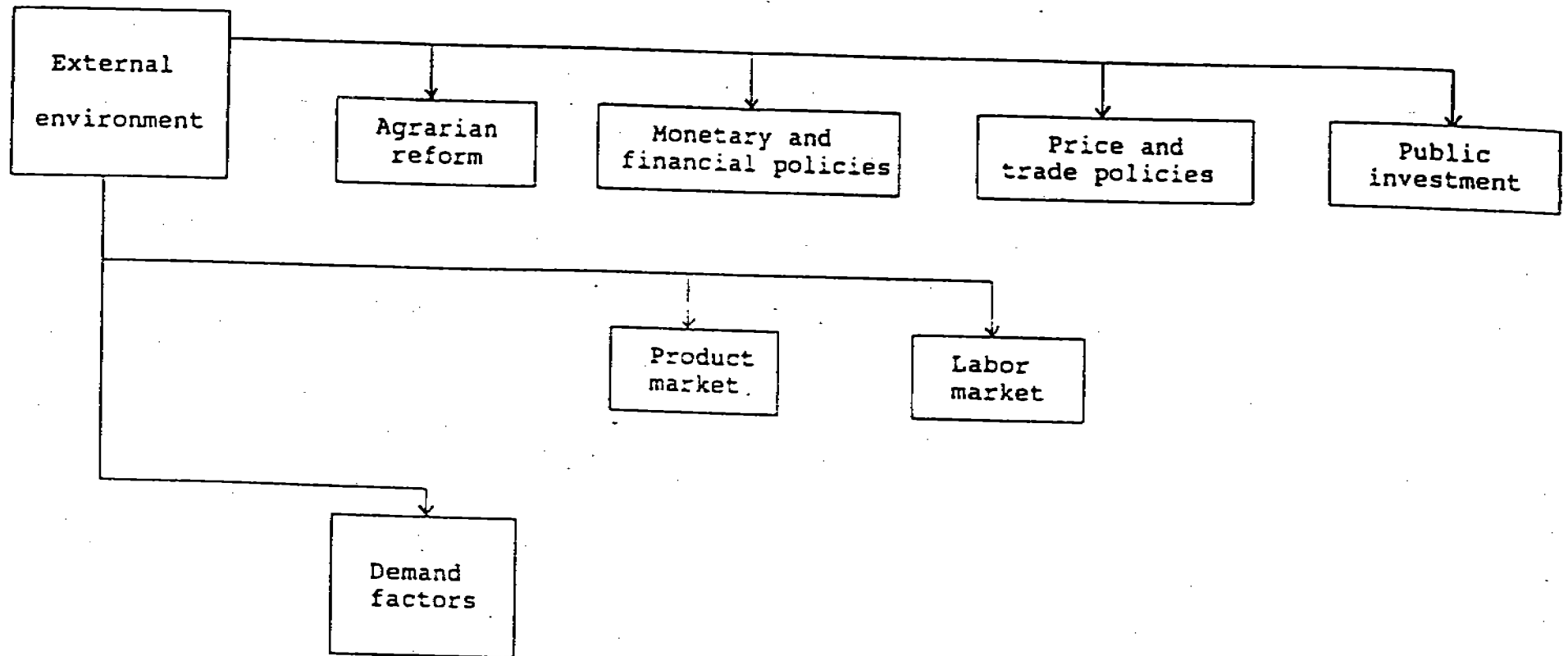
### The Bautista Framework

Bautista (1992) presents a framework for the analysis of policies and strategies in support of rural development, and applies the framework to the experience of the Philippines. Bautista's framework is illustrated in Charts 8 and 9, with the former showing only the domestic influences, and the latter incorporating the influences of the international economy. This paper adopts Bautista's framework to organize and discuss the substantive areas of policy reform in the Philippines.

Chart 8



# DIRECT EFFECTS OF THE EXTERNAL ENVIRONMENT



### III. The Record of Recent Economic Reforms In the Philippines

It took at least five years for enough momentum, fueled by continuing economic hardship and political frustration, for the population's dissatisfaction with the Marcos government's mismanagement and avarice to coalesce into the so-called "EDSA people-power revolution" of February 1986.<sup>7</sup> The beginnings of the crisis were in the government's responses to the international oil shocks of the early 1970s and again in the early 1980s. The trigger for the events of late 1985, culminating in February 1986 was the assassination of the popular opposition politician Benigno Aquino Jr. in August 1983.

#### The Roots of the Economic Crisis

The government started to run large current account deficits in the early seventies, as it struggled to afford suddenly very expensive oil in the wake of the first international oil shock. The domestic economy was also buffeted by the threat of food shortages as the rice harvest was devastated by typhoons through late 1971 and 1972. Marcos adroitly managed to combine the economic and political difficulties of the period to provide the rationale for his declaration of Martial Law in September 1972. He established a broad program of expansionary expenditures as the government's response to the pressures induced by the OPEC's cartelization of oil pricing and the threat of a food shortage. The government mounted what it called a set of "counter-cyclical maneuvers", in terms of a sharply-increased fiscal and public investment program (World Bank, 1992).

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<sup>7</sup> "EDSA" is the popular acronym for Epifanio de los Santos Avenue, the ring road encircling the urban proper of Metro Manila. EDSA was the principal site of the demonstrations in opposition to President Marcos.



Debt - Driven Growth. The government borrowed heavily from both official and commercial sources for the financing required for the programs and projects. Borrowing during the period was quite easy. Marcos has effectively neutralized opposition to government policy, and the Philippines was perceived to be a good credit risk. The International financial market was awash deposits of "petrodollars" - the large gains amassed by the OPEC countries due to their sudden decision to raise oil prices. The international financiers, imbued with a belief that countries could not default, provided loans freely. Between 1974 - 80, the annual rate of increase in the Philippine government's spending averaged 22%. The inflows from externally-sourced loans were also so large that the Central Bank's International reserves even increased between 1974 and 1979 (Bautista, 1987).

At first glance, the strategy adopted by the government worked. Through the mid-1970s overall economic growth per annum surged to hitherto-unexperienced heights of 6 to 7% in real terms. Private investment followed public spending, and construction boomed. Manufacturing grew rapidly, transforming the structure of Philippine exports from one dominated by traditional commodities to a more diversified structure with significant manufactured, non-traditional content.

Masked however by the aggregate growth statistics of the period were the very unstable core operating indicators of economic management. The current account deficit as well as the public sector deficit (Table 13) mounted rapidly. The country continued to borrow heavily not only to finance new expenditures but also to pay off and refinance accumulated debts. The government continued to borrow to the extent that the ratio of the country's external debt to GNP ballooned

Table 13		
Current Account and Public Sector Deficits (% of GNP)		
Year	Current Account	Public Sector
	%	%
1975	-5.66	1.23
1976	-5.89	1.75
1977	-3.61	1.86
1978	-4.56	1.22
1979	-5.00	0.15
1980	-5.40	1.28
1981	-5.36	4.00
1982	-8.15	4.29
1983	-8.07	1.70
1984	-3.53	1.58
1985	-0.32	1.98
Source: Canlas (1989) and Montes (1989).		

from only 34% in 1970 to 93% by 1986 (Table 14)<sup>8</sup>. In retrospect, and as summarized by Ranis (1991), the Philippines experienced an extended period of "debt-driven growth".

### The Bubble Bursts

Thus the Philippine economy was hardly in a position to effectively adjust to the second international oil shock of 1979-80. Still heavily exposed to international debts which had been incurred at a low LIBOR rate, the government continued to borrow even at LIBOR of 16%. In 1982, foreign borrowing had reached 8.5% of GNP, and the public sector deficit stood at 4.5% of GNP. Moreover, a substantial proportion of the investments that had been made utilizing the borrowings did not pay off. Many were made to cronies of the Marcos regime to either establish new enterprises or to save existing ventures<sup>9</sup>.

The Banks in Crisis. The commercial banking system, including the government financial institutions, was of course a major link handling the financial flows arising from the foreign loans. Much of the crony loans were handled through the Philippine National Bank and the Development Bank of the Philippines. Private borrowing from foreign sources also increased by an annual average of 20% from 1973-82.

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<sup>8</sup> Prior to 1981, loans were freely available. When the second international oil shock hit and Mexico declared a moratorium on its debts, the debt crisis broke. The Philippines continued to borrow, but at very steep rates and also because its creditors hoped to salvage their already large exposures to the country.

<sup>9</sup> Or, to continue to funnel funds to personal caches, ostensibly through domestic public investments.

Table 14

**External Debt**  
(Million \$ and %)

Year	External Debt	Debt/GNP	Debt/Exports
	<i>Million \$</i>	%	%
1975	4939	31.30	154.30
1976	6768	37.50	196.50
1977	8069	39.00	190.50
1978	10694	44.50	217.80
1979	13352	45.20	213.40
1980	17252	49.00	215.40
1981	20693	54.40	242.40
1982	24677	62.80	308.30
1983	24816	72.80	305.20
1984	25418	80.50	317.10
1985	26252	81.70	331.60
1986	28256	92.90	327.30
1987	28649	83.40	310.80
Source: Montes (1989).			

In 1981, the financial system was exposed in crisis by the abscondment of Dewey Dee, a textile industry tycoon with Marcos connections. Dee escaped from a large, tangled, mess of unsecured, interlocking debts. The revealed imprudence of Dee's creditors and the weakness of the regulatory services of the Central Bank signalled a general loss of confidence in the financial system and the economy. Savings plummeted, capital fled, and international credit, both official and commercial, dried up<sup>10</sup>.

Through the first half of the 1980s, the Central Bank of the Philippines did all it could to prevent a generalized run on the banking system. The Government undertook a major attempt at crisis management, marked by the slashing of public expenditures and the CB's issuance of the "Jobo Bills" - specialized instruments designed to drastically reduce the money supply.<sup>11</sup> The Philippines' domestic crisis combined with international markets in torpor to result in GNP growth falling to less than 3.5% in 1981, and to only about 1% in 1982 and 1983. In the years 1982 to 1985 GNP per capita actually shrank.

The Debt Crisis. The second oil shock meant that the Philippines' current account deficits could no longer be financed from foreign loans after 1981. Mexico had defaulted, and the lending spree of the world's commercial banks had come to an abrupt halt. However, the continuing need for foreign exchange necessitated the drawing down of the Central Bank's international reserves. Moreover there was increasing difficulty in obtaining long-term loans. In 1982, short-term capital inflows were about three times those in 1979 (\$12.1B), and the

<sup>10</sup> By one estimate, capital flight at this time amounted to \$2.5 Billion, estimated as the total of residual change in external debt, with adjustments due to direct foreign investment, current account transactions, change in international reserves, monetization of gold, special drawing rights and revaluation of debt due to change in the rate of foreign exchange (I. T. Sicat, "Capital Flight: The Philippine Case," *The Central Bank Review*, Manila, May 1990).

<sup>11</sup> "Jobo" is the nickname of Mr. Jose B. Fernandez, the Governor of the Bank of the Philippines from 1983 to 1989.

ratio of short-term to total debt rose sharply from 19% to 26%. The additional financing was required to meet the increased debt burden, and was also provided by the commercial banks in a desperate attempt to avoid wholesale default (Lamberte, et al., 1992).

Bautista (1985) provides a concise description of the 1983-85 crisis:

"The debt crisis arose essentially because external lenders discontinued the rolling over of short-term loans owing to political instability after August 1983. To compound the problem, there was massive capital flight following the Aquino assassination, estimated at \$200 M within a few weeks. The \$2.7B current account deficit incurred in 1983 (representing 8% of GNP) had to be financed from international reserves, which slumped to a level equivalent to less than one month's imports by mid-October. This represented, by any standard, a foreign exchange crisis. The Philippine government soon declared a moratorium on payment of debt principal, a total debt outstanding amounting to about \$26B at the time."

### The Productive Sectors

While industrial development dominated the rhetoric of development in the early eighties, agricultural production provided the actual foundations for growth and capacity to weather adverse turns in the international economic environment. The Philippines was one of the earliest converts to the import-substituting industrialization strategy in the post-WWII era. It is among the last countries to attempt to abandon it. Elements of the ISI strategy still remain entrenched in the policy structure. There also continues to be fervent beneficiaries as well as believers in the strategy, and their influence on policy making persists.

Export Incentives and the BOI. The Export Incentives Act (EIA) of 1970, which strengthened the Investment Incentives Act (IIA) of 1967, signalled a shift to a more outward-looking strategy, but its implementation and the variations of the Act since then, had the effect of increased protectionism.<sup>12</sup> The Board of Investments (BOI), which was the principal implementor of the EIA and the IIA, provided various kinds of tax exemptions to qualified enterprises. Export taxes; deductions of export revenue from income taxes; tax credits on taxes paid on, as well as on the cost of, raw material imports; and deductions of export promotion expenses and freight costs were among the incentives provided to investors and exporters. Export producers could also take advantage of selective support and subsidies in terms of access to finance, easier financing terms, infrastructure in export processing zones, marketing and handling services.

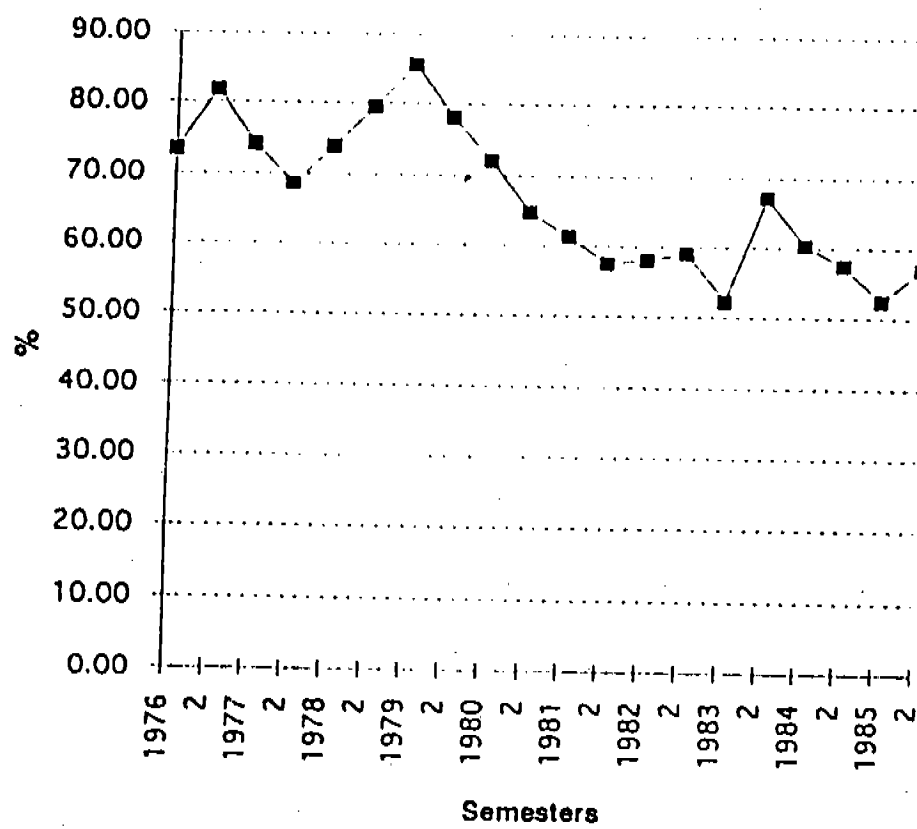
These incentives were however, not enough to compensate for the disincentives to exports engendered by the overall trade and foreign exchange policy regime. The highly protective tariff system still ensured that exporters are only competitive in the domestic market, behind the tariff walls. The tariff restrictions also served to support the overvaluation of the exchange rate, exacerbating the exporters' problems. Most significantly, even with the value of exports growing between 1972 and 1980 at 23%, the Philippines' terms of trade continued to fall, since import prices were growing at 17.5% per year during the same period (Chart 10).

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The Philippines has a long history of selective incentives for industries, with the earliest provided in 1946. Republic Act 35 of 1946 granted new and necessary industries exemption from the payment of internal revenue taxes for the first four years of operation. Power and Sicat (1971), Jurado (1976) and Masan (1986) provide useful overviews of Philippine incentives over the years.

Chart 10

### Terms of Trade





### Agriculture as the Bulwark of the Economy

The agricultural sector was the internal source of the economy's rapid growth in the 1970s. Foreign capital inflows provided the external resources for growth. Riding on the world commodity boom of the early to mid-1970s, Philippine agriculture was pushed along by a massive, expansionary "rice and roads" spending program to grow at an impressive annual average rate of 6.5% through the 1970s. The "green revolution", particularly in rice as implemented in the Philippines as the Masagana 99 program, took root and spread through much of the rice-growing sector<sup>13</sup>. Agricultural growth, in turn, provided the wherewithal for the protected, inward looking industrial sector to grow.

That agricultural growth is a key precondition to industrialization in countries like the Philippines is now a "stylized fact" in the development literature.<sup>14</sup> International experience seems to support the analysis that there is a strong link between agricultural growth, the capacity for industrialization, and macroeconomic performance in developing countries (Bautista, 1987). Furthermore, strong agricultural growth seems to underlie the strong overall performance of the economy. The 1982 *World Development Report* noted that countries whose GDP growth exceeded 5% per year had agricultural sectors growing at not less than 3% per year.

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<sup>13</sup> Brewster Grace, "Food and Small-Farm Strategies in the Philippines," in Barbara Huddleston and Jon McLin (eds.) *Political Investments in Food Production*. Indiana University Press, 1979.

<sup>14</sup> Bautista (1991) provides a concise review of the demand-side effects of agricultural growth on rural development.

Finally, agricultural strength provides the capacity to withstand adversity. During the worst-performing years of the Philippine economy in 1983 to 1985, only agricultural GVA grew, albeit at a low rate. Industrial as well as services GVA growth were negative. Adelman (1984) observes that 80% of the 31 countries whose growth did not deteriorate during the late 1970s had above-average performances in agriculture.

Yet the policy regime of the 1970 and the early 1980s in the Philippines did not exploit the country's comparative advantage in agriculture. Even with the end of the world commodity boom, and the consequent deterioration of the country's terms of trade. In the late 1970s, the country's economic managers continued to implement a strategy of development characterized by the reliance on an incentive-fueled shift to non-traditional exports. These exports were however very narrowly-based and highly dependent on government protection and imported inputs. Their expansion was thus unsustainable, and collapsed with the debt crisis and the second oil shock in 1979-80.

It was only in 1984, toward its end, that the Marcos government gave a clear signal of a seeming turnaround in its policy toward agriculture. A comprehensive program of agricultural-based development was launched, aimed at improving agricultural productivity, promoting a stronger and more diversified farming system, and increasing agriculture's contribution to the balance of payments through expanded exports and import substitution (Bautista, 1987). But by then the effort was too late to revive the economy and save the regime.

### Continuing Rural Poverty

The most telling evidence of the misdirected strategy of governance in the 1970s and early 1980s is the continuing pervasiveness of poverty. Ballsacan (1992) shows that the proportion of the population earning incomes below the poverty line rose from around 50% to almost 55% between 1965 to 1985 - the years of the Marcos presidency (Chart 11). This observation holds even with the use of alternative measures of poverty (the commonly-used headcount index, or the more distributionally-sensitive poverty gap or Foster-Greer Thorbecke measures) or sets of data (the official Family Income and Expenditures data, or the "Constant Rural Areas" data adjusted for changes in the definition of "rural areas" prepared by Ballsacan (1992)).<sup>15</sup>

### The Marcos Economic Legacy.

The eve of the February 1986 revolution thus saw an economy characterized by the following stark features:

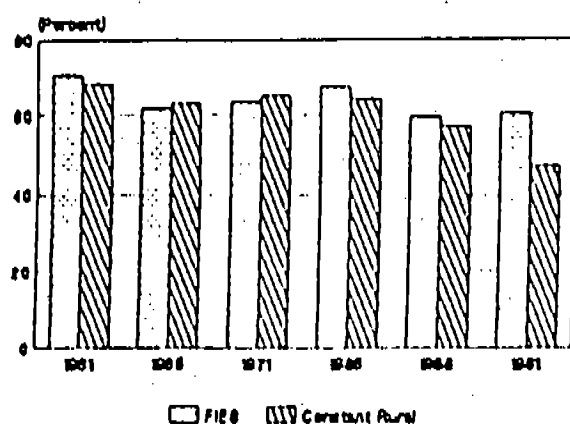
- 35 million, or 59% of Filipinos, subsisting on incomes of size below the official poverty line;
- rural poverty double that of urban poverty;
- more than 65% of all school-age children moderately or severely malnourished;
- negative (-4.1%) GNP growth in 1985 (SONA, 1991);
- agricultural GVA growth at only 1.2%, while industrial GVA at minus -6.6%, and services GVA also at minus -2.9% from 1983-85 (Lamberte, *et al.*, 1992);
- a public sector deficit of 3.1% of GNP;

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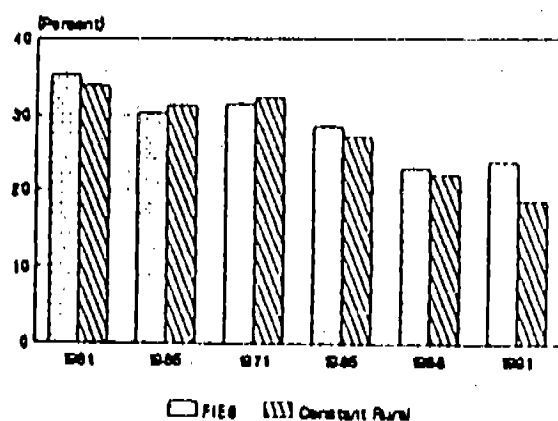
<sup>15</sup> The adjustment is made necessary by the flaw in the intertemporal comparisons of income levels of rural households, when the definition of "rural" has been modified over time, and which thus introduces a systematic underestimation of rural incomes (Bautista, 1991).

# Rural Poverty: FIES vs Constant Rural Areas 1961-1991

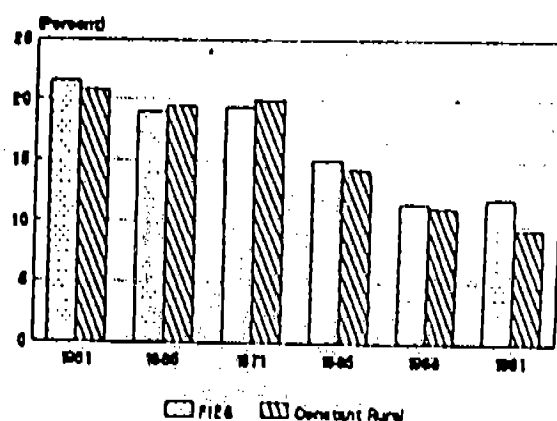
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## POVERTY GAP



## Distribution-Sensitive Measure



- annual inflation of 23% in 1985, 27.9% over 1983-85;
- exports in decline by 4% annually from 1981-85;
- a debt-to-GNP ratio of 92% in 1985, and a very poor international creditworthiness rating;
- unemployment of 12.6% in 1985, and underemployment of 29.5% in 1983-85;
- the grains, meat, flour, sugar, banana, fertilizer, airline, shipping, port handling, telecommunications and coconut industries in the grips of government or government-protected monopolies;
- an partially-aborted trade reform program and a trade policy structure still heavily protectionist and riddled with quantitative restrictions;
- a partially-implemented financial sector reform program, with branching still restricted, special lending programs continuing and the rural financial system still quite repressed;
- a banking system, particularly the large, government-owned and operated government financial institutions the Philippine National Bank and the Development Bank of the Philippines, practically bankrupt under the deadweight of "non-performing assets," loans and advances to the government and to "crony" individuals and businesses;
- 301 government-owned and controlled corporations (93 parent and 208 subsidiaries) which were absorbing about 5.3% of GNP annually in subsidies; and
- only 3.7% of the total government budget allotted to public investments in 1985.

### The Aquino Government's Attempts at Reform

President Corazon Aquino and her team came into responsibility in February 1986 flush with enthusiasm and ambition to set the country - its economy, politics, bureaucracy, its situation and entire future - right. They immediately attempted to accomplish a very ambitious set of reforms - ambitious because they were a bit naive about the facility and speed with which reforms could be achieved, and also because the Filipino population, weary from the excesses and exploitation of the Marcos regime, literally expected miracles from the new government.

Aquino's "Program" of Reforms. Whether the Aquino government succeeded in constructing and implementing what may be truly called a program of economic reforms is a matter of judgement. A strict view of a program would demand the design and execution of both economic stabilization as well as structural adjustment measures - all deliberately conceived as a comprehensive, cohesive, internally-consistent set of policies and activities aimed at restoring macroeconomic balance in the short-term, then the creation of an environment conducive to accelerated economic growth over the long term. The strict definition may also require that the program of reforms would be generally supported, if not also understood by the implementing structure and bureaucracy. Krueger (1992) however, notes that "... in practice, any change in economic policies is described as a 'policy reform program'." Brazil underwent "policy reform" programs in five years, and Argentina had eleven "crash economic packages" in two years since 1989! Krueger does proceed to define a "policy reform program" as "... a set of policy changes that are announced and intended to be implemented to correct long-run difficulties in the functioning of the economy ... emphasis is on the set of policies... (including)... monetary policy,

alterations in government expenditures and tax policies ... and changes in the exchange rate and liberalization of the trade regime.

The reforms of the Aquino period contained all of the elements enumerated by Krueger. On that basis, the Aquino period may thus be viewed as possessing of an economic reform program, as indeed it is viewed in the literature, including by the PIDS, 1987; Krueger, 1992; Haggard, 1990; Nelson, 1990; World Bank, 1992; and Soriano, 1992. But such a listing does not reveal the disparities in the sources and impetus for the various reform activities within the policy making community and official hierarchy. In examining the process of reform in the Aquino era, it needs to be emphasized that the various reform activities implemented added up to into an "economic reform program" almost *serendipitously*. While there were individual officials in the Aquino administration who had both the capacity and willingness to undertake the reforms *as a package*, in general the government's policy initiatives and activities were not designed, with predetermination, to be simultaneously nor coordinatively implemented. The fiscal expenditures reform activity was principally the province of the Department of Budget and Management. The activities to improve the generation of fiscal revenues was an effort of the Department of Finance. All along the Central Bank of the Philippines appeared to manage the money supply and exchange rate like variables with consequences only on its own accounts. The trade reform program only became recognized as an issue of broad consequence and interest late in the Aquino regime. It was also in the later years of the Aquino period when the interactions and interrelations of the various policies finally became recognized among the economic policy makers. Toward the latter half of 1990 that deliberate efforts to meld the disparate elements into a coordinated program were taken, when a package of liberalizing measures were presented to the cabinet (principally by the Department of

Finance) for approval, prior to discussions with the multilateral financing institutions.<sup>16</sup>

The set of economic reforms embarked upon by the Aquino government was not completely new. It contained many elements from the structural adjustment measures that the Marcos government had begun to implement as early as 1980, following negotiations with the IMF and the WB that had begun in 1978. For example, the financial liberalization program was initiated in 1980, followed by the tariff reform program in 1981. Ongoing in 1986 were reforms in fiscal policy and in the disposition of government-owned and operated corporations - particularly those in the agricultural sector.

#### The Analytical Sources of the Aquino-Era Reform Measures

From the point that she embarked on her unexpected adventure in leadership, Corazon Aquino's political agenda was much clearer than her economic program. In hindsight, it is clear that her principal and priority interest was to create an environment of political normalcy along democratic ideals. Such a situation, she hoped, would then set the stage for participatory, and sustainable, economic recovery and growth. From such a viewpoint, it is thus not surprising that Aquino focussed most of her energies on political matters, and paying attention to economic management when specific questions would be raised to her for resolution. That left the thinking and execution, both on the overall as well as the detailed levels, on development strategy and policies to the cabinet members concerned.

Given the relative autonomy provided by President Aquino to the Cabinet members directly in charge of economic policies, they each fell back to their individual experiences, ideas, ideologies, beliefs, interests and circles of advisers

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<sup>16</sup> The presentation was spearheaded by the new Secretary of Finance, Dr. Jesus Estanislao. The presentation was made shortly before the government had to meet with the IMF on a new financing facility.



for the intellectual and analytical content of the economic policies and measures that they espoused and/or implemented, largely on the basis of the returns which they expected from these measures on their individual areas of responsibility, apart from those of the other officials, and regardless of the effects on other areas of the economy. Solita C. Monsod had been appointed by Aquino to be Economic Planning Minister and Director-General of the National Economic and Development Authority at least partly because she had been a vociferous critic of Marcos economic policies and an effective spokesperson for the recommendations of a group of economists (including Monsod) based at the U.P. School of Economics. She fell back on the input of these economists, which, because of their training, provided the broad-gauged analysis and recommendations which are appropriate for adjustment and growth. Ramon Mitra, an astute veteran politician who had agricultural interests, enunciated a market-oriented agriculture-first stance, particularly in partnership of his Deputy Minister Carlos Dominguez. Dominguez, who later became Secretary of Agriculture with Mitra's being elected Congressman and House Speaker. Dominguez used the input of liberal economists from the UP at Los Banos heavily, and grew to espouse a policy stance quite more open and market-oriented than that of Mr. Mitra. Businessman Jose Concepcion, appointed Trade and Industry Minister and Chairman of the Board of Investments, relied on his own instincts as a manufacturer. He also met and consulted frequently with his fellow manufacturers in the Philippine Chamber of Commerce and Industry (PCCI) - most of whom were engaged in businesses heavily dependent on the protectionist structure of Philippine industrial policy. The Central Bank had always relied upon its internal Department of Economic Research. The Minister of the Budget, Alberto Romulo, brought in one of the authors of the "white paper" - Benjamin Diokno as his Deputy Minister. And, the thinking of the Department of Finance

was driven by the enormous individual energy and enthusiasm of the private sector manager who had been appointed Finance Secretary -- Jaime Ongpin<sup>17</sup>.

Into the NEDA. The most comprehensive set of inputs into the Aquino regime's initial policies were those from economists on the faculty of the UPSE. One group of UPSE professors had produced, after much internal soul-searching, the monograph *An Analysis of the Philippine Economic Crisis* (De Dios, et al., 1984), which popularly became known as the "white paper" and whose contents are described by Fabella (1989) as:

"... conceded the adverse roles of the oil shock and ... terms of trade deterioration but ... that other countries experiencing the same difficulties did not buckle under... The domestic economic structures and policies cannot be absolved of the responsibility for the chronic weakness ... The thesis harped on the progressive, massive and financially bloody usurpation by government of roles and functions properly and ordinarily efficiently discharged by the market and the private sector -- a process facilitated by the extreme concentration of political power."

The "white paper" generated much discussion in the policy making community, even causing significant reaction from the Marcos government. Encouraged, another group of UPSE faculty members, including most of the authors of the "white paper", produced *Towards Recovery and Sustainable Growth* in 1985, and which was popularly dubbed "the Yellow Report" (Alburo, et al., 1985). This time, the discourse was more forward-looking, and detailed a package of policies and actions for liberal, market-oriented economic

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17. Jaime Ongpin, tragically, committed suicide a few months after leaving government in late 1986. His biography (Joaquin, 1989) traces much of his depression to having been forced to leave government because many of his fellow officials could not match his strong beliefs and commitments regarding Philippine development.

rehabilitation and management. This document became the principal manifesto of the liberal economists who participated in the rapidly-growing anti-Marcos movement.

Immediately upon her appointment as NEDA Director-General in February 1986, Professor Monsod summoned academics and economists from the UPSE, the UP at Los Banos, the PIDS, the UP College of Business Administration and the NEDA to formulate an official, comprehensive economic strategy. In May, 1986 the group produced *Economic Recovery and Long-Run Growth: An Agenda for Reform*. This document was the basic intellectual underpinning of the formal program submitted by the NEDA to the President and the Cabinet on October 1986 - *An Agenda for People-Powered Development*, and in December 1986 the *1987- 1992 Medium-Term Development Plan*.

Into the DA. The faculties of Agricultural Economics and Economics, and the staff of the Center for Policy and Development Studies at the UPLB, loosely organized as the "Agriculture Policy and Strategy Team", had initiated an effort to carefully assess the state of Philippine agriculture in late 1985. Their initial findings became available at the time of the February 1986 revolution and were seen by Agriculture Deputy Minister Dominguez, who enthusiastically began to use the APST's work. He henceforth often called upon various members of the team to assist the Department of Agriculture, and soon after also the Department of Environment and Natural Resources, for which Dominguez was Minister briefly in 1987. Moreover, the DA essentially adopted the work of the UPLB economists *Agenda for Action for the Philippine Rural Sector* (APST, 1987) as the Department's principal guiding reference in its policies and advocacy.

## The Policy Reforms

For the purposes of this paper we assemble a set of lists which when collected add up to the set of policy reforms attempted by the Aquino government. These lists are: (1) PIDS (1987) set out in Table 1 which enumerates the official pronouncements of the Aquino government in its first eleven months in office, and (2) Soriano (1992) who sets out a framework, based on official sources, of the principal objectives of the Aquino government's reforms (Chart 12) of the structural adjustment measures undertaken by the government in the 1986-92 period. These lists are supplemented by information from the texts of the letters of Intent submitted by the Aquino government to the International Monetary Fund as part of the International financing and debt restructuring process and Dohner, *et al.*, 1988) who list the actions initiated in the pre-1986 era and continued by the Aquino government, as based on the "policy dialogue" minutes with the USAID.

Finally, Table 1: summarizes all of the above information on the policy reform measures undertaken within the Aquino period, organized according to the framework proposed by Bautista (1991).

Table 15

Initial Policy Pronouncements of President Corazon Aquino<sup>1</sup>

AREA OF CONCERN	EXISTING POLICY	AQUINO PRONOUNCEMENT
<b>I. AGRICULTURE POLICY</b>		
Dismantling of Monopoly Structures	Monopolies in sugar and coconut trade.	Dismantle.
	Export taxes on agricultural products.	Remove except on logs.
	Control, taxation of fertilizer imports.	Liberalize.
	NFA control of wheat, feed imports.	Reduce NFA role to only rice and corn.
	Copra export ban.	Lift.
Price Support	Inadequate price support for rice and corn	Limit NFA intervention to rice and corn. No imports of corn to avoid depressed prices
Support Services		Strengthen agricultural support services
Irrigation		Rehabilitate, emphasize small-scale/communal systems.
Infrastructure		Implement massive rural infrastructure program using labor-intensive methods
Research and Extension		Make research and extension more responsive to the needs of small farmers
<b>II. NATURAL RESOURCES POLICY</b>		
Resources stewardship.	Overexploitation of resources, corruption	Ban log exports. Review forest concessions, ban coral exports, control fisheries exploitation, and promote equitable sharing of resources benefits.

<sup>1</sup> --Source: Philippine Institute for Development Studies, "Economic Recovery and Long-Run Growth: A Review of the First Eleven Months of the Aquino Government," PIDS, Manila, 1987.

AREA OF CONCERN	EXISTING POLICY	AQUINO PRONOUNCEMENT
III. AGRARIAN REFORM		
Land transfer and leasehold	Only 20% coverage of lands, 30% of beneficiaries.	Accelerate, complete all rice and corn by 1988.
Landed estates		60-30-10 scheme for sugar estates.
Program financing		Propose \$500M agrarian reform fund
Government-owned and foreclosed lands		Distribute.
Idle & abandoned lands		Distribute.
Enabling law		Issue EO on ALRP.

III. TRADE POLICY		
Import Liberalization	Selective, partial liberalization	Replace quantitative restrictions with tariffs. Let market forces work, but protect interests of the poor. Will be transparent.
Tariff exemptions	Exemptions as patronage	Any exemptions to be publicly debated and given only if consistent with development program.
Progressive manufacturing program	PMP in cars and trucks	None, (But different Ministries publicly differ.)
Exchange rate	Maintain low rates via capital inflows	Maintain realistic exchange rate.
Foreign investment	To attract substantial foreign investment.	To attract substantial foreign investment.
Investment incentives	Capital-based and size-oriented	

AREA OF CONCERN	EXISTING POLICY	AQUINO
IV. ENERGY		
Pricing	Industrial users subsidize consumer prices	Reduce subsidy burden on indus

V. GOVERNMENT CORPORATIONS		
Rationalize and define role(s) of Government Owned and Controlled Corporations.		Private sector will be primary eco government reorganization progr advantage for GOCCs. Will limit and guarantees.
Make GOCCs accountable	Government Corporate Monitoring and Coordinating Committee created but with limited powers and in duplication of other agencies supervising GOCCs exist.	Create and integrated system of p
Dispose GOCCs	Studies	Implement specific privatization, at short-term

VI. FISCAL EXPENDITURE POLICY		
Budgets for agriculture, agrarian reform and basic social services	Plans were not matched with budgets. In fact, budgets declined in real terms.	Budget will finance programs that s: agrarian reform, public education, b
Fiscal expenditures for stimulation of recovery	Contractionary budget from 1983-85, specially on operating expenses and capital outlays for infrastructure	Fiscal policy shall be the primary ins: employment for economic recovery.

AREA OF CONCERN	EXISTING POLICY	AQUINO PRONOUNCEMENT
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#### VII. TAX REFORM

Revenue generation, equity and efficiency	Up service to equity and efficiency.	Focus on the equitable, efficient mobilization of finance for development. Eliminate excessive taxes, raise direct tax share, rationalize incentives and increase system elasticity.
Improve administration	Up service.	Revamp the Bureau of Internal Revenue. Use new valuation methods. Increase automated data processing. Implement incentive compensation for revenue and customs personnel.

#### VIII. MONETARY POLICY

Overall policy	Emphasized credit allocation role of Central Bank.	Emphasize the stabilization functions of the CB.
	Tight monetary policy, adjustment-related	Control inflation then switch to liberal policy.
	CB subservient to executive branch.	Safeguard independence of the CB.
High intermediation cost and tax on interest income	Due to high reserve requirement, low interest on reserves with the CB, agri-agra loan quota, & 5% gross receipts tax	Reduce interest rates by lowering intermediation cost.
	Interest on deposits freed, improved savings	Improve savings mobilization by maintaining free deposit interest rate.
Government owned and acquired financial institutions	Rehabilitate GFIs, privatize.	Top priority on separate rehabilitation plan for the DBP and PNB. Privatize acquired banks by October 1988.
Rural financial markets	Emphasis on subsidized credit and loan targeting.	Market orientation and competition.
	Rural financial institutes mere conduits of government programs.	Revitalize, rationalize Rural Bank system, emphasize savings mobilization.
	Too many, fragmented credit programs.	Consolidate agriculture-related loanable funds.
	Restricted bank entry and branching.	Freer entry.

#### IX. FOREIGN DEBT

Foreign debt service burden.	Economic growth subordinated to debt service	Economic recovery and growth will be given priority over debt service.
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ECONOMIC  
RECOVERY AND  
SUSTAINABLE  
ECONOMIC  
GROWTH

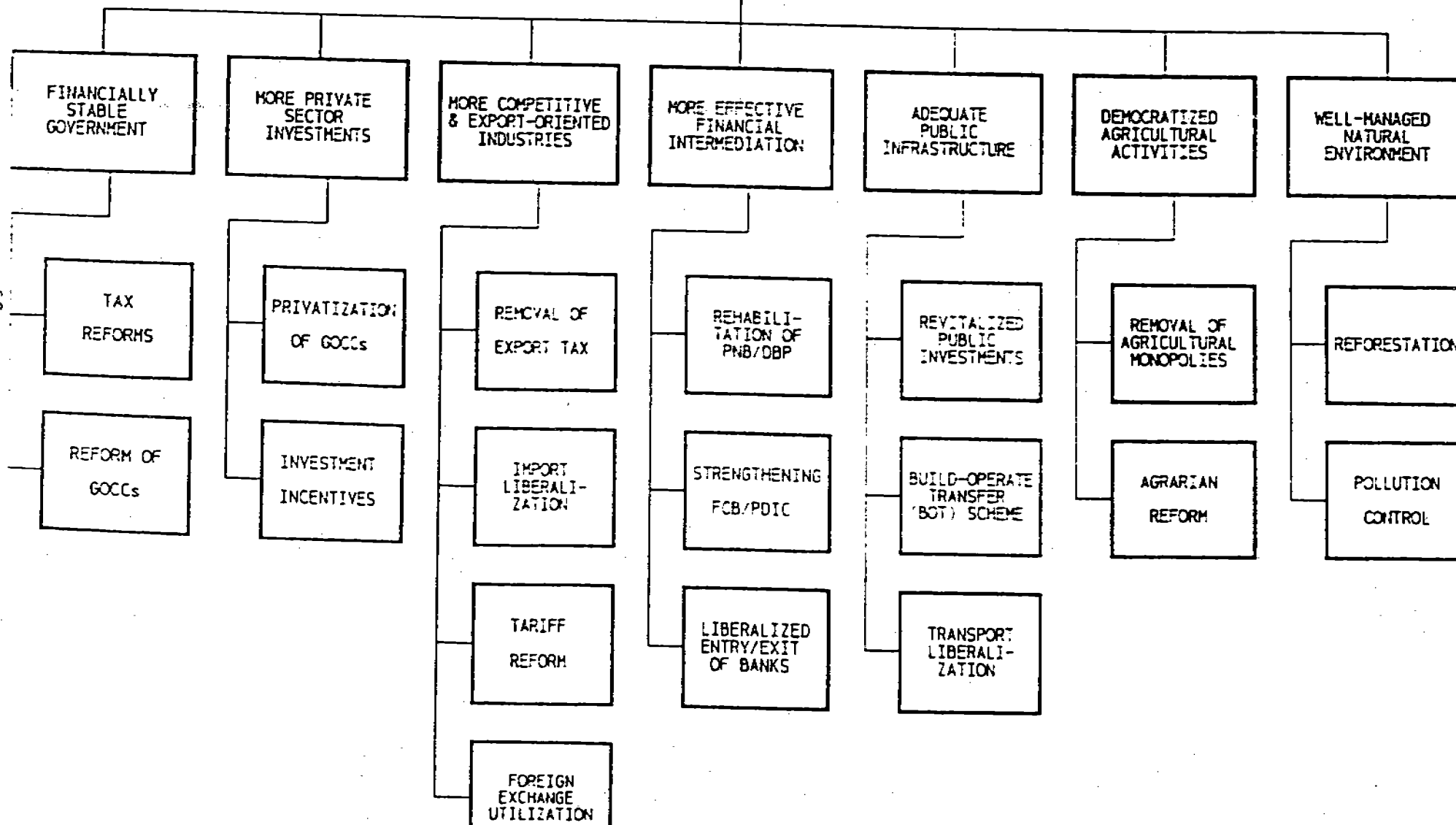


Table 16

### Selected Economic Policy Initiatives of the Aquino Administration

Policy Area	Policy Tools		Announced Policy Intention
Agrarian Reform	Redistribution of Land Ownership	Comprehensive Agrarian Reform Law/ Comprehensive Agrarian Reform Program	Improvement of equity in ownership of land.
	Tenure Reform	Prohibition of share tenancy.	
	Support Services	Agrarian Reform Fund and the Presidential Agrarian Reform Council	Improvement of equity on sharing of income from land.
	Land Use Policy	Land Use Policy Task Force/ Protected Areas for Agriculture	To coordinate and finance support services to ensure the success of land ownership redistribution.
Price & Trade Policies	Tariffs and QRs		To minimize evasion of land redistribution via conversion, to protect agricultural areas from conversion to non-agricultural use.
		Tariffication of quantitative restrictions	
			To increase transparency and revenue generation capacity of trade restrictions.
		Various Central Bank Circulars, Executive Orders and Republic Act 6647.	To reduce the average level and range of tariffs.
		9% Import Levy	
			To raise revenue, cut down imports to reduce demand for FX and reduce the trade deficit
	Investment Incentives	1987 Omnibus Investments Code	
		Debt to Equity Conversion Program	To consolidate existing incentives into a comprehensive package of incentives aimed at foreign investors.
		RA 7042 - Foreign Investments Act of 1991	Facilitate financing for investments.
		"One-Stop Action Center" of the Board of Investments.	"Negative list", "strategic industries", and reduced restrictions on foreign investments
	Basic commodities		Facilitate process of investment approval.
		Price controls on basic commodities	
		Removal of the monopoly on wheat imports from the National Food Authority.	To protect consumers from exploitative pricing, especially during emergencies.
		Continuation of government monopoly on rice trade.	To enhance efficiency of food price interventions.
		Continuation of import permit requirements for corn.	Food price stabilization, protect farmers' incomes.
			To protect corn farmers' incomes.

Table 16, continuation.

## Selected Economic Policy Initiatives in the Aquino Administration, 1986-92

Policy Area		Policy Tools	Announced Policy Intention
Price & Trade Policies, cont'd	Export Taxes	Removal of export taxes, except on logs.	To encourage exports, increase exporters' incomes, conserve dwindling forest resources.
	Coconut Industry	Dissolution of the United Coconut Marketing Authority	To encourage coconut exports, demonopolize and increase coconut industry's income.
	Dessicated Coconut	Controlled entry into desiccated coconut production.	To minimize "overcrowding" and "destructive competition" in the DCN industry.
	Fertilizers	Liberalized entry into fertilizer trade, abolished pre-import clearances, abolish surcharge for debts of Planters Products, Incorporated.	To demonopolize fertilizer trade and link domestic with world prices, remove undue taxation due to debts of fertilizer parastatal.
		Rice Production Enhancement Program, Rice Action Program	To provide subsidized fertilizer for rice production to combat drought, attain self-sufficiency targets, and support rice farmers' incomes.
	Traditional Exports	Setting of "minimum export prices" for DCN, logs/lumber, copra, bananas by the Central Bank.	To liberalize price-setting of DCN.
	Foreign Exchange	Increase in exporters' retention of FX from 2, to 40 then to 100%, and to minimize restrictions on use of retained FX.	To increase exporters' incomes, liberalize FX trade.
		Greater participation in the trading of FX	To further liberalize FX trade.
	Energy Policy	Continuation of the Oil Price Stabilization Fund, and of oil-price setting by the Energy Regulatory Board.	To stabilize the price of oil, oil-related products to minimize adverse repercussions on consumers.
		Organization of private-sector Energy Policy Commission	To enhance transparency and involve private sector in decision-making.
	Beef	Abolish government beef trade monopoly	To demonopolize beef trade.
		Impose beef import quotas and shipping regulations	To protect domestic beef growers.

Table 16, continuation.

## Selected Economic Policy Initiatives in the Aquino Administration, 1986-92

Policy Area		Policy Tools	Announced Policy Intention
Price & Trade Policies, cont'd	Sugar Industry	Dissolution of the National Sugar Trading Corporation, Philippine Sugar Marketing Authority and Philippine Sugar Commission; establishment of the Sugar Regulatory Administration;	To encourage sugar exports, demonopolize trade and increase sugar industry's income.
		Imposition of bonded warehouse clearance requirements; enforced queuing of sugar; aborted privatization of National Sugar Refining Corporation.	To protect the domestic market of sugar.
	Fiber	Export clearance requirements	To minimize poor - quality exports.
	Privatization & GOCC Reform	Proclamation 50 creating Committee on Privatization and Asset Privatization Trust	To reduce government intervention in, and enhance market efficiency; and to reduce subsidy requirements for GOCCs.
Money & Banking Policy	Money Supply	Reserve requirements, discount rate, open-market operations (including issuance of Treasury Bills).	Conservative, adherence to targets agreed with the IMF/WB: i.e. high reserve requirements, discount rate and periodic liquidity "mopping-up" operations.
	Rural Financial /Banking System	Creation of the Comprehensive Agricultural Loan Fund, NEDA Board Resolutions	To consolidate the various specialized government agricultural financing programs, and to minimize participation of government agencies in lending programs.
		Strengthening of the various Loan Guarantee and Crop Insurance Programs - GFSME, PhilGuarantee, QGFB, PCIC, PnB and IGLF. Creation of the SECGIC.	To encourage private lending to agricultural projects by providing collateral substitutes. Creation of a guarantee program for small non-agricultural enterprises.
		Strengthening of the Land Bank of the Philippines, transfer of the Agricultural Loan and the Countryside Loan Funds to the LBP; LBP loans for farmers at below-market (but above financial cost) interest rates.	To increase the flow of formal loans to small farmers and agrarian reform beneficiaries; and to exercise "price leadership" for loans to farmers.
		Programs toward the rehabilitation and strengthening of the Rural Banking System	To strengthen formal rural financial institutions.

Table 16, continuation.

## Selected Economic Policy Initiatives in the Aquino Administration, 1986-92

Policy Area		Policy Tools	Announced Policy Intention
Money and Banking Policy, cont'd		Rehabilitation of the Philippine National Bank (EO 80) and the Development Bank of the Philippines (EO 81).	To strengthen the largest commercial bank (PNB) and the largest development bank (DBP) in the country; and to rationalize the role of Government banks.
		Strengthening of the Philippine Deposit Insurance Corporation	To increase the reliability of, and public confidence in, the formal banking system.
		Liberalization of bank entry/ auction of bank and branch licenses	To increase public access to banking services; to promote efficiency through competition in the banking system.
		Debate on the creation of the Central Monetary Authority	To return the Central Bank to its orthodox money supply management role, and to increase its independence from fiscal pressures and policy.
	Interest Rates	Loan and deposit rates: continuation of liberalized policy; interest rate setting leadership by LBP.	Minimize interventions in setting of interest rates. To set example for rate-setting for small farmers and agrarian reform beneficiaries.
		Continuation of the Gross Receipts Tax, high reserve requirements	Revenue requirements, money supply control.
Public Investments	Human Resources	Increased spending for education.	To provide higher salaries to public school teachers
		Free (State-financed) secondary education	Ensure high-school level education for all
	Infras- tructure	Transport infrastructure investment/policy; Presidential Task Force on Inter-island Shipping; Land transport policy reforms; greater entry into port services at the larger ports	Increase access and efficiency, reform port management, lower transport costs.
		Investment in Electrification and Power Generation; Reform of the National Power Corporation	Increase power generation, foster efficiency in NPC
		Irrigation Law	Provide irrigation services to all farm areas
		Greater entry into telephone services;	Exploration of liberalized entry into market.
	Investment program- ing	Medium Term Public Investment Program, National Economic and Development Authority's Investment Coordination Committee(s)	Focus scarce resources on most critical investments, facilitate use of Official Development Assistance.

Table 1E, continuation.

## Selected Economic Policy Initiatives in the Aquino Administration, 1986-92

Policy Area		Policy Tools	Announced Policy Intention
Other	Individual Income Taxes	EO 37, RAs 7496 and 7167 - simplified income tax measures	To simplify and globalize the system of income taxation at lower rates but broader base.
	Corporate Income Taxes	EO 37	To make tax rate uniform, eliminate double taxation, broaden coverage.
	Sales Taxes	EOs 36, 273 - The Value Added Tax System	Simplify, increase progressivity of indirect taxes
	Excise Taxes	EOs 22, 195	Toward a single <i>ad valorem</i> system, not mixed with specific taxes.
	Environmental Concerns	National Reforestation Program/ Forestry Master Plan/ Protected Forest Areas	To counter denudation, protect watersheds, conserve remaining forests.
		Pesticide Policy Review/ Selected Bans	To optimize use of toxic pesticides.
		Fisheries Sector - Protected Bays	To regenerate fishing grounds, protect overfished areas.

Sources: VBJ Tolentino, Bautista (1991), and Soriano (1992).

#### IV.

### Political Economy Aspects of Policy Reform Implementation in the Aquino Period

Corazon Aquino was swept into office in 1986 on the strength of "people power". She completed her six-year term in 1992 somewhat powerless, due partly to being an electoral "lame duck" and more to vainly grappling with electrical power brownouts that had a substantial proportion of the populations of Metro Manila and other major cities groping in darkness<sup>18</sup>. Worse, economic output fell as industrial activity sputtered under the intermittent power outages.

The power generation problem had its origins in the period before Aquino's. The administration of President Marcos had achieved record levels of public investment in infrastructure, particularly in roads, irrigation and electrification. The record heights were attained in the late 1970s, but were not maintained. In the early 1980s the oil shock hit the Philippines particularly hard, its economy being very dependent on imported energy. Nor could the economy respond with sufficient speed and effectivity, since it was crippled by crony greed. Under the terms of the macroeconomic stabilization measures agreed upon with the International Monetary Fund and the World Bank, the Philippine government took the option of drastically reducing public investment. While the levels of infrastructure spending had risen by 14% in real terms in the five years immediately preceding 1980, such investment dropped by 14% per year from 1981 to 1985.

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<sup>18</sup> Despite controversy on whether or not it was constitutionally valid for Mrs. Aquino to stand for re-election as President, there was widespread expectation that she would. Mrs. Aquino, however, announced that she would not run, and threw her still-considerable weight behind Fidel Ramos, who did emerge victorious from the May 11, 1992 elections.

The installation of additional power generating capacity, as well as the maintenance of existing capacity, was drastically reduced as part of the stabilization program. Compounding the problem was the early decision of the Aquino government, with the support of the new, 1987 Constitution, to mothball the Bataan Nuclear Power Plant. The BNPP has been billed as the key to meeting the increased and future power needs of the Metro Manila area. Its design, financing and construction has however been the subject of severe criticism and controversy. Apart from the "nuclear-free" provisions of the Philippine Constitution, there is evidence that the plant's design is not safe, and that shortcuts were taken in its construction which exacerbated its shortcomings. Moreover, it seems that the financing arrangements substantially overpriced the construction costs for plant, and funnelled part of the gain to Marcos and his cronies. These and other related questions are still being deliberated upon in the courts, both in the Philippines as well as in the U.S. and Geneva.<sup>19</sup>

Thus when Aquino started her term the power problem was already emerging. Yet Aquino and her administration, through the six years of her term, were unable to mount any substantial effort to add generating power or reform energy policy and prevent the problem from worsening to the point of the almost-uncontrolled brownouts.

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<sup>19</sup> The BNPP case is under deliberation in the U.S. as well as Geneva because an American firm - Westinghouse - undertook the design and construction of the plant. Geneva is the venue of the International Court of Justice, before which the Philippine Government has sought redress of its claim that Westinghouse was negligent in design and also aided and abetted the absconding of Philippine funds related to the BNPP.



"Getting Its Act Together." The power generation problem, and the more general concern of energy policy, is one of the areas where the Aquino administration could not seem to "get its act together". Here the problem seemed quite clear and pressing. Yet action to solve resolve it seemed infuriatingly slow, or worse, muddling and even in the wrong directions. Political factors and events, competing interests and exogenous factors combined with the tightly constrained fiscal resources of the government, and clearly underlie any explanation of the Aquino government's action (or inaction) on the energy and power problem. The political interests include those related to the implications of the privatization of the parastatal Philippine National Oil Company, the influence of the private multinational oil companies, concern for the welfare of urban consumers, and inadequacies in the management of these factors.

Context for Decisions. Table 17 enumerates the most important events of the 1986-1992 period. The table provides important background information on the context of the decisions that the Aquino government took, or did not take, or took too long to take, on the power and energy problem and the myriad other tasks of reform confronting the government.

Table 17

# The Post-EDSA Period: An Enumeration of the Major Events

	1986-87	1988-89
	The Easy Part: The Honeymoon	Complications During the Honeymoon
Political	<p>The "Freedom Constitution" and the absence of Congress.</p> <p>The Constitutional Convention</p> <p>Freedom of speech and assembly fully restored.</p> <p>Plebicite and the 1987 Constitution.</p> <p>The re-opening of Congress.</p> <p>The flowering of NGOs.</p> <p>The "Mendiola Massacre" of pro-land reform demonstrators.</p> <p>Rightist military coup attempts: 7/86 Manila Hotel, 7/87 Channel 7, August 28, Manila bombings.</p> <p>Public Works Secretary Ferrer assassinated.</p> <p>Continuing leftist rebellion: peace talks initiated.</p>	<p>January 1988 local elections.</p> <p>Cabinet revamp.</p> <p>Congress flexes its muscles.</p> <p>The CARL</p> <p>The December 2, 1989 coup attempt.</p> <p>Power Play: NEDA, DOF, CB and DTI</p>
Macro and Economic	<p>Continuing the stabilization program.</p> <p>The PCGG, APT and COP.</p> <p>Rescuing PNB and DBP.</p> <p>Continuing the financial sector reforms.</p> <p>Promises to keep: the debt, Paris Club</p> <p>Pump-priming: the CEDP.</p> <p>Continuing the fiscal reforms: the Tax Reform Program</p> <p>Watering down the Trade Reform Program: the lists</p> <p>Decision to mothball the Bataan Nuclear Power Plant.</p>	<p>Consumer, demand-led growth.</p> <p>The import boom.</p> <p>Resurgence in ODA: the MAI</p> <p>The Salary Standardization Law</p> <p>The VAT</p> <p>Debt: IMF EFF, conversion schemes</p> <p>The wage hike</p>
Agricultural	<p>Slaying the dragons: the agricultural monopolies.</p> <p>Re-emphasizing research: the BAR.</p> <p>Reviving policy: the Green Book</p> <p>The CALF.</p> <p>The CAC and the ALRP.</p> <p>RPEP 1</p>	<p>The "making farmers profitable" campaign</p> <p>RPEP 2</p> <p>The "No corn imports" policy and the CPEP</p> <p>The CARP</p> <p>Special concerns</p> <p>Advocacy: the "Bias Against Agriculture"</p> <p>The credit guarantee system and the LEAD</p> <p>The agricultural and fishery councils</p>
Exogenous Factors	<p>El Nino and drought.</p> <p>Typhoons.</p>	<p>Anticipating war in the Gulf.</p> <p>Typhoons, drought.</p>

**The Post-EDSA Period: An Enumeration of the Major Events**  
(Continuation)

	1990	1991-92
	The Aftermath of the 12/2/89 Coup Attempt	Painful Attempts at Reform.
Political	Investment unrest and capital flight. Another cabinet revamp.	Crisis in the Gulf The LGC. Election fever.
Macro and Economic	The PAP and the Philippines' "absorptive capacity" Some deregulation in bank entry Debt cap legislation. Rolling back gasoline prices, and energy policy in flux.	PNB and PAL Privatization. New gov't-business partnership? AFTA, PCCI, dialogue. FX deregulation. Counterpart funding inadequacy? Fiscal deficit myopia? Painful reforms: EO 413-> EO 470; EO 8 Power problems.
Agricultural	The Agricultural Development Plans Reforming the extension system The NAREA The RAP. Continuing the CPEP. Barrio Langkaan and the CARP The Peasant Forum	"Project Self-Reliance" Land conversion and the CARP The Peasant Council Pesticide policy
Exogenous Factors	The July Earthquake Recession in the U.S. Iran-Iraq War	The eruption of Mt. Pinatubo: a continuing burden. Drought Continuing recession in the U.S.

### The Record of Policy Implementation

In Table 16 of Chapter 3, we presented an outline of selected policy initiatives of the Aquino administration, arranged according to the analytical framework suggested by Bautista (1991) which was introduced earlier in Chapter 2. We now examine the initiatives enumerated in Table 16 and provide information as to the actions which were finally taken, and at what point during the six years of the Aquino administration. This information is presented in Table 18. The table is consistent with the Bautista (1991) framework, but a time dimension has been added, distributing the various implementing actions by year between 1986 to 1992. We also provide information on important exogenous factors, as well as some of the political aspects of the policy area, particularly on leadership in the handling of the concern.

Table 18

## Economic Policymaking in the Aquino Administration, 1986-1992

Policy Areas		February-December 1986	1987	1988
Agrarian Reform	Political Factors	<u>February</u> : Aquino assumes office, appoints cabinet. <u>April</u> : Alvarez appointed as MAR Secretary	<u>January</u> : The "Mendiola massacre" <u>March</u> : Alvarez resigns to run for Senator; Medina appointed Acting MAR Secretary. <u>July 23</u> : Juico appointed as DAR Secretary <u>July 27</u> : Congress opens.	<u>July-December</u> : The DAR is reorganized, the members of the PARC are selected and appointed, and work starts on the "implementing rules and regulations" for the CARL. <u>November</u> : E. de Jesus is appointed as the Presidential Adviser on Rural Development.
	Redistribution of Land Ownership		<u>February</u> : New Constitution ratified, mandates agrarian reform. <u>March-July</u> : CAC works on ALRP and draft EOs. Debate rages. <u>July 22</u> : Proclamation 131 and EO 229 on Agrarian Reform.	<u>June</u> : RA 6657 - CARL Law passed.
	Support Services			RA 6657 specifies 30% of CARP budget for support services.
	Land Use Policy			RA 6657 prohibits conversion of land "suitable for agriculture".
Price & Trade Policies	Political Factors	<u>February</u> : Economic Secretaries named: Ongpin, Finance; Monsod, Economic Planning; Concepcion, Trade and Industry; Mitra, Agriculture; Romulo, Budget.	<u>March</u> : Mitra resigns to run for Congress; Dominguez is appointed DA Secretary. Romulo resigns to run for Senator; Carague appointed DBM Secretary; Ongpin resigns. Jayme appointed DOF Secretary.	The "Cabinet Cluster" system for decision-making operationalized.
	Trade Reform Programs	<u>April-September</u> : 929 items liberalized under Phase I of ILP <u>October-November</u> : EOs 49 and 70 mandate minimum import tariffs of 10%. <u>July</u> : Export taxes removed, except on logs	<u>January</u> : EO 26 removes export taxes. Another 171 items liberalized under ILP. <u>August/October</u> : EOs 303 and 306 reduce tariffs on crude oil.	<u>January</u> : Congress' RA 6647 respects 50% maximum tariff rate set by Executive. <u>April</u> : Another 129 items liberalized under ILP. <u>December</u> : 94 List A items liberalized under Phase 2 of ILP.
	Investment Incentives	<u>August</u> : CB introduces debt-to-equity conversion program.	The Omnibus Investment Code comes into effect.	
	Traditional Exports	United Coconut Marketing Authority dissolved. National Sugar Trading Corporation, Philippine Sugar Marketing Authority and Philippine Sugar Commission dissolved, Sugar Regulatory Administration organized	Dessicated coconut production liberalized (entry controls later reimposed). Banana hectareage limits questioned by DA.	Fiber pre-export inspection required.

Table 18: Economic Policymaking in the Aquino Administration, 1986-1992 (continued)

Policy Areas		February-December 1986	1987	1988
Price & Trade Policies, continued	Food Price Policies	Price controls policy on basic commodities maintained Wheat import monopoly removed from NFA. Rice import monopoly retained by NFA. Corn import licensing retained by NFA. Beef trade monopoly removed. Fertilizer trade liberalized.	Beef import quotas imposed.	Fertilizer subsidies under Rice Production Enhancement Program provided.
	Energy pricing	Oil Price Stabilization Fund system maintained. Oil pricing under Energy Regulatory Board.		
Money & Banking Policy	Political Factors	Fernandez held over as CB Governor.		
		September: Rural Bank Review and Rehabilitation Committee formed by DA & CB. November-December: New rules set for GFIs. December: Proclamation 50 establishes APT; EO 80 - new PNB Charter; EO 81 - new DBP Charter.	March: Comprehensive Agricultural Loan Fund created. April: Rural Bank Rehabilitation Program implemented by CB. June-December: Guarantee Funds (GFSME, QGFB) operationalized.	
Public Investments	Political Factors	February: Mercado appointed Public Works Secretary; Perez appointed Transport and Communications Secretary December: Mercado resigns; Jayme appointed DPWH Secretary.	March: Perez resigns to run for Congress; Reyes appointed Transport and Communications Secretary. September: Jayme resigns; Estuar appointed Acting DPWH Secretary. October: Ferrer appointed DPWH Secretary	November: Ferrer assassinated; Estuar appointed DPWH Secretary.
	Rural Infra	Countryside Employment and Development Program initiated.		CEDP halted.
Other Policies		July: EOs 22, 35 & 37 signed to launch Tax Reform Program. November: Adjusted land value basis for real property taxes (suspended from implementation)	June: EO 195 mandates ad valorem, not specific taxes November: Taxation of Franchises	January: Effectivity of EO 273 on VAT.
Other Factors		May: Constitutional Commission appointed.	February: Plebiscite on New Constitution May: Congressional elections. E: Nino phenomenon brings drought.	January: Local elections

Table 18 Economic Policymaking in the Aquino Administration, 1986-1992 (continued)

Policy Areas		1989	1990
Agrarian Reform	Political Factors	<u>July</u> : Juico resigns; Miriam Defensor Santiago is appointed as DAR Secretary.	<u>January</u> : Santiago resigns; Abad appointed as DAR Secretary. <u>January-April</u> : Langkaan controversy, Commission on Appointments does not act on Abad's appointment. <u>April</u> : Abad resigns; Leong appointed as DAR Secretary
	Land Ownership Redistribution	Continuing drafting of the implementing rules and regulations of the CARL	Continuing drafting of the implementing rules and regulations of the CARL
	Support Services	Agrarian Reform Fund inserted in appropriations.	
	Land Use Policy		<u>September</u> : Land Use Policy Task Force created. <u>October</u> : DENR releases Forestry Master Plan and Map of Protected Forest Areas.
Price & Trade Policies	Political Factors	<u>June</u> : Monsod resigns. <u>September</u> : Estanislao appointed Economic Planning Secretary.	<u>January</u> : Dominguez resigns; Bacani appointed as DA Secretary. Estanislao appointed Secretary of Finance; Paderanga appointed Economic Planning Secretary. Jayme appointed as Presidential Coordinator of Economic Affairs.
	Trade Reform		<u>February</u> : 8 more items liberalized. <u>June</u> : EO 404 reduces spare parts tariffs. <u>July</u> : EO 413 issued then suspended.
	Food Prices	Fertilizer prices continued under RPEP 2.	Fertilizer subsidies increased under Rice Action Program.
	Traditional Exports	CB authority to set minimum export prices for desiccated coconut challenged by DA.	Central Bank passes decision on minimum export prices to Philippine Coconut Authority.
	Energy Pricing	Oil prices rolled back.	
	Other	Minimum wages raised by Congress, without gov't support.	
Money & Banking	Political Factors	Fernandez' s term ends; Cuisia appointed as CB Governor.	
	Banking System		
	Rural Finance	Small Enterprises Credit & Guarantee Corporation created	Rural Bank Strengthening Program initiated
Public Investments	Political Factors		<u>January</u> : Reyes resigns. Orbos appointed DOTC Secretary. <u>December</u> : Orbos appointed Executive Secretary. De la Paz appointed as Presidential Coordinator on Energy Affairs.
	Budgetary Resources		'lack of counterpart funds'
Other Policies			<u>September</u> : Congress converts taxes on petroleum from specific to ad valorem
Other Factors		<u>December</u> : rightist military rebels attempt coup-	<u>July</u> : Earthquake devastates Northern Luzon. <u>October-December</u> : Gulf War jitters, drop in remittances, rise in oil and fertilizer prices

Table 18: Economic Policymaking in the Aquino Administration, 1986-1992 (continued)

Policy Areas		1991	January-June 1992
Agrarian Reform			
	Land Use Policy	June: DA issues AO on Protected Areas for Agriculture.	
Price & Trade Policies	Political Factors	January: Concepcion resigns, Garrucho appointed as DTI Secretary.	February: Garrucho resigns; Bautista appointed DTI Secretary. Carague resigns to run for the Senate. Enriquez appointed DBM Secretary.
	Tariff Reform	9% levy on imports (with some exemptions) imposed. March: 20 more items liberalized. July: EO 470 superceding EO 413 issued.	January: EO 470 becomes effective. July: EO 8 issued. Tariffication of agricultural QRs suspended.
	Foreign Exchange	July: CBC 1291 lifts 100% FX surrender requirement, 2% retention allowed, but with restrictions on use.	January: CBC 1319- FX retention increased to 40%, use restrictions maintained; revised, more liberal manual of non-trade FX transactions issued. April: CBC 1334 -Unrestricted use of retained 40% allowed. July: 100% FX Retention by Exporters
	Investment Incentives	June: RA 7042 - Foreign Investment Act signed. November: Negative List of RA 7042 issued.	Implementing Rules and Regulations of RA 7042 released.
Money & Banking Policy	Banking System	Republic Planters Bank privatized.	March: Another 13% of PNB stock offered to public.
Public Investments	Political Factors	January: J. de Jesus appointed DPWH Secretary. April: Prado appointed DOTC Secretary.	
	Power	Worsening brownouts	
	Budgetary Resources	"lack of counterpart funds"	"lack of counterpart funds"
Other Policies			January: RA 7167 Increasing exemption levels. May: RA 7496 Simplified Income Tax System
Other Factors		Recession in the U.S. January-March: continuing adverse effects of Gulf War June: Mt. Pinatubo erupts	Continuing weakness of U.S. market. Resurgence in remittances from QCWs January - June: Campaign period, Presidential elections

Sources: VBJTolentino, Soriano (1992), Aquino (1992), Bautista (1991)



Lack of an Implementation Schedule. One difficulty that has to be faced in the assessment of the Aquino administration's record of policy reform is that most of the reform measures undertaken were planned without specific nor explicit timetables for implementation. The Medium-Term Development Plan had targets for macroeconomic outcomes and specific activities for the five years covered by the plan, but policy reforms were rarely stated as explicit measures to be taken in the MTDP. The only clear exception to this lack of time frames is the tariff reform program and the macroeconomic stabilization targets contained in the Philippine government's programs with the IMF and some of the structural adjustment measures pledged as part of financing agreements with the WB and the USAID.

While there exist the relatively explicit timetables contained in the financing agreements with the international financing agencies, it may be inappropriate to adopt such timetables for the purposes of this paper. It is possible that the level of commitment in the government as a whole to the achievement of the targets contained in the financing agreements may have been quite low. Also, the implementation and governance according to the Medium-Term Development Plan may not be considered as *mandatory* across the various ministries and agencies of government.

More generally, however, it is clear that the expectations of the Filipino population and of most observers of the Philippines is one of seeing the reforms accomplished *as soon as possible*. The vast majority of commentary on the record of the Aquino administration emphasizes the slowness with which actions were taken, despite earlier avowals of speedy implementation. It is arguable, of course, whether or not these expectations were reasonable i.e., technically appropriate, or actually implementable or achievable. Yet these popular expectations undoubtedly formed at least part of the political economy equation of the policy reform process. In this analysis we therefore will also refer to the timetable for

actions imposed on the Aquino administration by popular expectations for policy outcomes.

#### A. Aspects of the Policy Reform Record

In the following we shall discuss particular aspects of the record of implementation of policy reform actions by the Aquino administration. The discussion of the various aspects will be illustrated with examples and specific cases from the actual experience of policy reform in the Philippines. The focus is on the policy decisions and actions, not on outcomes. Outcomes or impact are clearly not only the result only of policy actions. Many other influences are relevant, including exogenous events.

The specific but closely interrelated aspects of the Aquino administration's attempts at policy reform to be discussed below are: (1) the concentration of policy achievements at the beginning and end of the Aquino period; (2) the shallowness of the political coalition supporting Aquino; (3) the instability that characterized the period; (4) the shortsighted visions of economic adjustment and development among the policy makers; (5) the continuing dominance of the "private sector" in policy making; and (6) the effects of exogenous factors. The government's capacity for policy reform and implementation, and the role of international agencies are also important factors. Since the discussions on the last two factors are each quite lengthy, these are placed in separate sections (B and C) below.

1. The Concentration of Achievements Toward the Beginning and End of Aquino's Term.

A simple enumeration of the actions related to economic policy reform achieved by the Aquino administration over the total of six years in was in harness is quite impressive. There cannot be any doubt that President Aquino and her officials were busy. They worked hard, and worked continuously. The government demonopolized traditional commodities, continued the trade reform and financial liberalization programs, at least initiated agrarian reform, implemented a broad set of reforms of the tax system, achieved large changes in the management of foreign exchange, and also completed a host of other actions too numerous to enumerate here. A closer examination of that record, however is revealing - particularly if the actions completed are assigned to the specific years when these were actually achieved - as has been done in Table 19. It is clear that the Aquino administration was able to achieve most of its major reform actions during its first year in office - in 1986 after February, and in 1992, during its last few months in office.

It was in 1986 that the monopolies in sugar, coconut, beef, wheat and fertilizer were abolished; that the Philippine National Bank and the Development Bank of the Philippines were provided a new lease on life, and the privatization effort initiated; that the financial liberalization program was accelerated, with most special credit programs halted and a rehabilitation program for the Rural Banking system implemented; that agrarian reform moved relatively rapidly toward a broad and liberal form; that a whole slew of tax reforms were decreed; and that a broad pump-priming program was implemented.

In 1992, major movements took place in foreign exchange policy; and the tariff reform program as represented by EO 470 - the much weaker version of EO 413 - finally became operational. EO 8, following up on EO 470, was drafted up to the highest levels.<sup>20</sup>

Not much in economic reform was implemented in the interim, from mid-1987 to late 1991.

From March 25 1986 to July 26, 1987 - a period of 16 months, Aquino governed according to the "Freedom Constitution". Congress was still to be elected into office, after a Constitution had been drafted and approved in plebiscite. Her popularity rating was very high. The Filipino population was euphoric with the promise of change and renewal. The international community fairly brimmed with goodwill for her and the country, and ODA was offered generously and freely.

During the initial period after EDSA, several of the Ministers were also very willing to implement the accumulated recommendations of analysts who were only too willing to volunteer their services in the exciting months following EDSA. These included the recommendations in the "white paper" and "yellow book" from economists at the UPSE, and the "green book" from UPLB. The UP economists found Ministers who were willing to use their advice in Budget Secretary Romulo, Agriculture Secretary Mitra and NEDA Director-General Monsod. The professional staff at the Ministry of Finance found a man of action in Minister Jaime Ongpin, who picked up the ball on a set of fiscal reforms that they had been recommending for years but were never implemented during the Marcos period.<sup>21</sup>

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<sup>20</sup> President Fidel Ramos signed it during his first month in office. He suspended it soon after.

<sup>21</sup> Joaquin (1990), from an interview with Finance Undersecretary Ernest Leung.

It helped speed up the implementation a great deal that Congress was not in session. By its nature, Congress represents special interests and constituents, many of whom would have objected to many of the reforms that were accomplished during the first 16 months of Aquino's term. Congressmen were also not present to derail reform actions on the simple notion that the Executive was encroaching on the prerogatives of the Legislative, regardless of the primacy of the policy issue.

The record of reform implementation from the time Congress came into operation on July 26 1987 has been dismal. This is not to say that Congress should not exist. What is clear is that the emergence of Congress introduced a major factor in the politics of economic reform that President Aquino and her officials were not prepared to deal with effectively and efficiently. By the time both the Congressmen and the Cabinet Members had learned how to deal with each other productively, their terms in office was almost over. Neither was Congress prepared to exercise its role optimally. In general, its actions and proposals in terms of "inquiries in aid of legislation", *exposes*, and draft bills were often appalling in their lack of analytical support and appreciation of economic implications. Only in 1989 was the Congressional Budget and Planning Office (CBPO) created to provide the analytical support so badly needed by the legislators.

Finally, many actions that had been proposed very early in 1986 were never implemented because of President Aquino's inherent caution and conservatism. She was very much aware of the fragility of the coalition that had brought her to office - one that she saw not as power but as responsibility. She very much wanted to implement by consensus, and she worked to achieve as much consensus as possible throughout her period - even in the crucial 16 months after EDSA and the election of Congress.

## 2. The Shallow Coalition Supporting Aquino

The coalition that brought Aquino into power was very broad - at least initially. It encompassed ideologies from the mid-right to the mid-left of the ideological spectrum, and was essentially united by no more than an agreement on the need to replace Marcos. It included the "enlightened businessmen", which counted among its members the managers and owners of enterprises which had not benefited from the cozy, parasitic relationships that Marcos and his cronies had developed with each other. Among these were the members of the Makati Business Club, which counted among its board men who would later become prominent in the Aquino government - Finance Secretary Jaime Ongpin, in particular.<sup>22</sup> There were also lawyers who had belonged to the *Manindigan!* (Advocate!) - a grouping of human rights advocates - most of whom were lawyers and businessmen and who would also supply some other Aquino cabinet members - like Executive Secretary Joker Arroyo.

The peasant groups and the other liberal and left-leaning "sectoral" and peoples' organizations also threw their support behind Aquino. Their support provided much of the impetus for the Aquino government's initial rhetoric on agrarian reform, rural development and agricultural growth. No leaders of the peasant organizations were appointed to senior positions in the Aquino government. Jaime Tadeo was a key leader of the pro-agrarian reform demonstrations in 1986 and 1987. He served briefly as Commissioner in the body appointed by President Aquino to draft the 1987 Constitution, and was later arrested and jailed on criminal charges unrelated to his advocacy.

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<sup>22</sup> Mr. "Boy Blue" del Rosario, President Fidel Ramos' Finance Secretary, was also a member of the Makati Business Club.

The extreme right - the military rebels and the extreme left - the communist-influenced New Peoples' Army - had never endorsed Aquino. Their rebellion and attacks disrupted governance almost continuously through the period of Aquino's watch. The military rebels mounted at least seven coup attempts within the first four years after February 1986, with the most serious attempts in 1987 and in 1989. Military rebels are also thought to be behind bombing incidents designed to cause uncertainty and fear in the Metro Manila area. The leftist rebels also continued to harass government forces through 1986 to 1992. The extreme left is also suspected to have fielded assassination squads in the Metro Manila area, targeting the military and police. There was a brief respite from extreme leftist disturbances in 1987 when a peace pact was negotiated. The pact soon deteriorated amidst mutual accusations of violations and bad faith.

It was also the shallowness of the coalition that prevented the Aquino administration from exercising the popular notion of "political will" in policy implementation. In popular usage, political will denotes implementation despite resistance from vested interests. Yet political will is founded on political support - and many of the policy reforms that were thought correct and called for by analysts would have attacked the interests of those who formed the coalition capable of providing the physical, palpable, support for Aquino. Given the inequities in the distribution of wealth, only the able are capable of providing political muscle. The poor, "invisible majority" remains - invisible and thus inconsequential to policy making.

### 3. Political Instability

The fact that the coalition which brought Aquino to power had little to hold it together apart from the objective of getting Marcos out of power was made obvious soon after the EDSA revolution. As the new government and the resurgent interest groups buckled down to the task of national economic and political recovery, their differing interests and viewpoints emerged and inevitably clashed. In the frequently acrimonious, noisy and divisive debates that followed, Aquino fell back on her basically cautious, conservative, right-of-center background and nature. These debates and conflicts only served to exacerbate the tensions and uncertainty that was already being caused by the military rebels and leftist cadres.

Within a year after February 1986, it was quite clear that the ideology that had been installed in government policy making along with Aquino was right-of-center. Given Aquino's commitment to Democratic processes and open debate, the Government's narrow ideological base was thus subject to much attack from the various sectors out of power. Combined with Aquino's seeming hesitancy to call an end to extended debate, the narrow base and protracted discussion added up to long delays in decision-making. The narrow base of support for her administration also dissuaded Aquino from taking, at least publicly, very strong positions for or against the currently dominant interests.

The CARP. A major example of the delays in implementation characterizing policy making during the Aquino period is found in the Comprehensive Agrarian Reform Program. While "genuine agrarian reform" had been an explicit pledge of Aquino in her campaign to oust Marcos, almost a year passed before the government finally focussed attention on the crafting of a program, and that focus was spurred by the "Mendiola Massacre" of January 22, 1987. Prior to the



incident, only the NEDA - given the interest of Director-General Monsod, was engaged in planning a program. Some officers of the Department of Agrarian Reform were participating in the NEDA - led process, but without the official blessings and encouragement of the DAR, which was still to be reorganized and provided with firm leadership.

The "Mendiola massacre" was one of a series of demonstrations of peasant groups calling for agrarian reform. After repeated demonstrations and calls for the fulfillment of Aquino's fulfillment of her campaign promise, the demonstrations had become ripe for violence. The demonstration held at Mendiola Bridge just outside the Presidential Palace on January 22 did erupt into violence, during which 14 peasant demonstrators were killed by the police and the Presidential Guard. A "Cabinet Action Committee" to look into the farmers' complaints was appointed by Aquino the day after the Mendiola incident. The CAC was composed of the Cabinet Secretaries with the most concern for agriculture and agrarian reform, including the Secretaries of Economic Planning, Agrarian Reform, Agriculture, Justice, Finance and Environment and Natural Resources. The President of the Land Bank of the Philippines and a representative of the Office of the President were also appointed to the CAC. The CAC worked practically around the clock for about four months to produce at least 16 drafts of the Executive Orders to implement Agrarian Reform. The initial drafts by the CAC were relatively liberal in implementation and broad in scope. The subsequent drafts became more restrictive and conservative as the landowner lobbies and agribusiness interests made their opposition known. In the end, Aquino eschewed all of the CAC's drafts and signed an EO hurriedly cobbled together, at the eleventh hour, by a several close advisers espousing conservative views<sup>23</sup>.

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<sup>23</sup> The advisers included Finance Secretary and Land Bank Chairman Jaime Ongpin, Land Bank President Deogracias Vistan and Presidential Legal Adviser Teodoro Locsin Jr. Upon the signing of EO 229, the President warned the Cabinet

The signed draft, EO 229, left many critical provisions of the program for Congress to determine. This failure to decide again allowed for extended debate in Congress and inaction in the Executive. The end result was that it took the government 28 months to pass the Comprehensive Agrarian Reform Law. To make matters worse, the passage of the CARL in July 1988 did not assure its implementation. The funding and organization of the implementing structures of the CARP still had to be secured. The multitude of "Implementing Rules and Regulations" for the CARL, in the form of Administrative Orders of the Secretary of Agrarian Reform and if necessary, by the President, needed to be issued.<sup>24</sup>

CARP Leadership. Finally, the leadership of the Agrarian Reform Program has been unclear, unsettled or even absent through the first fifty months entire Aquino period. The Minister of Agrarian Reform was the last to be named by Aquino in the critical aftermath of the EDSA revolution. Anti-Marcos activist Mr. Heherson Alvarez was named - and he reluctantly accepted the appointment as MAR Minister - in April 1987. All the other Ministers had been named in February and early March. Alvarez stayed at the DAR for less than a year, resigning in March 1987 to run for the Senate on Aquino's LABAN ticket. The DAR Secretary's post was filled by an Officer-in-Charge for four months until Mr. Philip Ella Juico was named on July 22 1987 to take Alvarez' place.<sup>25</sup> The DAR became embroiled in an overpricing scam for land voluntarily surrendered for sale under the agrarian reform program from late 1988 onwards. As a result of

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Members that everybody had better support EO 229, or leave the Cabinet. NEDA Director General Solita Monsod left the Cabinet in June 1989.

<sup>24</sup> In general, all laws cannot be implemented until and unless "Implementing Rules and Regulations" for the law are drafted and issued by the Executive Branch.

<sup>25</sup> Mr. Juico was a consultant to the Ministry of Agriculture in the late 1970s and early 1980s. In 1986 he was drafted as Assistant Secretary in the Department of Agriculture. In late 1986 he moved to the Department of Environment and Natural Resources, where he served as Undersecretary until drafted to the DAR.

the controversy regarding the land overpricing incident. Mr. Juico resigned in July 1989.<sup>26</sup>

Santiago. Judge Miriam Defensor Santiago took her turn as DAR Secretary in July 1989. Santiago had had a brief but spectacular stint as a graft-busting, tough-talking Commissioner of Immigration and Naturalization. She lasted only six months at the DAR, after being refused confirmation by the Commission on Appointments. Several CA members who suspected that Santiago had plans to build on a Ministerial post as a base for higher political office, blocked her appointment. CA member Senator John Osmena ran for Vice-President in 1992.

Abad. The CA debate on Ms. Santiago's appointment was drowned out by the most serious *coup* attempt of the period during the first week of December 1989. In the aftermath, Aquino decided not to reappoint Santiago. She instead appointed young Congressman Florencio Abad, who had been a key member of the small group of Congressmen supporting the liberal, pro-farmer version of the CARL. Abad, however, never formally took office. Again the Commission on Appointments, with extensive lobbying from landed interests both within and outside of Congress, refused to act on Abad's appointment.

Langkaan. Another reason for Abad not being confirmed even by his fellow Congressmen was that he chose to take a pro-farmer stance in the controversy regarding the conversion of the use of a particular piece of land from agricultural to industrial use. The property was located in Barrio (Village) Lankaan, in Cavite Province, within 40 kilometers South of Manila. The issue was essentially whether or not the conversion of the official classification of the

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<sup>26</sup> Mr. Juico was cleared of wrongdoing by the country's *Sandiganbayan* (Anti-Graft) court in 1992.

property should take place before the property was covered by the CARP and had thus passed into ownership of the farmers, or that conversion would take place as an exception to the CARP. Mr. Abad insisted that the conversion action should proceed ahead, and that the investors interested in the industrial use of the property deal with the owners of the property - the new agrarian reform beneficiaries. Those interested in the immediate conversion of the property held that the property had already been zoned in provincial zoning plans as industrial property. The process leading to the resolution of the issue became confused and emotional, invoking heated arguments between officials, advocates and analysts on industrialization and development strategy and the trade-off between equity and growth. To many advocates and interest groups, the decision on Lankaan would indicate the fundamental features of government economic policy and strategy, particularly on the trade-off between equity and growth.

The Lankaan controversy raged for several months. In the end the Justice Secretary ruled that the Lankaan property was not covered by the CARL, and that the conversion would proceed outside the CARP.

Leong. Mr. Abad resigned in April 1990, having been drained by the grueling appointments screening process and the debate over Lankaan. He also believed that President Aquino was no longer fully supportive of her appointment for him. Non-controversial Benjamin Leong, a mild-mannered, career government bureaucrat who had been a long-term official in a regional office of the NEDA, then Assistant Secretary then Undersecretary at the DAR since 1987, was appointed Secretary. He served as Secretary until his retirement from Government in June 1992. Thus, it was only after over four years since the EDSA revolution and Aquino's repeated declarations that the Comprehensive Agrarian Reform Program was her administration's "centerpiece program", that the CARP was poised, at long last, for implementation.

#### 4. Shortsighted Vision(s) of Adjustment and Development

The conflicts surrounding the CARP also revealed: (a) the deep differences in the ideologies of development held by Aquino and the various members of her policy making team, and (b) the continuing dominance of the traditional, wealthy elites over policy making and government in the Philippines. Trade and Industry Secretary Jose Concepcion held forth a strong belief in an import-substituting industrialization strategy, understandably due to his own experience as a manufacturer behind protectionist policies, and also because he often represented the views of import-substituting businessmen, whose firms were often treated as clients by the Department of Trade and Industry.<sup>27</sup> Economic Planning Secretary Solita Monsod was the most market-oriented of the Aquino's first Cabinet, mightily striving to accelerate privatization, abolish price controls, and minimize government intervention and participation in enterprise. She did hold definite egalitarian beliefs in her strong advocacy for broad, liberal agrarian reform. Finance Secretary Jaime Ongpin was a firm believer in managerial excellence and in free enterprise, and on the capacity of exceptional, honest management skills to overcome problems.<sup>28</sup> Agriculture Secretary Ramon Miltra espoused strong support for agriculture and farmers, on much the same grounds as Secretary Concepcion, and with a sense for populist appeal.

In general, with the exception of Secretary Monsod, the members of Aquino's first cabinet and President Aquino herself, tended to examine economic problems from the perspective of individual consumers and firms, and thus

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<sup>27</sup> One of Secretary Concepcion's Undersecretaries, Mr. Tomas Alcantara, who was in charge of the Board of Investments, once remarked in a discussion with the author that "What is good for San Miguel Corporation is good for the country."

<sup>28</sup> See Nick Joaquin, *Jaime Ongpin the Enigma: A Profile of the Filipino as Manager*, Jaime V. Ongpin Foundation, Manila, 1990.

generated and proposed actions and measures which were focussed on directly supporting these entities. Their proposals thus often did not consider the effects and trade-offs of the actions on, and with other entities, and on the economy as a whole.

Most of Aquino's first cabinet also had little appreciation for the influences of macroeconomic factors and their management. For example, the banking system was generally looked upon as a provider of loans for the benefit of entrepreneurs and farmers, and not also as stewards of savings.<sup>29</sup> Price controls were defended on the basis of their effects on the consumers of staple commodities and the costs of raw materials to enterprises. Rarely were the adverse effects on supply responses as well as the welfare of producers - particularly of farmers and fishermen - considered. The U.S. Dollar value of the Peso was often held at highly overvalued levels due to the foreign exchange needs of import-substituting firms in need of imported inputs. This policy was not difficult for the Monetary Board and the Governor of the Central Bank to implement, given the presence of the Trade and Industry Secretary and Chairman of the Board of Investments on the Monetary Board. Two representatives of the private sector also sat on the Monetary Board, but one was an executive of one of the two major private oil multinational companies in the country, and thus quite interested in the maintenance of a strong peso.<sup>30</sup> The reform of tariff policy was also often delayed and sometimes stymied due to the protest of an "industry" which would be adversely affected by the reform. On closer examination, the

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<sup>29</sup> This "borrower-oriented" view of the financial and banking system was prevalent, despite the fact that the Philippines had been implementing a financial liberalization program since 1981. The liberalization program was in fact often described as an imposition of the IMF/WB, as a conditionality for access to financing.

<sup>30</sup> The two representatives of the private sector on the Monetary Board were Mr. Cesar Buenaventura, the Chairman of Pilipinas Shell Corporation, and Mr. Jesus Ayala, an agribusinessman. When Mr. Buenaventura retired in 1990 he was replaced by Mr. Luis Lorenzo Sr., another agribusinessman but with strong interests in Philippine manufacturing.

The Aquino cabinet's general lack of confidence in an agriculture-based strategy for development was also consistent with their tendencies toward ISI. President Aquino, with the advice of many in her cabinet, had made many speeches and statements which called for greater attention to agriculture and rural development. In late 1986 the Cabinet had also approved the *Agenda for People-Powered Development* and the *1987-1992 Medium Term Development Plan*. Both documents did call for a rural-based, agriculture-first strategy. In retrospect that Aquino coalition had made the statements on the primacy of rural development and agricultural growth more as rhetorical declarations which were also aimed at garnering the electoral support of the rural population. The specific programs and policies which several of the Cabinet Members proceeded to create and enunciate were not consistent with the announced strategy. The policy making surrounding the CARP is an example of the inconsistency between the government's avowals for agrarian reform and its implementation. With regard to the CARP, a key concern that was expressed in the Cabinet concerned the effects of the program on agribusiness firms, with less consideration on the tradeoffs with the equity-enhancing (and more important) objectives of the

program. The tariff reform program (TRP) is another clear example of the gulf between statements and actions, and the consequent delay in the implementation of policy reforms. We shall discuss the case of the TRP below.

The TRP and ILP. At least partly under pressure from the IMF and the WB, the Marcos government had initiated a major reform of trade policy in 1981 - the Tariff Reform and the Import Liberalization Programs. Under the TRP, the measures had reduced the range of tariff rates from zero to over 100% to zero to a maximum of 50%. Thus the tariff structure took a major, desirable step toward being much lower and more uniform. The ILP was aimed at removing or transforming into tariffs the various non-tariff measures and quantitative restrictions that were pervasive. The ILP was however shelved with the onset of the economic crisis of 1983 to 1985.

The Aquino administration continued the TRP and revived the ILP. The adoption by the Aquino administration of the program was based on three influences: first, the advice of analysts, mostly outside of the cabinet, on the desirability of trade policy reform in the direction of less protectionism and greater openness. This advice was indeed made part of policy enunciated in the 1987-92 MTDp. Second, the continuance of the TRP and ILP were included as commitments under the financing arrangements concluded with the IMF in 1986; and third, a minority few in the Cabinet did firmly believe that the TRP and ILP were reform measures that needed to be done. Among these were the successive NEDA Directors-General; Ms. Monsod, Mr. Estanislao and Mr. Paderanga; Finance Ministers Ongpin and Estanislao; Agriculture Secretaries Dominguez and Bacani; and quite late in the Aquino regime, Trade and Industry Secretary Peter Garrucho.

The accelerated implementation of the TRP and ILP were principally pushed within government circles by the NEDA and the DA. The DOF was also



supportive, but was at least initially hesitant due to its uncertainty with regard to the TRP's possibly adverse revenue effects. With the imposition of the 9% import levy in 1990, however, the DOF thought the revenue reducing effect of the TRP and ILP had been neutralized, and thus strongly pushed for the enactment of the sweeping EO 413. While the Central Bank issued many of the liberalization orders under the program, its participation was due more to its interest in the accomplishment of the TRP and ILP since these were conditionalities for access to IMF financing.

The Trade and Industry Minister from February 1986 to January 1991 was manufacturing magnate Mr. Jose Concepcion. As DFI Secretary and ROI Chairman, he chaired the Cabinet-level Tariff and Related Matters Committee of the NEDA, which was the principal body deciding on the pace and process of the TRP and ILP. He did his best to delay the implementation of the TRP and the ILP. He was quite successful. As early as late February 1986, he already was able to insist on a delay of three months in the liberalization schedule under the ILP. This delay was further extended for another three months in June 1986. At that time Concepcion said that only after the domestic sales of the industrial sector had returned to 1983 levels, and that industry would again be operating at at least 80% of capacity, will he allow the ILP to continue.<sup>31</sup>

The measured results of the painfully slow progress, and in some cases retrogression of the TRP and the ILP in the latter half of the 1980s is well-documented in Medalla (1991a), Medalla (1991b), de Dios (1992), Pante and Medalla (1990), among others. Less well-known is the tortuous process of negotiation, lobbying, analysis, backtracking, consultations, public hearings, strategic agenda-setting, press and media employment, appeals to various authorities - including the Executive Secretary and the President, and of the numerous,

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<sup>31</sup> Business International, *Philippines: Country Report*, 2nd and 3rd Quarters, 1986.

uniformity. Two factors, however, severely constrained the authority and influence of the TC. First, the TC was subordinated as an attached agency to the NEDA. Thus its actions were subject to the approval and review of the NEDA DG; and second, the DTI Secretary/BOI Chairman was made to head the NEDA's Tariff and Related Matters Committee. The TC was only one member, and one vote, in the TRM.

The Tariff and Related Matters Committee (TRM). The TRM is one of the committees of the NEDA Board. The TRM has 12 members. In practice, however, many more than representatives of the 12 members were present and interacting at meetings. While not a member, the BOI was always represented. So were the DTI's officers in charge of Import Services. A representative of the ISI-company dominated PCCI was also present. Representatives of the companies lobbying for changes in or maintenance of the tariff code were also present in some meetings. The multiple-committee, multiple-level structure of the TRM added to the complexity and lengthiness of the decision process. As required by law, the Tariff Commission would announce and organize scheduled public hearings on

liberalization and tariff change measures. At these hearings all proponent, supporters and oppositors to the proposed measures were heard. The TC would also present its analysis at the hearings, and in the TRM structure. Matters for decision were first handled on the subcommittee (SC) level of technical-level middle officers from the same agencies whose principals were members of the the Cabinet-level TRM. When the subcommittee had reached a decision, the matter would be raised to the TRM Technical Committee, composed of senior-level (Director, Assistant Secretary and/or Undersecretary) officers. Any matters that could not be resolved at the TC level were often thrown back to the SC for more work. The Cabinet-level TRM met at the discretion of the Chairman. A representative of the Philippine Chamber of Commerce and Industry was present at meetings of the Cabinet TRM. By agreement, the Cabinet TRM was to meet monthly. In practice, the TRM Cabinet met about three to four times a year.

The Reduction of Bias in Trade Policy. A major goal of the TRP and the ILP was to foster a relatively open trade regime characterized by a low, uniform tariff structure. Such a structure would have been also appropriate for a revenue-hungry economy like the Philippines', since the reformed structure would have been more attuned to revenue-generation rather than protection. The broadened scope would have made the revenue base larger, and the lower rates would have minimized evasion via technical smuggling. To achieve this goal, it was necessary to reduce protection for the industrial sector, since the protection for agriculture and agricultural processing was already quite low, and the bias in the protection system, as measured by the Effective Protection Rates, were still quite against agriculture and exportables.<sup>32</sup> In 1985, manufacturing had an EPR of 73.4%, more than thrice that of agriculture's 20.7%.<sup>33</sup>

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<sup>32</sup> Pante and Medalla (1991), p. 30.

EOs 413 and 470. The shortest and most efficient path to achieving the low, uniform, relatively open tariff and trade structure aimed at by the TRP and ILP would have been a formula approach, with the reform measures applied across the board, and not on a firm-by-firm or industry-by-industry basis. Formula approaches were attempted at several points in the Aquino regime.<sup>34</sup> The most ambitious attempt at a formula approach was EO 413, principally drafted under the direction of the new Finance Secretary Estanislao, with the support of the NEDA in early 1990 and approved in general by the Cabinet in June 1990 (prior to presentation as part of the financing program with the IMF). EO 413 was signed by President Aquino in July 1990, for effectivity in August 1990. In general, EO 413 would lower the maximum tariff rate from 50% to 30%. There would only be four tiers: a minimum of 3%, 10% for raw materials, 20% on intermediate goods and 30% on finished products.

The firms for which protection would be lowered mounted a vociferous campaign against EO 413. They also enlisted the support of powerful congressmen and senators, who labelled the issuance of the tariff measure as an invasion of Congressional prerogatives over matters of taxation. The affected firms even paid for full-page advertisements in the daily newspapers which depicted a starving child as the result arising from the implementation of EO 413. Buckling to the pressure, the President ordered that EO 413 be shelved, and a replacement EO drafted in close consultation with the affected firms, the PCCI and both houses of Congress. The result of this "consultative and participatory" exercise was the much weaker EO 470. In contrast to EO 413, EO 470 excluded a number of critical

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33 Medalla (1991), p. 163.

34 One version of a formula approach was proposed in 1988 by Trade and Industry Undersecretary Ernesto Ordonez. Soon after he was shifted by Secretary Concepcion to other duties in the DTI. His proposal was not raised again by the DTI.

commodities from coverage, particularly cars, and allowed tariffs in six levels up to greater than 50%, over adjustment periods lasting up to five years.

The experience of EO 413 and 470 indicate that the implementation of a formula approach became quite difficult because the policy making structure is very open and vulnerable to the appeals, objections and lobbying by particular firms and industries. Since many of the country's firms had been nurtured in a protectionist policy regime, they naturally lobbied for the cessation of trade reform, or at least their exemption from coverage. Open and transparent debate are of course desirable in a Democratic state. However, Secretary Concepcion and the DTI and the BOI were often unduly sympathetic to the positions of the firms, and often rejected the arguments for reform which were based on the benefits to consumers and the non-industrial sectors. In short, the DTI/BOI seemed to act as if the individual firms were the DTI's clients. It is arguable whether such services to clients would result in the overall growth and industrialization of the economy. This posture enabled the firms, working with the DTI and the BOI, to seriously dilute and delay the tariff reform program.

Various specific instances of cases of TRP delay and dilution, particularly in response to representation by firms and industry groups, may be cited: the progressive car manufacturing program (and the related bodies, components, engines and spare parts), phosphatic fertilizers, kraft paper, glass jars, tinsplate, garments and textiles and appliances. It should also be noted that in a number of cases, the "Industry" was composed of only very few firms, with only one being dominant - as in the case of paper, float glass, phosphatic fertilizers, tinsplate, glass jars and packaging closures.<sup>35</sup>

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<sup>35</sup> The float glass company is Republic-Asahi Glass Corporation, while the largest manufacturer of glass jars and closures is SMC Packaging Products, a subsidiary of San Miguel Corporation. Republic-Asahi is a joint venture whose principal owner is close Marcos associate and former Minister of Energy Geronimo Velasco.

Protected Parastatals. Another source of contradictions in the tariff reform process is the fact that several of the firms dominant in the industry and lobbying for the maintenance of protection are parastatals - owned and operated by the Philippine government. This is the case of for phosphatic fertilizers, tinplate and paper - the Philippine Phosphate Fertilizer Corporation (PhilPhos), the Pulpwood Industries Corporation of the Philippines (PICOP) and the National Steel Corporation (NSC)! These GOCCs were - and continue to be - closely linked to policy making in the DTI. The Chairman and President of the PhilPhos was DTI Undersecretary and BOI Governor Tomas Alcantara. The Chairman of the National Development Corporation, which is the Government's holding Company for the PICOP, NSC and a host of other government-owned and controlled corporations (GOCCs) is the Trade and Industry Secretary. The possible conflict of interest is clear: as company executives, they were accountable for the profitable operation of the companies in their charge. As government officials, they were responsible for the welfare of the economy as a whole. Where there was a trade-off between the welfare of the economy and the profitability of the companies, the decision must be biased for the economy. The problem is when they perceive the profitability of the company as tantamount to economic progress -- a perception which at best is very short-sighted, and for the welfare of the economy is erroneous.

5. The Continuing Dominance by the "Private Sector"

One feature that marks the record of Philippine policy making is the strong influence of the "private sector" on government. That participative policy making, particularly in a Democracy is desirable is unquestioned. The problem emerges where "the private sector" is narrowly defined as comprising only of the large, corporate private commerce and industry. This is in fact the

sense in which the term "private sector" is commonly used in the Philippines.<sup>36</sup> The long-standing experience of the country with Import-substituting Industrialization (ISI) development strategy - one heavily dependent on government support and protection, bred a commercial and industrial sector that is dependent on the protectionist trade policy structure - and thus has naturally devoted substantial resources to the maintenance and expansion of the protectionist regime, by investing in lobbying and rent-seeking with policy makers. Since the line differentiating the personalities in big business and policy making is quite blurred, policy making has thus come to be dominated by the big business community.

Government-Business Relations. Over the past decade, quite a number and variety of government-private sector collaborative councils, consultative forums, dialogue mechanisms and other stratagems for consultation have been organized. All of these bodies have facilitated the private business sector's access to government policy makers and the policy making process. Focussing only on those bodies which were formally organized for business-government dialogue and collaboration, we may list these as including:

- a. the Peoples' Economic Councils (organized with the Department of Trade and Industry/DTI),
- b. the Conference of Inter-Island Ship Owners and Operators (DTI),
- c. the Presidential Council on Rural Development (Office of the President/OP),

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<sup>36</sup> Where enumerations like: "The government, private sector, farmers' groups, etc..." are often made - implying that farmers' groups are not of the private sector.

- d. the Presidential Agrarian Reform Council (Department of Agrarian Reform),
- e. the National, Regional and Local Agricultural and Fishery Councils (Department of Agriculture),
- f. the Shipping and Ports Advisory Council (Department of Transportation and Communications),
- g. the G-11 "Captains of Industry" (DTI),
- f. the Tariff and Related Matters Committee (National Economic and Development Authority),
- g. the Coordinating Committee on the Uruguay Round (Department of Foreign Affairs),
- h. the Presidential Committee on Mindanao Development (OP),
- i. the Presidential Commission on Energy (OP),
- j. the Philippine Exporters' Council (DTI),
- k. the Export and Investment Development Council (DTI),
- l. the Council for Investments (DTI),
- m. the ASEAN Free Trade Area (AFTA) Council, and
- n. the Coordinating Committee on the Medium-Term Development Plan (NEDA).

The structures and operations of all the above bodies for business-government relations are set into law. The bodies are also chaired or co-chaired by representatives of the private sector, and provided with operating budgets. These bodies meet regularly and are quite influential.

It must be noted that the above-listed bodies include only the formal structures of contact and liaison between businessmen and the government. There are numerous occasions and opportunities for informal and social contact between government officials and businessmen - receptions, familial and kinship



ties, past and current business partnerships, social events and religious congregations.

Montes (1989) explains the relatively intensive influence of the business sector on the highest levels of government thus: based on popular observation and experience, the sector referred to as "the private sector" often denotes large, corporate, private business. This is the sector that by reason of its heavy levels of support for government executive and elective officials during the campaign periods, commands intensive and extensive attention and influence in government. Furthermore, many prominent members of the "private sector" are often recruited into senior government positions - usually at the senior, ministerial level.

Thus, both in the contexts of the Marcos and the Aquino governments, the oft-repeated claim that "private sector representation in (the Philippine) government should be increased" is at the very least redundant. This is because in fact, government actions and policies are hardly distinguishable from private sector positions - given the peculiar fact that the "private sector" often denotes "big business" which in general already has a disproportionately heavy influence on government. Thus the operative question in the assessment of the private sector's influence on Government in the Philippines is: "Which part of the private sector are we talking about?"

Which sub-sector of the "Private Sector"? One way by which the Presidential regimes may be distinguished is by the change in the composition and character of the private sector group which gained power and influence in each era. Marcos was born and raised in the North - from an area and to a family not usually considered economically and socially prominent at the national level. By sheer ability, and as some historians say, cunning, he took the political route to prominence, first by building on his small local base through Congress as the

elected representative of his home district. Through each year of his tenure from 1949 to 1959, Marcos was named "Outstanding Congressman". When he had gained sufficient national exposure he moved to the nationally-elected Senate, from where he successfully launched his bid for the Presidency in 1965.

Marcos' socio-economic background was not consistent with the usual qualifications for prominence in Philippine society at that time - wealth and breeding enabled and maintained through family ties back to the Spanish colonial period. Thus it is not surprising that Marcos began to allow more non-members of the traditional elite into his circle. Most of this new elite did not have blood ties with Spain. More had Chinese, trader backgrounds. Many were smaller businessmen who had supported Marcos through his electoral campaigns.

Thus the Marcos cronies emerged. Particularly in the Martial Law period, the cronies gained much more economic power and wealth through enabling and facilitative Presidential decrees. Marcos' patronage enabled the cronies to take over control of the coconut and sugar economy. The cronies also moved heavily into banking, heavy industry and International trade. History now makes clear that in turn they contributed to Marcos', and soon after, also Imelda's, coffers.

Thus the Marcos and Imelda cronies were the influential "private business sector" through the seventies up to the mid-eighties. They replaced the traditional elite who were held in check, able only to maintain, but not nurture to growth, their wealth and social standing.

The Aquino "Cronies?". At the beginning of her Presidency, and through her six years in office, Corazon Aquino said and often repeated that her Government will move and stay out of business. She did try. One of her first acts was to create the Committee on Privatization and the Asset Privatization Trust. These bodies managed the Government's ambitious privatization program, and assumed control of the huge portfolio of "non-performing assets" that the

Philippine National Bank and the Development Bank of the Philippines had amassed, much of which was due to loans and accommodations for Marcos cronies. By the end of Aquino's watch, while the privatization program has not been completed as planned, many large-ticket items, particularly the Philippine National Bank and Philippine Airlines, have been sold.

The focus of the Aquino government's activities in privatization were of course the assets (both the performing and the non-performing) which had been held by Marcos and his cronies. These assets are only part of the equation. With the departure of Marcos and his cronies, businessmen who had been dormant, of low profile, or disadvantaged by the Marcos machine have re-emerged. They have also re-established their links with the Government policy-making structure.

Aquino also often said that in addition to getting out of business, the Government will endeavor to create and maintain a "level playing field" for enterprise. In this area she has been less successful. The "centerpiece program" of her government - the Comprehensive Agrarian Reform Program - has fulfilled only a small proportion of its goals to transfer ownership of agricultural lands to tillers. The promise of the CARP was that the ownership of the fundamental basis of wealth and power in the Philippine economy - the ownership of land, would be Democratized, went largely unfulfilled. Furthermore, major distortions in the incentive structure remain, particularly in the overvalued exchange rate of the Peso and the tariff structure overly protective of import-substituting but non-competitive enterprises.

An analysis of the Aquino government's failure to quickly create and maintain a level playing field indicates that her personal style and background enabled a new subgroup of "the private sector" to gain influence. Aquino chose to act in as fully a transparent and apparently neutral a manner as possible. While Aquino's style and stance may have been laudable, it has turned out to be

at least tolerant of inequity. Those groups who already possessed wealth and influence, gained by whatever means, could utilize such advantages to also disproportionately influence the Aquino government. They successfully did and continue to do so. Many have their wealth based on land. Thus they resisted Agrarian Reform and the CARP, and used their links and presence in Congress to water down the law. The already influential also drastically slowed down and weakened action to reform the distorted tariff structure and the overvalued Peso, since the (short-term) fortunes of their traditional businesses were heavily dependent on the maintenance of the protectionist distortions. Also, Aquino's first Minister of Trade and Industry, reflecting his background as the owner and manager of a food conglomerate and appliance manufacturer, appeared to see himself as a representative of the group who would get hurt by the reforms, and thus acted more in behalf of the group rather than the entire economy.

#### 6. Exogenous Factors

Exacerbating the economic troubles and political uncertainty of the country were the natural calamities and other exogenous factors which confronted the country. Table 19 lists these exogenous factors, differentiating between the natural calamities and the other, political and international events.

Droughts. Droughts affected various parts of the country through most of the 1986 to 1992 period. The *El Nino* phenomenon caused an extended drought that held agricultural production down in the Central and Northern Luzon rice plain from the second semester of 1987 to mid-1988, and again in 1990. Intermittent droughts also hit Northern Luzon, the Central Visayas and Central and Northern Mindanao through the entire period. Unfortunately, the areas badly hit by the droughts are the Philippines' principal production areas for rice and corn, the country's principal crops and food staples. The droughts thus caused production

Table 19

## Major Natural Calamities and Other Exogenous Events, 1986-92

Events/Factors	Occurrence/ Immediate Duration						
	1986	1987	1988	1989	1990	1991	1992
<b>A. Natural Calamities</b>							
1. Drought/ El Nino		3Q 4Q	1Q 2Q	4Q	1Q 2Q	1Q	1Q
2. Earthquake					3Q 4Q	1Q 2Q	
3. Major, Destructive Typhoons		4Q	4Q	4Q	3Q 4Q	4Q	
4. Eruption of Mt. Pinatubo, Lahar Flows						3Q 4Q	1Q -> -> 4Q
5. Samar Flood/ Landslide						4Q	1Q
<b>B. Political/ External Disturbances</b>							
1. Rightist Military Coup Attempts	4Q	1Q 3Q	2Q	1Q 4Q	3Q	4Q	
2. Leftist rebel disturbances	3Q 4Q	2Q	2Q 3Q				
3. Middle East Crisis					3Q 4Q	1Q	

Q = quarters

Source: Tolentino

shortfalls which increased both food and feed prices. The critical linkages between feed production and the hog and chicken industry were thus threatened. Such threats the economy could ill afford, particularly since the hog and chicken sectors have been the best performing sectors of Philippine agriculture in the recent decade.

Another effect of the droughts was that the drop in rainfall meant the drawdown of water levels in the dams and the reduction of the capacity of the country to produce hydro-electric power. These cuts were specially painful, since the droughts also increased the dependence of irrigated farms on the irrigation water supplied to the canal system from the dams. Moreover, the dams, particularly those close to Metro Manila, also served the metropolis' water system. The management and allocation of the scarce water supplies thus taxed the government to the extreme. In general, the National Water Resources Board often decided to prioritize power first, potable water supplies second and irrigation last. Even with these allocations, full power-generation could not be supported. This led to power shortages and the resulting production losses. In agriculture, the water shortages also further constrained agricultural production.

Earthquake and Mt. Pinatubo. In July 1990 a massive earthquake hit Northern Philippines. About a year later, Mt. Pinatubo erupted, causing wide devastation across nearly a third of the densely populated Central Luzon rice plain. The direct economic effects of both the earthquake and the eruption of Mt. Pinatubo were not great. The indirect effects were however large, and are of a continuing nature. Both the earthquake and the eruption cause great damage to transport, energy, and irrigation infrastructure, as well as public facilities like school buildings, research stations, government offices, hospitals and clinics. Production costs were levered upward by the resulting increases in transport, storage and handling costs. Continuing uncertainty also increased financing

costs. As the government mounted efforts to respond to the devastation, the relief and rehabilitation programs drew already scarce resources away from the rest of the government and the economy to be concentrated in the affected areas.

As of this writing, two years after the actual event, the effects and damage due to Mt. Pinatubo's eruption still have to be completed. Geologists say that the mudflows from the volcano will continue to inundate Central Luzon for at least five to ten years after the eruption. The topography of the affected areas has already been permanently altered, rendering all of the gravity-flow irrigation systems obsolete. The devastation is still yet to be ended, since the mudflows are not expected to cease until after at least five years from 1991. When the mudflows will have stabilized, the area's roads and highways will have to be rebuilt, and irrigation and potable water wells rebuilt or resunk. Infrastructure investment in the area affected by the eruption, in short, will have to start from scratch.

The Gulf Crisis. The Philippines was still in shock from the earthquake of July 1990 when the Gulf Crisis escalated into warfare.<sup>37</sup> The Philippines was extremely vulnerable, since at that time it was in the middle of a three-year IMF program which had been made necessary by the tailspin into which the economy had gone following the most serious military *coup* attempt of December 1989. More importantly, the country's fortunes are closely tied to the oil-exporting countries, since 65% of the country's energy requirements have to be imported, and the Middle East is where the largest concentration of Filipino overseas contract workers (OCW) is located.

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<sup>17</sup> Much of the discussion of the effects of the Gulf Crisis on the Philippines is based on Lamberte and Yap (1991).

OCWs and their Remittances. The official estimates of the number of OCWs in the Middle East in mid-1990 are placed at close to half a million, of which about 79% were in Saudi Arabia and 63,000 in Kuwait and Iraq. The Dollar remittances sent back to the Philippines by OCWs have become increasingly vital to the economy.<sup>38</sup> In 1989 the total remittances of OCWs formed about 22% of all non-merchandise trade and 8% of all current account receipts. These figures are severely underestimated, since most OCWs remit their earnings through informal channels, couriers and other non-bank channels. Broad estimates of remittance losses for the latter half of 1990 due to the Gulf Crisis are placed at as much as US\$82 by the NEDA and \$31M by Lamberte and Yap (1991).

In addition to the loss of the earnings remitted by the OCWs, the economy also had to bear at least part of the adjustment costs due to the repatriation of the OCWs back to the Philippines and the efforts to facilitate the re-absorption of the displaced OCWs into the domestic economy. The government organized special flights using the parastatal Philippine Airlines, and managed to ferry about 30,000 OCWs home. Some P28M was released by the Overseas Workers Welfare Administration to OCWs as low-interest, uncollateralized loans for emergency assistance and livelihood capital. All in all, the OWWA estimates that the government paid out some P183M to assist the OCWs during the Gulf Crisis.

Oil Price Hike. The Aquino government inherited and essentially maintained the energy policy system of the Marcos regime. In 1990 the only essential change in energy policy that it had made was to have abolished the Department of Energy and put the various energy and power offices and companies under the direct supervision of the Office of the Executive Secretary.

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<sup>38</sup> David and Gheeta (1989) observe that the financial streams of the rural economy are increasingly funded and driven by the the remittances of OCWs, and may explain the relative survival of the rural areas despite the tremendous biases against rural development and agricultural growth.



There were plans to make major changes in policy, but these plans were overtaken by the Gulf War.

The government administratively sets the domestic prices of oil and oil products, and manages the differentials between international and domestic prices through the use of the Oil Price Stabilization Fund.<sup>39</sup> The OPSF subsidizes the import costs of the three oil companies<sup>40</sup> when international prices exceed a predetermined reference price, and collect the excess when actual import costs are less than the reference rates.

When international oil prices shot up with the outbreak of war in the Gulf, the Philippines was sourcing 83% of its crude oil from the Middle East. Despite the OPSF already being in deficit, the government, fearful of public reaction and short-term pain, chose to maintain the domestic prices of oil and fuel by allowing the build-up of the deficit in the OPSF. Net upward adjustments in oil prices were only made on September 21, 1990 and in December 1991<sup>41</sup>.

Complicating the problem of the increase in oil prices were two factors: *first*, Congress' legislation of a change in the taxation of oil products from *ad valorem* to specific in September 1990, and *second*, the sharp depreciation of the Philippine Peso against the U.S. Dollar. The legislation of the shift in taxation was again a populist measure, designed to moderate the increase in the prices of oil-based products due to the Gulf War. The shift cut the effective tax rate on gasoline and jet fuel from 92% to 55% of direct company take, and on kerosene and diesel fuel from 32% to 11%, and than on liquid petroleum gas from 32% to

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<sup>39</sup> A concise description of the institutional arrangements is in Lamberte and Yap (1991).

<sup>40</sup> The three oil companies are the multinationals Pilipinas Shell and Caltex Philippines and the parastatal Petron - the Philippine National Oil Company.

<sup>41</sup> On December 5 1991 a sharp round of increases in petroleum prices were ordered by the Energy Regulatory Board. Strong, populist reactions and protests from consumers, and both the Executive and Legislative forced the ERB to moderate the increases a few days later.

zero. The buoyancy of the tax on oil and oil products was reduced, and finally, the tax revenues from oil products was reduced, at a time when the fiscal requirements of the government were most dire.

As the country's trade balance sharply deteriorated with the Gulf War, the peso also rapidly lost ground. Between July 1 and November 1990 the Peso-Dollar exchange rate moved by 19% to P28 per \$1. Only from April 1991 did the Peso again improve. The Central Bank instituted various controls on the foreign exchange transactions of the banks to relieve pressure on the Peso. The CB also strongly encouraged the commercial banks to administer an "oil pit" and "voluntary import restraint system" where oil imports were accorded preferential access and exchange rates for foreign exchange.

Fertilizer Input Imports. Paddy rice is the Philippines' largest agricultural product. More than 90% of Philippine rice farms are planted to modern varieties, the cultivation of which require the application of urea fertilizer. The production of urea, in turn, is largely based on petroleum and natural gas. The country was sourcing a substantial part of its fertilizer imports from the Middle East, particularly Iran. The Gulf crisis, oil price increases, foreign exchange difficulties and freight cost increases combined to engender a doubling of urea prices. This prompted the Department of Agriculture (with the support of the NEDA and over the objections of the Departments of Finance and Budget and Management) to press for the waiver of tariffs and import surcharges on fertilizer, as well as the mounting of the Rice Action Program.<sup>42</sup> Under the RAP, which ran for two planting seasons from late 1990 to mid-1991, each rice farmer was provided, for free, one 50-kilo sack of fertilizer for each sack of

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<sup>42</sup> Prior to 1990, the DA had also implemented the Rice Productivity Enhancement Program (RPEP), where each farmer of an irrigated rice farm was provided urea on a "buy one, take one" basis. The RPEP was financed from Japanese ODA. No waivers on tariffs were involved.

fertilizer that he applied to his fields. The financing of the fertilizer giveaways under the RAP was sourced from Japanese Official Development Assistance to the DA.<sup>43</sup>

Given the dependence of the country on imported energy, it is clear that the Aquino government was unable to focus adequate attention and act quickly on energy policy. The abolition of the Department of Energy by the Aquino government in 1986 was essentially a reaction to the DOE's reputation as a base for crony activity during the Marcos regime. The Energy Coordinating Council - which was the committee arrangement which was organized to replace the DOE was unwieldy and slow.<sup>44</sup> Since the Executive Secretary was the Chairman of the Committee he could not pay adequate attention to energy policy, given the tremendous amount of work and pressure already inherent in his basic job as the "little," or "Assistant" President.<sup>45</sup>

Coup Attempts and Rebel Activity. The economy suffered the instability and uncertainty engendered by seven major *coup* attempts, clashes between leftist rebels, military and the police and assorted bombings, assassinations, movements of troops and armed groups - including vigilantes - and unsettling rumors and panic from 1986 through to 1991. These disturbances disrupted business, tourism and the general patterns of life in the country. In particular,

<sup>43</sup> The DA later succeeded in inserting into the government budget and the appropriations bill the estimated cost of the RAP - about P700M per year, starting in 1992.

<sup>44</sup> The ECC was chaired by the Executive Secretary, who was also Chairman of the Philippine National Oil Company (PNOC). The members included the Executive Director of the Office of Energy Affairs, the President of the PNOC, the President of the National Power Corporation and the Administrator of the National Electrification Administration.

<sup>45</sup> The handling of energy policy during this period contributed to the decision to replace Aquino's second Executive Secretary, Catalino Macaraig, with the third - the "fair-haired" young Congressman Oscar Orbos, who lasted only six months.

the major *coup* attempt of December 1989 also caused a steep fall in tourist trade, with long-lasting adverse effects on the already battered image of the country as a tourist destination. The disturbances also diverted scarce resources from economic activities to defense, police and other peace-keeping expenditures. The economic opportunity losses from these diversions are of course significant but for the moment incalculable.

### B. Inadequate Capacity for Reform

Nelson (1991) writes:

"Capacity to generate informed and objective analyses of economic problems and options obviously affects the speed and coherence of adjustment responses. To some extent this capacity is determined by very basic features: the number of well-trained and experienced analytic staff in central economic agencies and whether they are largely in agreement or deeply divided ... reviewing Korean experience ... a further crucial feature (is): the degree to which technical staff are insulated from legislative, interbureaucratic, and interest group pressures. Reasonable autonomy is probably essential to the ability to propose and follow through on politically painful measures."

In this section we examine several aspects of the Aquino government's capacity for the formulation and implementation of economic reform measures, and its insulation from anti-reform pressures. We find that the Aquino government's capacity for reform was constrained by a diffused structure of leadership in economic policy, the frequent changes in officials, and the general lack of bureaucratic experience of its officials. While a definite central economic

planning agency - the NEDA - existed, it was constrained from effective direction and coordination of economic policy.

The Philippine government has been unable to arrive at a set of programs, projects and actions which aggregate into an internally consistent, overall strategy and program of growth and development. In the same manner it has been unable to arrive at a program of economic reforms which, when looked at from a perspective, add up to a set of mutually-reinforcing measures for recovery and growth. The source of the fragmented nature of the development and reform programs in the Philippines is in the fragmented, diffused approach to and management of programs for development and reform in the government bureaucracy.

#### Diffused Economic Leadership Structure

The senior officers of the principal economic agencies over the period 1982 to 1992 are listed in Table 23. In general, the originators of proposals for policies and programs in the Philippine government are the Individual Departments. The Departments enjoy a great deal of autonomy from the rest of government, and subject to the limits imposed by laws, have the authority to not only develop and propose policy measures, but also enact these, even if these have adverse consequences on sectors other than those which are the direct clients of the Department. There is a great deal of "clientelism" in the Philippine bureaucracy, where Departments are seen to be in service (or in charge) of particular sectors, and not of the population at large. Thus Departments are often willing to forgo overall, national welfare in favor of sectoral welfare.

The tendency to program and policy fragmentation was exacerbated and emphasized in the Aquino period. The President was unwilling to reserve for herself the sole authority to decide upon the reform program. But neither did

she identify nor appoint a specific authority who could decide upon and speak with finality on economic matters.

Departments as Islands. On a day-to-day basis, the various Secretaries generally concentrated on meeting policy and program objectives principally related to their direct sectoral objectives. Given the nature of economic policy and its adjustment, however, their parochial concerns often conflicted with those of other Departments, and thus the Secretaries also took it upon themselves to attempt to reverse or at least neutralize the policies and activities of the other Departments when they perceived these to negate or encroach upon their own. Thus in addition to promoting their own programs, they also had to defend their own actions against other Departments. When Departments could not find support within the government for their positions and thus appealed for public support, the conflicts would often erupt in the press. The press, naturally sensitive to news-making conflict, would emphasize the differences between the parties and a self-feeding cycle of publicity and intensification of the conflict would ensue. Thus the impression that the government could not "get its act together" was strengthened, and that description of President Aquino's administration was prevalent through most of her era.

In general, the overall effects and interactions of the separate actions taken by the various Departments in the Aquino government were either not appreciated or not important to the separate policy makers. Despite the coordinative efforts of the NEDA and President Aquino's statements and avowals to the contrary, the exigencies of day-to-day governance and the need to placate specific, present-day influences and special interests dominated the decisions and strategies of the government. In retrospect, rarely were the elements of a program envisioned to achieve sustainable growth into the future protected from undue delay and modification to accommodate short-term interests.

Resolving Inter-Departmental Conflicts and Inconsistencies. Any analysis of the Philippines' record at policy making cannot utilize models where the Government is modelled as a homogeneous whole. It clearly was not. It was deeply divided, with Secretaries and entire Departments in disagreement or even working at cross purposes. The resolution of inter-Departmental conflicts on economic policies required the identification and authorization of a leader of the economic policy team. This was also made necessary by President Aquino's own honest declaration of greatest concern for moral leadership and inexperience in economic affairs. Yet the economic policy team, nor of the team's leadership, of the Aquino government was not clearly defined.

The official protocol, particularly the *Administrative Code* regarding the structure of economic policy making in the Philippine government did not quite match the actual process of decision making. While the NEDA was conferred by the Constitution with overall economic planning powers, in practice the NEDA Director-General and concurrent Economic Planning Secretary served as a coordinator of policy, often merely aggregating the policy positions of the various departments instead of decreeing policy based on its own analysis and authority. The Finance Secretary, charged with some of the most critical economic policy matters, often found his authority diminished or even overturned when his decisions and recommendations to the President were vetted by the Executive Secretary. The Executive Secretary's functions are in fact an area of continuing debate - particularly on the extent to which the Executive Secretary can act "for the President" - as the Executive Secretary formally signs documents which have been submitted to the Office of the President for action.

Ultimately however, the Executive Secretary has as much power and leeway as is allowed by the President - since he serves at the President's behest and pleasure. It is apparent that President Aquino's parameters for the Executive

Secretary tended to the broad end, so long as the Executive Secretary was willing to absorb controversy and not pass it back and upward, to her.

**Personalities.** The roles of the personalities in policy making in the Philippines is important for two reasons: *first*, of course the personal characteristics of the various persons appointed to office either enhanced or curtailed their effectiveness; and *Second*, it is clear that in a young government and democracy as the Philippines actually is, ideologies and parties founded and bound together by ideologies have yet to evolve. Philippine politicians have a long history of crossing party lines, based on their assessment of the party's capacity to provide support for his personal, political goals. Thus personalities, rather than positions and beliefs espoused, are of greater import.

Aquino's first Secretary of Economic Planning, the irrepressible academic Ms. Solita Monsod, refused to be cowed, and pushed the NEDA to the policy front. Cayetano Paderanga, who served from 1990 to 1992, was more comfortable in the background, playing what was generally perceived as a academician-technocrat supporting role to Finance Secretary Jesus Estanislao. The first Finance Secretary Jaime Ongpin had been a very successful manager in private industry before joining the Aquino cabinet. He became very unhappy with the dilution of his authority and effectiveness as Minister, particularly in relation to the ideological and administrative infighting that he fell into with Executive Secretary Joker Arroyo<sup>46</sup>.

Mr. Carlos Dominguez, the Agriculture Secretary from 1987 to 1989, spoke often and loudly on the "anti-agriculture bias" of overall economic policy; an

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<sup>46</sup> Joaquin, 1990. Ongpin also became the target of Congressional inquiries at a time when the proposal of the Philippines repudiating its foreign debt was quite popular. All the pressures reportedly drove him to suicide in December 1987, soon after being forced to resign his post.



area that traditionally was not the provenance of Agriculture Ministers, Dominguez consequently got into conflicts with Trade and Industry Secretary José Concepcion - and also irritated the Secretary of Finance and the Governor of the Central Bank. The conflicts were magnified in the press, which discomfited the President. All these combined with a shortfall between rice production and population growth, and the coup attempt in 1989 to prompt the resignation of Dominguez. Mr. Senen Bacani took over the Agriculture Secretary's post, and deployed his low-key personality until 1992 toward most of the same issues as his predecessor, with more emphasis on quiet persuasion and a pragmatic "two steps forward, one step back" process.

The Presidential Assistants. The appointment of men to directly assist the President on economic matters also did not help. For part of the 1986 - 1992 period, the President installed a cabinet-level "Presidential Assistant on Economic Affairs", who reviewed the submissions of the economic Secretaries before the President saw these. Another Cabinet-level Presidential Assistant for Rural Development was also in office. Mr. Vicente Jayme, an investment banker who had earlier also served Aquino in the Finance and Public Works and Highways portfolios, was the Presidential Assistant on Economic Affairs.<sup>47</sup> Mr. Edilberto de Jesus, a management professor who had a strong interest in the emerging field of "development management" and who was known to have at least cordial relationships with the peasant groups and other affiliates of the leftist National Democratic Front, was brought in to be the Presidential Assistant for Rural Development.

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<sup>47</sup> Mr. Jayme was widely perceived to have been ineffective at both his assignments as Minister of Finance and later as Minister of Public Works. His assignment to the Office of the President was also a graceful transition for him, having become physically weak due to illness and thus unable to fully bear the rigors of a Secretary's job.

The Presidential Assistant positions were later discontinued, when the appointees, serendipitously, decided to resign. Their leavetaking also coincided with a wave of cutbacks in government spending in the context of public concern - whipped up by Congressional posturing - over "the bloated bureaucracy".<sup>48</sup> It had become clear that they could not add much to the content of policy proposals, and that they were only an additional layer between the President and her Secretaries. Finally, either they were not certain that they had the full confidence of the President and thus their recommendations would prevail over those of the economic Secretaries, or that they were hesitant to exert personal force to overcome the individual Secretaries. Given the strong individual characteristics of the Secretaries themselves, it is doubtful that the exertion of personal will by the Presidential Assistants would have been sufficient for them to hudge from their policy positions and move toward a common stance.

The Clusters. One of the other measures taken to facilitate decisions in the cabinet as well as to reduce open squabbling during the weekly Wednesday cabinet meetings was the creation of the cabinet cluster system. Several of the Secretaries felt that conflict, particularly if acrimonious, should not be displayed at cabinet meetings - particularly with the President presiding. President Aquino agreed, and there were several cabinet subcommittees created - Cluster "A" for Agro-Industrial Development, "B" for the Macroeconomy, "C" for Social Development, "D" for Infrastructure, and "E" for Security. Cabinet members were assigned as members to one or more of the clusters depending on their areas of

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<sup>48</sup> Whether the Philippine bureaucracy is "bloated" merits empirical investigation. A tentative look at several ratios of the size of government and the economy (budget over GNP, agriculture budget over agriculture GDP, government perosnnel over population, etc) , and comparison of these to say, Thailand, Indonesia and Malaysia shows that the Philippines does have the smallest bureaucracy, with the smallest budget. At a time of economic stress and very tight budgets, and consequently constrained distribution of largesse, the bureaucracy becomes an easy target for redistribution.

responsibility. For example, the membership of Cluster A included the Secretaries of Agriculture, Agrarian Reform, Trade and Industry, Economic Planning, Tourism, Environment and Natural Resources, and the Presidential Assistant on Rural Development. Depending on the agenda, the heads of various specialized bureaus, agencies and corporations, or other Secretaries, were also present at the meetings.

The Clusters and NEDA. The cabinet clusters were committee structures in addition to the existing NEDA Board Committees (Investment Coordination, Social Development, Tariff and Related Matters, and Development Budget Coordination) which already dealt with many of the same issues and also included the Secretaries as members. The NEDA Board and the cabinet cluster system thus operated along parallel, if somewhat overlapping, tracks. The Cabinet Secretary, who was in charge of the Cabinet's agenda, determined which matters needed to be resolved at the cluster level prior to its inclusion in the Cabinet agenda. The NEDA Secretary managed the agenda of the NEDA Board, which met monthly. The Clusters did help facilitate the resolution of some issues, but at the cost of lengthy, time-consuming meetings and discussion. The difficulties of scheduling meetings among cabinet ministers who were already quite busy in their regular duties contributed toward the long delays in decision-making. The Cluster system also diffused the accountability and responsibility of the specific Departments for particular matters in their jurisdictions.

#### Bureaucratic and Political Inexperience of Officials

To some extent the complex systems and subsystems of decision-making as described above were built up due to the bureaucratic inexperience of most of the Aquino officials. Most of the Cabinet had been drawn into government from the private sector. Most had come into Government with the impression that the

bureaucracy was filled with lazy, incompetent, political appointees. With a few exceptions, the first major steps taken by the Aquino government upon its entry was wholesale reorganization, with the resignation, replacement and reshuffling of officials and staff - a process consistent with the idea of "de-Marcosification".<sup>49</sup>

Most of Aquino's men and women came into government, some even initially as volunteers, with a lot of enthusiasm and determination to "do right". It is now clear that much more than enthusiasm and goodwill is required for successful governance. Much valuable inside information and experience with the workings of the bureaucracy was lost with the enforced, wholesale reorganizations that marked the changing of the guard from the Marcos to the Aquino regimes. While many of the new managers had had impressive records in the private sector, it was clear that they were unfamiliar with the culture and systems of government, particularly since such norms, mores and practices had developed through time and a shared history within the agencies. Finally, the government had to attempt to meet the tremendous expectations of the population utilizing the very limited resources and difficult constraints inherited from the Marcos regime.

Managing the Bureaucracy. In many cases, only belatedly did many of the new officials discover that the reorganizations had erased or distorted a substantial amount of institutional memory that is critical to the pragmatic management of the bureaucracy. They also found that the incentive and reward systems for performance appraisal, reward and punishment are quite different

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<sup>49</sup> Authoritative analyses of governmental successions and transitions in the Philippines is by Carino (1991) and Carino (1992).

compared to those in the private sector. The tremendously large size of the bureaucracy's clientele and consequently of the bureaucracy itself, its financing from public appropriations, and its accountability to citizens via representative government implied major differences in goal setting, implementation and monitoring. The officials thus had to go through extended learning periods, during which many mistakes were made, and at a time when effective, successful action was decisive. Unfortunately, by the time the officials had learned the ropes and were ready to act, the window of opportunity for decisive, most effective action had closed.<sup>50</sup>

The Civil Service Framework. The managers who had come into the bureaucracy from the private sector were also frustrated by what seemed to be their inability to exact the full and immediate compliance with their orders and instructions from their staffs. Neither could they hire and fire at will as they were able to as part of the managerial discretion often possible in the private sector, since such decisions in the bureaucracy are governed by the complex, time-consuming procedures mandated by the Civil Service Code. The new Ministers who effected reorganizations and fired people later found many of their decisions overturned by the Supreme Court. The dismissed employees were reinstated upon instructions of the Court.

The new Ministers also discovered that they not reward nor punish by use of wage incentives, since the wage structure is fixed by law, and any wage modifications are only allowed upward, and even then within severely restricted ranges for meritorious performance, subject to the availability of funds from the government budget. . They found, as they settled more into their jobs, that the

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<sup>50</sup> Reminding us of the adage "By the time I learned all the answers, they had changed all the questions!"

most they could do with staff they found they could not work with was "...to assign them to the freezer" - to move these staff, albeit temporarily, to non-tasks, or to regions or sites as far removed from the action as possible. Then they would often bring in a consultant or shift other staff members they considered more effective to the task at hand. Of course, such solutions did not eliminate the problem - it only transferred the problems in time and place. The drain on the budget continued and even increased.

Some Lessons In the Management of the Bureaucracy. One of the lessons that was learned by Aquino cabinet members - some faster, some later, and as had other cabinet members under previous Presidents - was that the Secretaries had to be more than analytical technocrats. In addition they had to be:

- (a) managers of their huge bureaucracies, on a national scale with staff of thousands - from as few as a thousand at the Department of Budget and Management, to as many as 60 thousand in the Department of Education, Culture and Sports, and often working with very limited resources to achieve ambitious targets and expectations;
- (b) advocates - for particular policy positions, and against vested interests,
- (c) communicators - since their jobs involved the media and the formation of public perceptions, and finally
- (d) politicians - since they had to work with constituencies, often with conflicting interests which more often than not could not be adequately satisfied.

Given the above experiences, it is thus revealing that the Ministries where the least amount of reorganization took place - aside from the change in the top leadership, were also those that accomplished relatively more under the new dispensation. These were the cases of the initial year under Aquino of the

Department of Finance under Minister Ongpin and the NEDA under Director-General Monsod. Such was also the case, in the opposing direction, of the Department of Trade and Industry under Minister Concepcion. The bureaucracy is a leviathan, capable of tremendous force, but weighed down by inertia. Thus much effort has to be invested in team-building and in the installation of an organizational vision of reform and development - much of which is the personal vision and intentions of the Minister himself. The reward that the bureaucracy provides is personal pride in belonging to the team that shines and achieves, and in a cyclical process, team *esprit de corp* is engendered and nurtured.

#### Frequent Changes in Leadership

High rates of turnover among the senior officers was also a serious problem. As can be seen in Table 20, over the six years of Aquino's watch the average length of service among her economic managers was about two and one-half years. The average length of service of the Undersecretaries for Policy and Planning was even shorter. Frequent political and analytical leadership and changes meant that the economic team did not fully gel, and that a shared history of experience which facilitates teamwork based on the common understanding of the economic problem did not exist. Thus a fully-coordinated set of actions toward recovery and growth could not readily be formulated. It is also not surprising that the economic managers focussed most of their energy in fire-fighting, on the exigencies of emergency, day-to-day "crisis management" - a context ripe for the use of quick, "band-aid" solutions that assuage short-term demands but are ultimately palliative and unsustainable.

Table 20

## Key Economic Officials, 1986-92

Ministry/ Department	Ministers/ Secretaries	Undersecretaries for Policy and Planning
Office of the President/ Executive Secretary	Joker P. Arroyo (2/86 - 9/87) Catalino M. Macaraig (9/87 - 12/90) Oscar M. Orbos (12/90 - 1/91) Franklin M. Drilon (7/91 - 6/92)	Vicente R. Jayme, Presidential Assistant for Economic Affairs (1/90 - 1/91) Edilberto de Jesus, Presidential Adviser on Rural Development, (11/88 - 5/91)
Agriculture	Ramon V. Mitra (2/86 - 3/87) Carlos G. Dominguez (3/87 - 12/89) Senen C. Bacani (1/90 - 6/92)	Carlos G. Dominguez (2/86 - 12/86) Roberto W. Ansaldo (2/87 - 12/88) V. Bruce J. Tolentino (6/88 - 6/92)
Budget and Management	Alberto G. Romulo (2/86 - 3/87) Guillermo N. Carague (3/87 - 2/92) Salvador M. Enriquez Jr. (2/92-6/92)	Benjamin Diokno (2/86 - 2/92) Emiline Boncodin (2/92 - 6/92)
Central Bank	Jose Fernandez (2/86 - 12/89) Jose Cuisia (1/90 - 6/92)	Edgardo Zalcita (2/86- 6/92)
Finance	Jaime Ongpin (2/86 - 9/87) Vicente R. Jayme (9/87 - 12/90) Jesus P. Estanislao (12/90-6/92)	Ernest Leung (2/86 - 12/90) Romeo Bernardo (1/91 - 6/92)
National Economic and Development Authority	Solita C. Monsod (2/86 - 6/89) Jesus P. Estanislao (9/89 - 12/89) Cayetano Paderanga (1/90 - 6/92)	Filologo L. Pante Jr (2/86 - 8/89) Florian A. Alburo (8/89 - 11/89) Cayetano W. Paderanga Jr. (11/89 - 12/89) Ponciano S. Intal Jr (1/90 - 12/90) 6/91 Cielito F. Habito (1/92 - 6/92)
Trade and Industry/ Board of Investments	Jose S. Concepcion Jr (2/86 - 12/90) Peter D. Garrucho Jr. (1/91 - 2/92) Lilia R. Baulista (2/92 - 6/92)	Ernesto T. Ordonez/Tomas Alcantara (2/86 - 12/87) Gloria M. Arroyo/Tomas Alcantara (1/88 - 2/92) Ernesto T. Ordonez/Tomas Alcantara (2/92 - 6/92)



### The Record of Economic Planning

The Philippines' central economic planning agency is of course the National Economic and Development Authority (NEDA). The NEDA was created in 1972 by Marcos by consolidating the many economic planning offices and commissions that had been created by the various Presidents - including the National Economic Council, the Program Implementation Agency, the National Council for Integrated Area Development, and the Presidential Assistant on Community Development. Under the leadership of the first NEDA Director-General, Gerardo Sicat from the prestigious School of Economics at the University of the Philippines, the NEDA steadily focussed on the upgrading of the economic policy and planning skills of the NEDA and the bureaucracy at large. The NEDA also consolidated the gathering and analysis of statistics, data and information on the Philippine economy.

The NEDA Organization. Over its history since being created soon after the declaration of Martial Law, the NEDA has undoubtedly gathered and developed within its ranks the best collection of development planners and economic analysts in the Philippine bureaucracy. In the early years this was accomplished largely by evading the government salary structure and offering higher salaries and wages. Also, the NEDA centralized unto itself the granting of slots for scholarships and other training courses provided to the Philippine bureaucracy through foreign assistance. This mechanism assured the NEDA a non-wage enticement for entry into the NEDA, as well as a hold on the trained individual upon return from the scholarship, usually abroad. This established a positive cycle of being able to attract the best entrants, generate a reputation of good quality, and the attraction of still better entrants into the NEDA.

The enactment of the Salary Standardization Law in 1989 has since largely eliminated the NEDA's advantage in salaries. The NEDA's centralized hold on scholarships is also currently under attack by the Civil Service Commission, for good reason. The NEDA is attempting to preserve its reputation through sheer *esprit de corp*. The NEDA has many vacancies in its plantilla, but NEDA officials now complain of being unable to attract the best graduates from the Philippines' best universities (particularly the University of the Philippines) where before these had to be turned away.

The NEDA as the Economic Authority. Particularly under the leadership of Sicat, the NEDA was quite successful at building an organization of highly technically capable planners and analysts. Under Martial Law, it could rely on the NEDA's early reputation of being very close to the Palace to exact compliance with its planning process and policy decisions and recommendations. However, the NEDA's overall record of effectiveness in guiding and coordinating economic policymaking and strategy is at best mixed. When Sicat fell into disfavor by the Palace, after reportedly not supporting the wishes of, and then openly clashing with the First Lady Imelda Marcos, Sicat and NEDA's influence and power waned. Sicat soon chose to leave government and return to the University of the Philippines, thence joining the World Bank.

Overall, while the record of the NEDA's success in coordinating government strategy and policy is, at best, fair, the NEDA's record at influencing the private sector has been quite poor. In fact, the converse of private influence on NEDA has been more successful. To the NEDA may be aptly applied Joan Nelson's (1991) characterization of some countries' economic managers as "... rather like pilots pulling levers that do not connect, or connect only loosely, to the actual steering equipment."

Aside from the NEDA, the set of economic agencies of the government includes the Departments of Trade and Industry, Finance, Budget and Management, Agriculture and the Central Bank of the Philippines. Sometimes the Department of Tourism is included in this group. Particularly in the Aquino period, the NEDA was not accorded overall coordination of economic policy. At various times the Executive Secretary vetted the NEDA's recommendations. At other times a complex of committees in the so-called Cabinet Assistance System made the decisions - these were the "Cabinet Clusters" of agro-industry, macroeconomy, national security, infrastructure, etc. At one point "coordinating Presidential Assistants" were even appointed, with one for economic matters.

NEDA Structure. The NEDA decision-making structure itself is a complex of committees. The overall body is the NEDA Board, chaired by the President. The core of the NEDA organization is the secretariat, which is essentially a service organization to the various NEDA committees: Investment Coordination, Development Budget, Social Development, Tariff and Related Matters, Infrastructure, etc. These committees are organized in three levels: cabinet, technical and subcommittee, with representation from the various Departments and offices of the appropriate rank. The subcommittees do detailed basic work, the technical committees analyze, the cabinet committees decide, and the NEDA Board confirms decisions.

Thus it is clear that the only fundamental source of the NEDA's power and influence is moral suasion. The NEDA holds very little, if any, regulatory powers. While its planning activities are covered by Presidential Instructions, the NEDA has little recourse but to discuss, and discuss again, when government agencies do not implement the plan as expected, and the private sector is not persuaded to cooperate.

Particularly in the Aquino period, economic planning in the Philippines was relatively ineffectual. While the NEDA is identified as the central planning agency, it does not have any significant power nor authority to ensure that the rest of government and even the private sector will follow its directives or act according to the development plan. Most, if not all of the critical bodies for dialogue and collaboration between the government and private business are organized not under the NEDA but under the Department of Trade and Industry. Furthermore, there is clear experience of the DTI and its component bodies either ignoring or acting against the NEDA's prescriptions. The Philippines' experiences in tariff reform and aid and investment coordination are cases in point. The individual departments have tended to be more sensitive and responsive to their direct "clients" than they have been to the directions of the plan. This non-responsiveness to overall economic direction has been rationalized and defended in the spirit of participative democracy, of "people power" and sensitivity to "the expressed needs of the people". Clearly the immediate desires of the clients of say, the Department of Trade and Industry clash with those of the farmers served by the Department of Agriculture. The point of unity can only be in a common path and strategy toward what is mutually desired.

#### Economic Adjustment Capacity in Ministries Other than the NEDA

It is clear that relative to the rest of the Philippines' line government offices, the NEDA is the best-staffed by professionals with training in macroeconomics and development which is crucial for the technical background facilitating the formulation and management of a program of economic stabilization and adjustment. In addition to its relatively deep bench, the NEDA

also has access to the Philippine Institute for Development Studies (PIDS) which was expressly created in 1977 by then NEDA DG Gerardo Sicat "... to directly assist the government in planning and policy making."<sup>51</sup> Economic analysis capacity was however quite thin in the other Ministries critical for economic management: the Office of the President, Finance, Central Bank, Trade and Industry, Agriculture and Budget and Management.

Department Secretaries. The only Ministers with intensive economics backgrounds were Finance Secretary Jose Estanislao and Planning Secretary Solita Monsod (Table 22). Monsod, however, was in office for barely two years, leaving as her liberal tendencies were quashed by the conservative bent of the President and most of the cabinet. Estanislao, on the other hand, arrived on the scene rather late, only in late 1990, after economic policy had already muddled along for close to four years after the EDSA revolution. Businessmen, bankers and lawyers dominated the rest of the economic portfolio. It is fair to say that in general, pecuniary motives aside, the training and outlooks of bankers, businessmen and lawyers tend to the immediate, direct welfare of individual firms, banks and clients, which may be incompatible with that of the economy as a whole, over the long run.

Undersecretaries. There were more economists among the senior analytical officers of the Ministries - the Undersecretaries for Policy and Planning (Table 21). Aside from their inherent abilities, however, the effectiveness of these officers in providing economic input to their principals -

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<sup>51</sup> The PIDS was created after the UPSE hesitated, for reasons of academic independence, from policy analysis upon the behest of the NEDA. The monetization proceeds of U.S. Public Law 480 grain aid formed the initial endowment of the PIDS.

Table 21

## Key Officials and their Backgrounds, 1986-92

Ministry/ Department	Ministers/ Secretaries		Undersecretaries for Policy and Planning	
		Principal Profession/ Training		Principal Profession/ Training
Office of the President/ Executive Secretary	Joker P. Arroyo (2/86 - 9/87) Catalino M. Macaraig (9/87 - 12/90) Oscar M. Orbes (12/90 - 7/91) Franklin M. Dilon (7/91 - 6/92)	Lawyer/ Law Lawyer/ Law Politician/ Economics Lawyer/ Law	Edilberto de Jesus, Presidential Adviser on Rural Development (11/86 - 5/91) Vicente R. Jayme, Presidential Assistant for Economic Affairs (1/90 - 1/91)	Management Professor/ Business Management  Banker, Manager/ Business Mgmt.
Agriculture	Ramon V. Mitra (2/86 - 3/87) Carlos G. Dominguez (3/87 - 12/89) Senen C. Bacani (1/90 - 5/92)	Politician/ Journalism Agribusiness Manager, Banker/ Economics Agribusiness Finance/ Business Mgmt	Carlos G. Dominguez (2/86 - 12/86) Roberto W. Ansaid (2/87 - 12/88) V. Bruce J. Tolentino (5/88 - 6/92)	Agribusiness Manager, Banker/ Economics Agribusiness Manager/ Business Mgmt. Economist/ Economics
Budget and Management	Alberto G. Romulo (2/86 - 3/87) Guillermo N. Carague (3/87 - 2/92) Salvador M. Enriquez Jr. (2/92-6/92)	Lawyer, Politician/ Law Accountant/ Accounting Gov't Service/ Accounting	Benjamin Diokno (2/86 - 2/92) Emiline Boncodin (2/92 - 5/92)	Economist/ Economics Gov't Service/ Accounting
Central Bank	Jose Fernandez (2/86 - 12/89) Jose Cuisia (1/90 - 6/92)	Banker/ Business Mgmt. Banker/ Business Mgmt.	Edgarco Zalcita (2/86 - 6/92)	Gov't Service/ Economics
Finance	Jaime Ongpin (2/86 - 9/87) Vicente R. Jayme (9/87 - 12/90) Jesus P. Estanislao (12/90-6/92)	Industrial Manager/ Business Mgmt. Banker, Manager/ Business Mgmt. Economist Banker/ Economics	Ernest Leung (2/86 - 12/90) Romeo Bernardo (1/91 - 6/92)	Gov't Service/ Economics Economist/ Economics
National Economic and Development Authority	Solita C. Monsod (2/86 - 6/89) Jesus P. Estanislao (9/89 - 12/89) Cayetano Paderanga (1/90 - 5/92)	Economist/ Economics Economist, Banker/ Economics Economist/ Economics	Filologo L. Pante Jr. (2/86 - 8/89) Fionan A. Alburo (8/89 - 11/89) Cayetano W. Paderanga Jr. (11/89 - 12/89) Ponciano S. Intal Jr. (1/90 - 12/90) Cielito F. Habito (1/92 - 6/92)	Gov't Service/ Economics Economist/ Economics Economist/ Economics Economist/ Economics Economist/ Economics
Trade and Industry/ Board of Investments	Jose S. Concepcion Jr. (2/86 - 12/90) Peter D. Garrucho Jr. (1/91 - 2/92) Lilia R. Bautista (2/92 - 6/92)	Businessman/ Business Mgmt. Businessman/ Business Mgmt. Gov't Service/ Foreign Service	Ernesto T. Ordenez/ Tomas Alcantara (2/86 - 12/87) Gloria M. Arroyo/ Tomas Alcantara (1/88 - 2/92) Ernesto T. Ordenez/ Tomas Alcantara (2/92 - 6/92)	Economist/ Businessman Economist/ Businessman Economist/ Businessman

Ministers, was of course dependent on the willingness of the Minister to listen and utilize the input.<sup>52</sup> It is evident that their input on macroeconomic policy was utilized to varying lengths at the NEDA, and the Departments of Finance, Budget and Agriculture. Unfortunately, the Undersecretaries for Policy and Planning could also not devote full attention to the support of their principals. As second-tier officers in their respective Departments, they were also burdened with administrative and management tasks related to running the bureaucracy.

Economic Analysis Staffs. Finally, most of the Ministries did not have staffs dedicated to the analysis of economic issues. Prior to the Aquino period, the Department of Agriculture had depended for policy advice on a small circle of consultants gathered around the Minister of Agriculture. The Planning Service of the Ministry did not have an economic policy unit. In 1986 Agriculture Deputy Minister Carlos Dominguez, upon the advice of the Agricultural Policy and Strategy Team, caused the organization of a Policy Analysis Division within the Planning Service.<sup>53</sup> Budgetary constraints, however, limited both the size and analytical power of the PAD - to only three analysts, of less than Ph.D. level. In addition to attempting the analysis of macroeconomic issues, it also had to tackle agricultural economic concerns. The Department of Trade and Industry's Policy Coordination Office was similarly staffed and burdened. The Department of Budget and Management did not have a fiscal policy analysis staff - and thus depended

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<sup>52</sup> In a conversation with the author, the eminent development economist, Bruce Johnston, once described the task of economists in senior positions in government is, at best, to "affect the development notions" of their principals - to change and modify their thinking of how the world works, or how development actually evolves. It is an interesting question of whether or not the Undersecretaries are supposed to provide, or at least, enrich the positions of their Secretaries, or simply accept and defend what their Secretaries state.

<sup>53</sup> The Agricultural Policy and Strategy Team was a group of economists and agricultural economists based at the UP Los Baños, who had volunteered their assistance to the Department of Agriculture around the time of the 1986 revolution. They produced the "green book" which was adopted as the initial policy "bible" of the DA.

principally on the skills of the officers.<sup>54</sup> The Department of Finance's International Finance Group was organized as staff officers dedicated to the servicing of the various ODA sources. Analysis was performed by the assigned officers as demanded by the various financing arrangements - meaning that analysis was performed *ad hoc*. The DOF also depended a great deal on the Central Bank's research staff.

The Central Bank has the largest, best funded research staff in the government - organized under the Department of Economic Research - Domestic, and DER - International, and totalling about 250 researchers, and reporting to one of the Deputy Governors of the CB. Unfortunately, the activities of the DER are largely dominated by the gathering and compilation of data, mostly in response to the requirements of the country's financing arrangements with the IMF and the WB. The nature of the data handled by the DER - relating to banking and economic accounts - also made the CB very sensitive and wary of confidentiality and security concerns and constrained the access of analysts from outside the CB to the data.<sup>55</sup>

Consultants. Consultants continued to provide policy advice to the various economic ministries. The consultants were mostly financed under ODA arrangements, sometimes even without the express desires of the Philippine government. The analytical input of consultants, however was of limited use. Consultants could not speak with the same authority as line officers, and yet line

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<sup>54</sup> Particularly on the individual skills of Undersecretary Benjamin Diokno, who been drafted from the UPSE by Aquino's first Secretary of the Budget Alberto Romulo.

<sup>55</sup> The security concerns of the CB sometimes resulted in the situation where analysts in the Philippines had to go to IMF or WB sources to obtain Philippine data. While the CB allowed the IMF and WB access to data as a consequence of the country's need for financing, its own rules prevented national analysts, many of whom were sympathetic to the Philippines' welfare, from access to the data.



officers often did not have the time nor opportunity to fully absorb and utilize the input of consultants. Consultants also stayed for a limited time on their assignments, often without having the opportunity to fully understand the context and implications of policy problems. Finally, ODA-funded consultants were often highly-paid expatriates, and their very presence often evoked suspicions (founded or not) of external interference in domestic affairs as sensitive or crucial as economic policy.

### Pressure Groups and the Policymaking Process

*Insulation may be defined as:*

*"... the capability of the technocratic core to deflect ... pressures from interest groups ... to alter policies in their favor... (thus being able to)... implement ... with a minimum of interference." (Campos, 1992)*

The Insulation of Marcos. President Marcos accorded his chosen technocrats with broad powers and flexibility for decision-making. He could very well afford to do this, particularly when he put the nation under Martial Law. From late 1972 through to early 1986, the legislature was inoperative and the judiciary inutile. While a parliament - the *Batasang Pambansa* - was organized in the early 1980's after a new constitution was railroaded through an aborted constitutional convention and a hurried referendum, the *Batasan* basically served as a rubber stamp of executive action. The judiciary, while operational, was cowed enough to work only on cases where the Marcos interests were not endangered. It is commonly thought that the Court's major decisions were "consulted" with the President prior to announcement. Furthermore, the press was effectively muzzled, since Martial Law had seen the closing of most of the newspapers apart from one or two (the *Daily Express* and the *Bulletin Today*)

which were sympathetic to the regime. Finally, the television and radio networks unsupportive of Marcos were "nationalized".

Therefore, by nullifying the democratic mechanisms of check-and-balance, Marcos enabled the insulation of his government. He and his Ministers ruled with unprecedented latitude, particularly in the early years of Martial Law when the government also enjoyed relatively popular support. Marcos' Ministers were only accountable to Marcos himself, who, due to his own innately sharp abilities and skills, often participated in the very specific details of economic and political decisions.

Aquino's Openness. President Aquino and many officials in her government had made the conscious decision to undertake work in an atmosphere of full transparency. While the decision was laudable for its democratic and participatory basis, it made independent, speedy decision-making in the executive branch almost impossible. Also, the feature of full participation and transparency ensured the flowering of lobbying and influence-peddling. Thus the groups already endowed with connections, resources and other logistics could better afford to influence policy and governance. This has served only to worsen the already extreme disparities in the distribution of wealth and influence in Philippine society. Each of the major interest groupings is briefly discussed below.

Labor's Influence. The concentration of industry and commerce in the Metro-Manila area is the principal reason why labor has long been relatively well-organized in the Philippines. The fact that fully 64% of the country's GDP is produced on Luzon, with 55% produced in the three central regions of the National Capital Region, Southern and Central Luzon emphasizes this concentration (Lamberte, 1990). Such concentration has facilitated:

- (a) the introduction of unionism among the workers, and
- (b) the joint formulation of, and united action on, relevant issues.

The Marcos government, particularly through the leadership of the veteran Labor Minister Blas Ople, managed to neutralize and contain the lobbying and influence of organized labor. Ople organized several mechanisms of dialogue and joint problem-solving between private industry, labor and government. In addition, at least two of the major national labor and trade unions have been supported by government to the extent that these have been very cooperative toward government initiatives.

The government-organized fora for dialogue includes:

- a. the Labor Advisory and Coordinating Committees (Department of Labor and Employment/DOLE),
- b. the national, regional and local Tripartite Labor-Management and Government Congresses, and
- c. the National, Regional and Local Wage-Setting Boards (DOLE).

While such advances have been attained, however, the agendas of the various labor, worker and trade unions have largely been limited to short-term wage-setting. This is because the economic environment of high unemployment and underemployment, particularly in the last ten years, has severely limited their horizons and their wish lists. Thus they have been unable to develop:

- (i) a coherent long-term vision and
- (ii) the clout to influence larger national issues.

Peasant and Farmer Influence. Even though in terms of proportion of the population the farming sector is dominant, comprising at least half of the work force, their influence on policy and policymaking has been disproportionately miniscule. In fact, the treatment of farmer issues has been characterized more as advocacy by a few in the policymaking community, and less as concerns advanced by the farmers themselves. The principal reason for the farming sector's lack of influence is their large, unorganized, spread-out numbers, made worse by their relatively much greater levels of deprivation and poverty when compared to urban industrial workers.

Thus it is not surprising that farmer issues are not considered with alacrity if these are ever raised. The experiences of the Departments of Agriculture (DA) and Agrarian Reform (DAR) in attempting to engender more contact between organized farmers' and peasants' associations and the Office of the President of the Philippines over the period 1986 through 1992 is instructive. The groups would request to see the President to discuss issues affecting agriculture and agrarian reform. They would need to go through all the formal channels of protocol and appointments, and if lucky, would get to see the President about four to six weeks later. In sharp contrast, it was common for prominent businessmen and the representatives of the business groups to request for meetings with the President and get to see her within a day or two! Of course this was during the Aquino Presidency. With the possible exception of the Magsaysay period, it is doubtful if it has become, or was it ever easier, for peasant groups to see the President. That businessmen had easy access to the Palace also in the Marcos period is, however, not surprising.

With regard to farmers and agricultural labor, the government also set up dialogue and consultation structures, particularly:

- a. the National Peasant Council (DA),
- b. the National Farmers' Advisory Board,
- c. the Peasant Forum, and
- d. the Farmers' Advisory Council (National Food Authority).

The Rise of Public Sector Unionism. A striking feature of the Aquino years, and undoubtedly that of the Ramos period, is the rise of employee organizations within the bureaucracy. Most of these organizations were non-existent, or were merely social clubs, in the Marcos, Martial Law period, when civil servants were not allowed collective bargaining. Striking was also disallowed among unions in public enterprises.

The most vocal and effective of the public sector unions are the teachers' and health workers' associations. These organizations innovated the "mass leave", and the hunger strike, as well as skillful utilization of media exposure, their demands and positions.

The uncertainty and demoralization engendered by the 1986-87 reorganization ignited organizational fervor across government. This was also encouraged by the new atmosphere of "democratic space." The 1987 constitution also enshrined public sector unionism, specifically allowing negotiation, collective bargaining, and strikes. Thus the public sector unions have scored some successes:

"... in the National Power Corporation they succeeded in stopping the purchase of luxury cars by management. (The NAPOCOR President) ... acknowledged the need to be sensitive to public outcry in the decision to bow to the organization's protest, even though no corruption had taken place... in the National Irrigation Administration and the National Housing Authority, the organizations unearthed and documented questionable documents that.. (led to)... the replacement of their chief executives. These exposures and protests have occurred not

without considerable risk of harassment and sanctions..."  
(Carino, 1990).

The Military and the New Peoples' Army. The extreme right-wing military rebels, as well as the leftist New Peoples' Army, mounted destabilizing actions against the government through most of Aquino's term. The Reform the Armed Forces Movement (RAM) was a small group of young officers that had grown in influence under the wing of Juan Ponce Enrile. Enrile was one of Marcos' key men, serving in various positions and as Defense Secretary. He joined forces with General Ramos to repudiate Marcos and support Aquino at the EDSA revolution, and was promptly appointed Defense Minister. He soon became critical of Aquino and was asked to leave the Cabinet, whereupon he got himself elected as opposition Senator. Enrile had nurtured the "RAM Boys" for years, providing them special funding and privileges. The image that the RAM has attempted to build is that of "reform-minded" professional soldiers. Their rhetoric emphasized the fostering of an efficient Military and an effective Government. Yet mounting of a string of *coup* attempts have not endeared them to the Filipino population at large - which has consistently valued civilian supremacy over the military, and non-violent means of change.

The New Peoples' Army is supposedly the military arm of the Communist Party of the Philippines, and of the much broader but more amorphous, political National Democratic Front. The traditional base of the CPP-NPA-NDF has been the rural peasantry, and thus they have been one of the most consistent advocates of broad, liberal agrarian reform. Upon her election, President Aquino released most of the NDF leaders that had been imprisoned by Marcos, and so created the opportunity for peace negotiations which culminated in a ceasefire signed in late 1986. Unfortunately, the ceasefire collapsed within a year amid mutual

accusations of violations, and the hostilities between the Government and the NPA resumed.

The violent actions or at least threat of violence from the extreme left and right have continuously pressured the government to at least keep the military and rural welfare close to the top of its agenda. Unfortunately, the nature of the threats have shaped the responses of government more toward palliatives rather than sustainable solutions for military unrest and rural poverty. The salaries and benefits for soldiers were raised soon after the *coup* attempts. The Government only started serious work on agrarian reform after the Mendiola massacre, in which many NDF-affiliated groups participated. A series of public demonstrations by NDF groups and sympathizers also at least kept the land-owning majority in Congress from watering the Comprehensive Agrarian Reform Law to ineffectuality.

Mandated "Consultation". The structures and operations of all the bodies and committees created for consultation and coordination created before and during the Aquino period are set into legal instruments such as Presidential Decrees, Letters of Instruction, Executive, General, Administrative and Special Orders. Such consultation has also been enshrined in the 1987 Constitution. All these issuances have the force of law, since these were enacted by the President acting in the absence of a legislature. All the bodies are mandated to at least include, or are to be chaired or co-chaired, by representatives of the private sector. Most are provided with at least a modicum of operating staff and budgets. These bodies meet regularly, and particularly with regard to the longest-running councils, are quite influential.

In fact, in recent years it has become almost fashionable to ensure that "consultation" take place between government and the most-affected interest groups - particularly business, government activities and policies. The recent Local Government Code also mandates such consultations. All of these developments have all the more facilitated business' influence on policy, since there evolved a sense that such consultations failed, or were not seriously conducted, should the positions of those consulted by government not wholly adopted.

In general, the experience of the past decade indicates that while the objectives of these dialogue structures were laudable, these served their purposes for only a section of the community which could consistently utilize these bodies as fora for continuing influence on and contact with government. Such a record demanded logistics and resources for meetings, travel, consensus-building, research and lobbying. Issues could only be resolved after a series of exhausting discussions, meetings and background investigation.

Clearly only the private, corporate and medium-to-large business sector could afford to consistently attend and substantially contribute to such a process. Furthermore, a pragmatic attitude toward the dialogues has had to be learned. The meetings and dialogues do not solve the problems. The best that can be expected is common understanding and a consensus for action. Thus it has become a cycle that such dialogue structures only work for the farmer and labor groups for a brief period before frustration sets in and they take to the streets as a more direct, effective mechanism of extracting government action on their agendas.



### C. The Influence of the International Financial Community

While the Philippines has had active relationships with the international financial and development assistance community since the early 1960s, international influence on Philippine economic policy only became significant since the late 1970s. The Philippines initiated its first balance-of-payments stabilization arrangement with the IMF in 1961. The country has been in a BOP crisis almost continuously since, and has just completed negotiations on its 19th arrangement. The first structural adjustment loan of the World Bank to the Philippines was begun in 1981. The country also had official development assistance transactions with bilateral institutions, including Japan, the U.S. and the European Community. Table 24 from Soriano (1992) lists the active financing arrangements involving policy reform components which were active during the Aquino period.

Particularly since the late 1970s the international financial institutions have had a dominant influence in the policy reform program of the Philippines. The specific content of the documented reform programs largely reflect the orthodox program of conditionalities thought to be appropriate by the financiers.

Among the explanations for the extent of the influence of the financing community on the reform program are:

1. State of preparedness, which saw the Philippine government often quite seriously inadequately prepared for loan program design, preparation and negotiation. The composition of the Philippine team also often lacked economists strong in macroeconomics and structural adjustment, when the adjustment programs are largely economic in nature. The time and effort devoted to

preparation on the Philippine side were also lacking. The government rarely consulted with economists on specific negotiating positions, either nationally or internationally. In contrast, the international donors almost always consulted with, and even employed, national economists or international economists familiar with the Philippines.<sup>56</sup>

Another feature of the project preparation process is the fact that the project preparation and negotiation teams of the financing agencies often dealt directly with the various officers and offices of the government, with little if any, coordination from the Philippines' investment programming or finance authorities. This often led to differing, or worse, conflicting positions between the operating and finance ministries. These inconsistencies also emerged during the final stages of loan negotiation, thereby considerably weakening the bargaining cohesiveness and strength of the Philippine panel. This also often allowed the financiers an opportunity to play the operating agencies and the investment programming, planning, treasury and the finance ministries against each other - and in the process further achieving a weakening of the Philippines' negotiating stance.

Finally, the finance and operating ministries often appeared at the loan negotiation sessions with differing objectives. The finance ministry often had the balance of payments and foreign exchange constraint to satisfy, while the line agencies looked to the loans at best as mechanisms to finance desired government projects, or at worst as mechanisms to acquire resources which otherwise could not be generated via the usual fiscal appropriations and public

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<sup>56</sup> A World Bank Officer who was involved in several Philippine loan projects claimed the contrast in the state of the preparedness between the Philippine government and those of South Korea and Taiwan, saying that in the latter countries, all the World Bank had to do in their missions would be to read and react to the program and project feasibility studies that had already been prepared by the Government beforehand. In the Philippines, the mission often had to prepare the studies themselves!

procurement process - items such as honoraria for serving on a foreign-assisted project, imported vehicles, office renovation expenses, office equipment, and highly paid staff and consultants. Finally, these viewpoints on the part of the line ministries were encouraged by the fact that their performance of the projects were not directly tied to a responsibility for the repayment of the loan, particularly in program financing arrangements. Overall, this again contributed to a weakened bargaining posture for the Philippine team.

2. Bargaining strength. The Philippines been in a virtually continuous balance of payments and/or foreign exchange crisis from the early 1970s. This fact alone rendered the government vulnerable to easy capitulation to the prerequisites for access to financing required by the multilateral financial institutions. Particularly during the depths of the crisis in 1983, the country had very little recourse for financing except for the Structural Adjustment Loan from the World Bank which had begun in 1979, and for which a tranche was under negotiation in 1983. The government thus had to accept, without any effective protest, the terms forwarded by the World Bank at that time. Fabella (1989) quotes then Prime Minister and concurrent Minister of Finance Cesar Virata regarding that decision: "We had no choice."

3. Pledges vs. Intentions. Particularly during the late 1970s and the early 1980s, substantial gaps were observed between the pledges made by the Philippine government and its actual actions (Montes, 1989). If the Philippine negotiators perceived the "...SAL as a faucet that delivers foreign resources to finance ambitious projects that in fact and in spirit militate against the reforms..." (Fabella, 1989) and thus believed that they could make pledges which they could disregard later in implementation, then they would readily agree to the set of policy reforms enumerated in the loan documentation. Thus a

comparison between the documented agreements and the positions of the negotiators will show a much closer correspondence between the pledges made and the position of the financing institutions.

A related factor is the credibility of the negotiators. In 1983 it was discovered that the Central Bank of the Philippines had overstated its foreign exchange reserves. The controversy that followed led to the resignation of then Central Bank Governor Jaime Laya. This may partly explain not only the relatively poor credibility of the Philippine Government in the international financial community, and also of why both the IMF and the WB now have representative offices in Manila, both located at the Central Bank complex, where the Department of Finance, and the CB and DOF officers and staffs which provide the data and analysis that underlies the loan and debt negotiations are also located.

Access. It should also be noted that the representatives of the international finance and aid community were accorded very high levels of access to the officials of the Philippine government. The Manila representatives of the IMF, WB, the European Community, the USAID and other donors regularly called on Ministers and Department Secretaries. Some examples of the access features of the relationship are:

- a regular visitor to Manila was the WB's Vice-President for Asia. He always met with the President;<sup>57</sup>

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<sup>57</sup> The WB VP was Gautam Kaji. Whether it was by his wishes, or by arrangements of the Finance Secretary and/ or the Central Bank Governor that he see the President is not known.

- it was a matter of policy and practice in the USAID Mission in the Philippines that the Mission Director never officially met with any Philippine Government officer of rank lower than Cabinet Secretary. Meetings and other events at which the Cabinet Member concerned could not be present were often cancelled or re-scheduled by the USAID - or an officer of lower rank would attend in the Mission Director's stead. Furthermore, such meetings were only held after the USAID staff had pre-processed all discussions, positions, decisions and agreements with the Department Undersecretaries and other officers. Sometimes the USAID staff met with the Cabinet Secretary. The USAID Mission Director also met regularly with the President;
- Donors and financiers often expected the very senior officers of the Government to meet with them. To some extent this was a consequence of the highly centralized locus of financing decisions in the Government, but it was also in part due to the sense of power that donors had acquired in their dealings with the Government;
- as a regular practice, Department Directors of the ADB - which would be about three levels below that of ADB President, met with Cabinet Ministers;
- During the final negotiations for loans and financing arrangements with the IMF or WB, the Minister of Finance, Governor of the Central Bank, and the NEDA Director-General often travelled together to Washington DC, accompanied by their senior staff, often of Undersecretary or Assistant Secretary level. There they met and negotiated with WB or IMF officers of mid-level and sometimes lower-level, rank;
- Finally, the resident representatives of the donor and finance agencies also met with the most senior officers of the Philippine government socially. Manila's foreign community has a very active social calendar. The donor and diplomatic corps generally lived in the same exclusive residential neighborhoods

as the government officials and also the most prominent businessmen. Their spouses and families were also part of the same social circles. This greatly facilitated the contact of the donors and financing institutions with the government.

Whether the above features of the relationships the Philippine Government had with the international financial community were beneficial or not to the bargaining position of the Government are debatable. Knowingly and skillfully used, contact, whether social or formal, facilitates influence. It is not clear whether the contacts were utilized by either the government or the international financing agencies to advantage. The root of the relationships - whether as a result of Filipino culture and traditions of hospitality, or conditioned by the country's often extreme dependence of the country on international financing clearly affected the quality, and thus the political economy, of the negotiations.

## V.

### The Outlook for the Successful Implementation of Policy Reform in the Ramos Administration

The Aquino administration exerted prodigious efforts in its attempts to foster the recovery and accelerated growth of the economy. Yet the aggregate results of these efforts fall short of most expectations. In this review of the Aquino government's record and process of the implementation of its economic recovery and reform initiatives, we have found that although the ultimate goals of the reform process were universally held, and that tremendous were the efforts exerted toward the goal, much of the effort was for naught, since: (a) the strategic path of development was not clear - nor was the path and strategy agreed upon within the policy making community at an intensity sufficient to overcome the various competing and reversing influences; (b) the strong influence of those who were benefiting from the current policy regime persisted, and was even strengthened, and (c) the government lacked capacity sufficient to successfully lead and manage the reform process. Complicating matters, distracting the government from its fundamental tasks and diverting precious resources were the series of natural and man-made calamities that befell the country and economy during the period, including the earthquake, the eruption of Mt. Pinatubo, typhoons and floods, droughts, extremist disturbances in the domestic arena, and adverse international conditions - particularly the Gulf Crisis.

President Fidel V. Ramos is the new leader of the Philippines. He served as Constabulary Chief and later Chief of Staff under Marcos, and as Chief of Staff and Defense Secretary under Aquino. It is clear that he has had ample experience in the bureaucracy, and has had a unique opportunity to closely observe the economic policy process as it unfolded in the Aquino administration. Has he

learned enough so that under his leadership, the government can successfully excise or neutralize the constraints to economic reform? An examination of the information now at hand, in terms of the initial actions of the Ramos administration and the major findings from the experience under President Aquino, provides an outlook on the Ramos government's expected record of reform.

#### Policy Initiatives, July 1992 to March, 1993

In general, the liberalization and deregulation process initiated under the Aquino government has been continued by President Ramos. The initial record, however, is mixed. While in some cases the reform process has been accelerated, there are instances where backtracking has occurred. Examples of the initial policy actions are:

Backtracking: EO 8. One of President Ramos' first Executive Orders was EO 8 issued in mid-July 1992, two weeks after he took office. EO 8 had been drafted by the Aquino administration as a follow-on to EO 470 under the Tariff Reform Program. It was aimed at substituting tariffs for a set of commodities still subject to quantitative restrictions. These commodities included a number of agricultural and fishery products and items under the vehicle development program of the DTI/BOI. During the last few months of the Aquino administration, while being generally sympathetic to the objectives of the TRP, both the DA and the DTI initially objected to EO 8. The DA was concerned about the exacerbation of the overall anti-agriculture bias of the tariff structure. While EO 8 would lower overall tariff levels, the discrepancy between the levels of protection between the agriculture and non-agriculture sectors would remain quite substantial. The DTI/BOI, on the other hand, wanted to protect the continuation of the car development program. The NEDA, CB and the DOF were strongly pushing the EO,



particularly in terms of the reduction of items subject to QRs, and that second, the passage of EO 8 had been pledged as a performance measure for the IMF/WBs approval and release of financing under the current EFF. After much negotiation, the DA signalled its agreement with EO 8, after extracting agreement that the tariffs on packaging materials be reduced.<sup>58</sup> Similarly, the DTI/BOI signalled assent, so long as "monocoque"-type passenger vehicles would continue to be subject to quantitative restrictions.

The Presidential elections of mid-1992 overtook the passage of the EO, and the Office of the President decided to pass the final decision on the EO to the Ramos government. EO 8 had already been signed by President Ramos before Mr. Roberto Sebastian, the new Secretary of Agriculture, took office. Thus the loud objections of the producers of the agricultural commodities to be liberalized under EO 8 welcomed Sebastian to his new job. Sebastian, not having participated in the drafting of EO 8, felt that he needed time to study the issue. He successfully negotiated a deferment of the effectivity of EO 8 on the agricultural commodities from November 1992 to March 1993. As this manuscript is being written, there are indications that the applicability of EO 8 to the liberalization of agricultural commodities is to be modified - in the protectionist direction.

Acceleration: Foreign Exchange Policy: The Central Bank finally moved rapidly on foreign exchange policy in 1992. Prior to 1992 exporters had been forced to surrender all but 2% of their foreign exchange earnings to the CB. In January, partly in response to the calls of exporters, and as recommended by many analysts, the CB increased the proportion of foreign exchange earnings

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<sup>58</sup> It should be noted that the inter-bureaucratic negotiations were proceeding along parallel tracks. The first was under the Tariff Related Matters Committee of the NEDA, and the second was part of the homework necessary to whip the financing arrangement with the IMF/WB into shape. The first track was public and transparent; the second was treated as an internal matter.

that could be retained by the exporters to 40%. However, the new rules sharply restricted the use of the retained 40% to a set of transactions directly related to the exporter's line of business. The exporters lauded the move, but complained loudly that the proportion allowed for retention was still too small and that the restrictions on use were inappropriate. Also, multilateral financing negotiations were ongoing that called for the relaxation of the restrictions on use of dollar earnings. In April 1992 the CB lifted the restrictions on the use of the 40% retained by exporters. In July 1992, one of President Ramos' first acts was to allow the full, 100% retention by exporters of their foreign exchange earnings.

Other Tasks. The new President has moved quite deliberately into his awesome tasks. His first priority has been to reach out to all branches of the political spectrum and offer the opportunity for all contending parties to work together for mutual benefit. It seems that he has, so far, made progress. At least for the moment, the extremist groups are exercising their firepower in talk shows not with guns in street or jungle battles. They have come to the negotiating table at the administration's invitation, to talk peace.

Despite the Ramos administration's early achievement of relative political stability, however, the population's patience is being sorely tested. Especially in the Metro Manila area, life has been made generally more difficult, and industrial productivity almost impossible to improve, by the recurrent brownouts and power shortages, particularly with the onset of the dry season. Unfortunately, due to the nature of the power problem and the serious financial constraints of the government, any actions to increase the country's power generation capability are unavoidably expensive and long-term. Negotiations have been completed to install under build-operate-transfer arrangements with operation expected by late 1993. Investors continue to be wary however. Promised power is not equivalent to power actually available and the Metro-Manila brownouts ended as

the investors, like doubting Thomases, observe.<sup>59</sup> The power problem and a myriad of other tasks do not make the job of President Ramos and his administration easy, and they will need to learn all the lessons they can - and in the process also avoid the mistakes - from previous experience, particularly from that of the Aquino period.

### The Promotion of Peace

It appears that the principal achievement thus far of the Ramos government is the making of substantial headway in fostering stability. President Ramos has built upon the smooth transition of responsibility from President Corazon Aquino to himself and has furthered the peace process. Ramos has therefore presided over a year undisturbed by threatened coups nor labor strikes and other large-scale civil strife. All these have contributed to relative stability - which is a fundamental ingredient in the creation of the environment necessary for national cooperation and economic recovery.

National Unification.; The government, principally through the National Unification Committee, exerted its best efforts to bring to the open bargaining table the various factions that had contributed greatly to the political, and thus the economic uncertainty of the Aquino period. Efforts were also successfully exerted to rally 'round the common cause of national development the members of Congress, the business sector and the various interest groups. Thus was reduced the economic uncertainty which had constrained investment and greatly damaged confidence in the economy and of the nation in ourselves. President

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<sup>59</sup> The Japanese Keidanren visited Manila in February 1992. The press reported that they were impressed with the advances that had been made thus far, but not impressed enough to make actual investments until what they considered to be the two most critical constraints to investment were eliminated: the power problem and kidnapping.

Ramos successfully harnessed party loyalties to push through, in record time, legislation which repealed the Philippines' Anti-Subversion Law. This move served as a major indication of the government's new resolve to attain peace. With the rebellious factions out from the underground and at least for the moment not actively engaging in political and economic sabotage, the government has had an unprecedented, clear field to try its best to set the economy and the country on a continuing course for recovery and accelerated growth.

Human and Property Rights: It is also encouraging to note that several long-standing legal cases that have commanded much public attention and concern have actually come to some conclusion. The hearings related to the libel case filed by President Aquino were concluded. The trial following the murder of Hultman and Chapman were completed. There are many, many more unresolved cases, criminal, civil and political, languishing within the judicial system. The cases mentioned above have dragged on for years, and their resolution is not due to the arrival of President Ramos. Yet the resolution of these well-publicised cases can be counted as small victories, providing signals that the courts can actually resolve questions of law and property rights, and contributing to an environment conducive to the speedy resolution of questions of legal rights.

The PACC: By the same measure, the attempts of the Presidential Anti-Crime Commission, while at times bumbling and ill-organized, are at least attempts to attack the veritable impunity with which the "kidnap-for-ransom" gangs have preyed on people's lives and properties in recent years. There is no denying that the task which Vice-President Joseph Estrada has taken on is a difficult, if not thankless, crusade. Yet his small advances again help shore up the population's flagging faith in their own nation.

A feature of the Aquino period was continuing disagreement and open conflict within the bureaucracy on the strategies and actions that needed to be implemented toward economic recovery and economic growth. The spectacle of ministries in disagreement resulted in: (a) the revelation that the Medium-Term Development Plan is not binding on ministries; (b) the impression that the bureaucracy was directionless and could not get its act together, and (c) the discovery that the inter-ministerial disagreements could be exploited - and were - to advantage - political or pecuniary.

The 1992-1996 Medium Term Development Plan: Toward the end of 1992, the new government led by President Fidel Ramos and NEDA DG Cielito Habito launched the new 1992-96 Medium-Term Development Plan.<sup>60</sup> For the purposes of our discussion, the new MTDP is distinguished by two features: (1) its renewed emphasis on industrialization based on agricultural and rural growth, and (2) so far the most extensive preparation and consultation process of drafting, relative to previous MTDPs.

Among the various improvements, an important change is that the new MTDP re-states and re-emphasizes the crucial interlinkages between agricultural growth, rural development and industrialization. The new structure of the chapters reflect the renewed emphasis. Instead of the heretofore separate treatments of agriculture and industry, the productive sectors are now treated together as agro-industrialization.

Work and consultations on the 1992-96 MTDP were begun as early as late 1991 during the Aquino period. The many drafts of the plan were reviewed

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<sup>60</sup> DG Habito was NEDA Deputy DG in the final year of the Aquino administration. He came to NEDA from UP IB, where he had formed part of the Agricultural Policy and Strategy Team so influential in the initial year of Aquino.

though a frequent series of inter-agency and inter-sectoral briefings and meetings. The meetings progressed from junior-level staff participants in sub-committees all the way through senior officers, cabinet members and finally the Cabinet with the President presiding. A number of public hearings and presentations were also held.

Problems with the MTDP: Thus the Ramos government has begun with a widely-discussed MTDP which should help gather all parties together in one direction. However, there are problems emerging - some of which were already a feature of the Aquino era, particularly in terms of agencies and departments which take actions or enact policies which are inconsistent with the MTDP and its embedded policies and strategies. The Executive Department, the bureaucracy must have only one plan. Plans prepared by individual departments, like those of the Departments of Agrarian Reform, Agriculture, and Environment and Natural Resources must be subsidiary to, and consistent with, the MTDP. The plans of the various foreign-financed projects - among many others - the Small Coconut Farmers Development Program funded by the World Bank, the Fisheries Sector Program funded by the Asian Development Bank, or of the Natural Resources Management Program funded by the U.S. Agency for International Development should also be subsidiary to and consistent with the MTDP. Any discrepancies between agency and project plans and the MTDP must be resolved in favor of the MTDP. Indications of executive disunity will only provide those who disagree with the MTDP an opportunity to discredit the MTDP, play government agencies against each other, and claim the government to be unable "to get its act together". Thus the first effort to "sell" the MTDP must be directed to the bureaucracy which after all is the implementing structure for the MTDP.

Thus the MTDP must be further strengthened by providing the NEDA with some authority to bring to task executive department offices who are responsible

for inconsistencies with the MTDP. The NEDA must also be more aggressive in enforcing the implementation of the Plan.

The Need for Focus. The array of tasks before the Government is very broad, and each of the tasks, by one or more standards, is urgent. Yet it is clear that the resources of the government are inadequate to simultaneously respond to all. Priorities were unclear in the 1986-92 period, and the effort to please all interest groups spread the precious resources so thinly that very few tasks were actually adequately funded. The Ramos Government must identify a short list of priorities, and focus the government's energies and resources toward these. The achievement of focus will facilitate the actual completion of actions with regard to priority concerns, and serve as a much needed signal of the government's capacity to perform.

There are obvious candidates for priority focus: power generation, transport deregulation, communications improvement, and the fostering of independent, stable, monetary policy. Initial indications are encouraging: Philippine Air Lines is now firmly privatized, the monopoly Philippine Long Distance Telephone Corporation has consented to some entry, and legislation on the Central Monetary Authority is underway. Given the poor record on the implementation of power projects, however, the assurances on the resolution of the power generation problem by mid-to-late 1993 ring hollow. The deregulation of transport and shipping may also take much longer, since the interests vested in the current state of affairs are well-represented in Congress. In the above list of priorities, money may be less of a problem than advocacy and unfailing focus: the deregulation of communications, shipping and transport are policy matters that shape private investment, and thus government budgetary resources are not demanded. Only the rehabilitation of the CR and the installation of power

generating capacity may require government financing - and even that may largely be an accounting artifice, particularly in the case of the CB.

#### The Strengthening of the Government's Capacity for Economic Reform

The fact that President Aquino did not reserve to herself the authority to speak on economic matters, and neither did she identify a single agency nor official to clearly lead economic policy making meant that the economic policies of her era were unclear, and economic leadership diffused. This occurred during a period when businessmen and investors needed continued reassurance and strong signals of the government's strong commitment to the creation of an economic regime favoring long-term investment and private enterprise. The relative weakness and at times the contradictory nature of the government's signals merely exacerbated the uncertainty of investors and the business community.

The MTDP: The declaration that the MTDP is the one, and only, overall economic development blueprint of the government will greatly clarify the policy horizon for the economy. The MTDP can then be the focus of debate, the end-product of consultations, and the aggregate result of collective deliberation. The framework of the MTDP will then provide the parameters for implementation, and for the specification of details in the various sectoral, regional, program and project plans of the different departments, agencies and regional staff.

The Ramos government has already made a strong start in its advocacy work related to the MTDP. It remains that the MTDP be declared as the guiding parameter for all other government plans. As such, it can then serve as the anchor for the plans of investors and entrepreneurs.



Economic Leadership: Over the past six years, the non-transparent resolution of the often open disagreement between Cabinet Secretaries on economic policies resulted in confusion - as well as extreme conservatism in investment decisions - the "wait and see" attitude. Will President Ramos speak with finality on economic policy? Will his cabinet secretaries debate openly and at length, without a clear recourse toward resolution? Will the Executive Secretary also rule on economic matters?

It is too early in Ramos' Presidency to make any conclusive observations on the features of economic leadership which he will foster. It may help, however, to point out that the experience of the Aquino period indicates that the President should firmly demonstrate either that economic policies are in his exclusive jurisdiction, and/ or that one of the Secretaries speak for him and the government on economic policies.

Economic Primus Inter Pares. Personalities aside, the senior government official who can speak for the President is either the Secretary of Economic Planning or the Secretary of Finance. While the Secretaries of Agriculture, the Budget, Trade and Industry, the Governor of the Central Bank and even the Presidential Adviser of Rural Development speak often on economic policy matters, their basic tasks are much too keyed to particular sectors or interests for them to be able to maintain an overall view of the economy and its inter-sectoral interactions and linkages. The Secretary of Economic Planning is of course the government's economist, but the Secretary of Finance, by the fact that the Philippines will continue to be highly dependent on international financial flows, has to take a world-view of the economy. There is a strong possibility that the Central Monetary Authority will soon be created, and the Governor of the CMA can then speak independently, and without the review of the President or of any other official, on macroeconomic policy - from a special vantage point as the

economy's monetary manager. Finally, whoever is designated by the President must also be empowered to overrule other secretaries who enact sectoral policies which are inconsistent with the President's interpretation of economic strategy and policy.

Advocacy in the Bureaucracy: One of the lessons of leadership in the bureaucracy is that the bureaucracy is afflicted by inertia. The task of overcoming bureaucratic inertia requires focus on the achievement of a short, simple set of goals under consistent leadership. Once the inertia is overcome, the bureaucracy is transformed into a veritable juggernaut. While the Aquino government undertook major efforts at advocacy, most of the attempts were directed at those outside the bureaucracy. In the meantime the government's organization foundered because they were not clearly led, or were directed along internally contradictory paths. The results only added to the impression of the government not being able to get its act together.

Improving Macroeconomic Analysis Capacity: The government needs to strengthen its internal capacity for macroeconomic analysis, and also to ensure that the results of the analysis are shared through the critical economic agencies. The NEDA is relatively the best staffed agency for macroeconomic policy in the government, but also needs to be strengthened. The Central Bank economic research staff is the most numerous. The DA and the DTI have very small, weak staffs. The DOF and the DBM surprisingly, have no units dedicated to macroeconomic analysis.

While the improvement of the bureaucracy's capacity for economic analysis will certainly improve project evaluation, the greatest need for analysis is not in terms of projects, but in terms of the microeconomic effects of macroeconomic policies, and the improvement of knowledge and understanding

of the interactions, linkages and overall effects of policies. An appreciation of overall effects should help the government respond to the concerns of specific departments regarding their "clients", of sectors and special interests. Analysis will also improve the government's capacity to balance gains and losses; to appreciate trade-offs between short and long term, and to create safety nets and compensation mechanisms in support of those who may be hurt by reforms - at least over the short term.

The NEDA can manage the process of adding economic analysis capacity to the critical economic agencies. The improvements are not expected to cost much - and the expected gains are enormous. The plantilla positions dedicated to economic analysis will have to be raised in rank and increased. The cost can be minimized by transferring or redefining existing positions and even units.

The government should also make optimum use of the wealth of analytical capacity in macroeconomics that is available in the Philippine academe and research community. The researchers present their views, publish, and are interviewed by the media often. Their training and positions enable them to be either critics or supporters of government policy, and be convincing in either role. The careful reading of the various reports and papers produced by researchers and faculty members from the various universities and research institutions will provide the government with free, high-quality advice, as well as allow the government to tap the same skills that are often utilized by the international financial and donor community to review the policy reform record of the government in its negotiations. The often righteous rhetoric that originates from the Filipino analytical community should be turned to advantage by the government which cannot afford to pay international consulting fees but can make the more powerful appeal to nationalist and progressive sentiments - at least over the critical, short term.

Finally, improved analysis will greatly strengthen the government's hand in advocacy and negotiation - not only internally within the bureaucracy, but also with the other branches of government - particularly Congress, with the private large-business sector, and with the international financial community. A single economic plan and strategy for the government, enunciated by the President or designated economic spokesperson, will be significant steps toward the improvement of both actual teamwork and the perception of teamwork in the government - one that "can actually get its act together".

### The Democratization of Private Sector Influence

The prospect of insulation of the Ramos bureaucracy from undue pressure is not very bright. The process by which the new government came into power ensures that again, and perhaps even to a more serious extent, the bureaucracy cannot achieve insulation. Clearly the Ramos government will face enormous difficulties in adopting and implementing policies that often run counter to the preferences of major private interests. As the recent national elections amply demonstrated, the fact that there were upwards of half-a-dozen political parties jockeying for position and resources meant that the winner could not amass a clear majority of the votes - and moreover would have to pay off the debts incurred in getting elected. Repayment can include of favors returned, or protection guaranteed. President Ramos won the elections by a slim plurality - not a majority - garnering only 23% of the popular vote. To stay in power, and to gain the cooperation of the various sectors, he may not be able to avoid being influenced in directions where particular, more powerful sectors will stand to gain more relative to others.

Business - Ramos Government Relations: The Ramos government already shows very intense "private sector" participation. During the Presidential

campaign in 1992 Ramos actively courted the support of the business sector. His candidacy was of course strengthened by the support of President Aquino, who herself belongs to a wealthy, influential business family. Even as the results of the election were being tallied and the trend of Ramos' victory became clear, the Philippines Chamber of Commerce and Industry (PCCI) had already organized a large "multi-sectoral" conference - dominated by business - with Ramos on a program of action for the first 100 days of Ramos' government. The PCCI has held more consultations since - one being the "broadened multi-sectoral consultation" at the end of Ramos' first 100 days in office.

The Cabinet: The Ramos cabinet also reflects the influence of business. The President's first appointee as Executive Secretary, and his Secretaries of Finance, Agriculture, Trade and Industry, Transportation and Communications, Presidential Adviser on Rural Development, Presidential Assistants for Mindanao and the Visayas, and the Chairmen of the Presidential Council on Economic Development and the Philippine National Bank are all prominent businessmen. His most recent appointment to the Central Bank's Monetary Board is the President of the PCCI.

Wealth and Power: Many analysts, including Nelson (1991), Wurfel (1992), Haggard (1991), Montes (1989), Villanueva (1992), Timberman (1991) and Crone (1993) have already pointed to the extreme disparity in the distribution of wealth, and consequently, of income and influence across Philippine society as the most formidable obstacle to economic reform, particularly when the reforms threaten the interests of the wealthy. This paper's review of the Philippines' experience with agrarian and tariff reform provide clear evidence of the need to effectively deal with the resistance of the owners of land and businesses dependent on protectionist trade policy. Other economic reforms currently thought

appropriate for the Philippines, like exchange rate liberalization, free entry into banking and other enterprises, abolition of "measured capacity" limitations on services and production, will certainly also have adverse effects on the wealthy, at least over the short term.

Reform for Mutual Benefit: A difficult but necessary task for the government is to convince those who may be hurt by the reforms that any adverse effects from reform are only over the short-term. This presupposes that the government has mapped out its reform agenda, anticipated the adjustment path for the reform process, and identified the gainers and the losers from the reforms. These tasks underline the necessity of improving the government's capacity for economic analysis and advocacy. The process attendant to the formulation and the advocacy of the MTDP is an ideal context for the efforts to bring all into harness behind the reform effort.

Adjustment Assistance: Those who will be hurt by the reforms will clearly not acquiesce to the process without some resistance. The greatest resistance will of course originate from those who are capable and have access to resources. Measures which help these enterprises adjust to undistorted cost structures, removal of subsidies, and undue protection from competition will be necessary. In some cases the adjustment will be to the shifting of investments into a new line altogether - those that remain profitable post-reform, or those that emerge as profitable after reform.

The enterprises which have significant shares of the economy and should thus be anticipated to require adjustment assistance include sugar production (from farm production to refining), automobile assembly, textile manufacturing, and corn production. So that adjustment assistance does not degenerate into permanent, substitute subsidies, the adjustment assistance has to be transparent

and temporary, programmed on a per-enterprise basis over a fixed, non-extendible period. The Board of Investments may be an appropriate instrument for the provision of adjustment assistance to enterprises.

Safety Nets: Special assistance is required for those groups already disadvantaged, and who do not have the resources to await the results of reform which will only be manifest after a lag - which may be indeterminate. The safety nets are also critical as temporary poverty alleviation measures. The measures that may be implemented include relief, rehabilitation and employment, livelihood and small-scale infrastructure projects targeted at specific, well-defined, poverty-stricken communities.<sup>61</sup> The effort currently being implemented to transfer the consumer subsidy activities of the National Food Authority to the Department of Social Welfare and Development is a good case of relieving the NFA of a costly, distortive subsidy and creating the opportunity for the institutionalization of a well-targeted safety net operated by the DSWD - which is much more equipped and able to target such consumer subsidies. Furthermore, the NFA/DSWD subsidy program is transparent: the cost is known and controllable via the public appropriations process, and the beneficiaries can be clearly identified.

#### "Empowerment" and the Balancing of Influence

An examination of the record and array of influences on policy making in the government in terms of strength of influence will quickly observe the position of strongest influence to private, import-substituting enterprises and the weakest to the rural farmers, small fishermen and poor consumers in general. A similar pattern may be observed with regard to the patterns of poverty. What is

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<sup>61</sup> Poverty and targeting mechanisms are discussed by Balisacan (1992).

interesting is that while the consistency between the patterns of influence on policy and the distribution of wealth is very high, the correspondence between the influence on policy and the structure of political power is not as close.<sup>62</sup> The distribution of votes is clearly in favor of the poor, and EDSA, as well as other revolutions of the poor, is a demonstration of tremendous power of numbers. Political leaders are sensitive to the differing patterns of distribution between economic and political power, and thus even authoritarian governments have a continuing need to validate and legitimize their positions by means of elections, plebiscites and other exercises where the public's vote of confidence in the political leadership may be gauged.

Voter Power: How may the poor's advantage in votes be translated into political power that enables the implementation of economic policy in their favor? The facilitation of the poor's representation in economic policy making is clearly a first and major step. More opportunities for such participation must be created and protected. The *Kabisig* Movement launched by President Aquino facilitates the strengthening of lower and middle-class aggrupations in activities for mutual benefit within the group - as well as participation in decision-making<sup>63</sup>. The recent passage of the Magna Carta for Small Farmers, where a farmer-representative is mandated to sit on each Governing Board of all government agencies that have agricultural concerns is a major first step. The continuation of the Peasant Forum; the Agricultural and Fisheries Councils; the

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<sup>62</sup> Haggard (1991) refers to the Marcos government, and to the Philippine case in general, as that of a "weak" authoritarian regime - dependent not on military force but on an ever-expanding circle of patronage originating from the executive, and "the political marginalization of technocrats in the decision-making process."

<sup>63</sup> *Kabisig* or "linked arms" or "comrade" - was institutionalized by President Aquino to formalize "the partnership between the government and the people" as the national way of unity and solidarity." (Aquino, 1991)



Agrarian Reform Councils, Peoples' Economic Councils and the like will also strengthen the bargaining capacity of the rural population in a policy environment that continues to be heavily urban-oriented. Finally, the appointment of the Sectoral representatives to Congress must be completed as soon as possible.<sup>64</sup>

The poor's participation in policy-making must be protected and also supported. Resources for organization and representation should be provided from public or donor resources. Such assistance is necessary, since the costs of representation cannot be supported by nor collected from the vast numbers of the poor. The full rein granted to the proliferation of non-government (NGOs), private voluntary, sectoral, peoples' and other similar organizations and their consequent flowering is unique to the Philippines. The potential of these associations for the equalization of the balance of power and decision-making in Philippine policy making is enormous and should be carefully nurtured to maturity in any serious effort to achieve sustainable change in Philippine political economy.

#### Balancing the Odds in International Finance

The fulfillment of the imperative for a single, overall development and policy thrust, expressed in a single MTDP, enunciated with finality by an identified economic authority will multiply the Philippines' bargaining strength at the negotiating table.<sup>65</sup> The achievement of such a stance will also facilitate

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<sup>64</sup> Under the 1987 Constitution, the President appoints 24 sectoral Congressmen who represent specific sectors, including farmers, labor, the youth, the disabled, and women.

<sup>65</sup> It is revealing that conversations of the author with those who relate stories about negotiations between the Philippine government and the World Bank, the USAID and other international financing agencies refer to statements of the international side as: "The WB said \_\_\_\_," or "The USAID said \_\_\_\_," but refer to statements on the Philippine side as: "Secretary X said \_\_\_\_," and

the careful, well-analyzed and researched preparation of the policy positions of the negotiating team. Preparation and homework can then be directed at shoring up each other's positions, rather than using the negotiations as an arena for internecline battle, with the external financing agency providing the spoils.

In terms of negotiating strategy, there is merit to never having Secretaries doing the negotiating. Secretaries can approve positions to be tabled and argued by deputies. Secretaries can then come forward to sign the final agreements - after agreement has been reached. Aside from the more amorphous elements of culture, protocol, dignity and the psychological posture of negotiating as equals, the presence of the Secretary at the formal negotiating table leaves the Secretary with precious little room for analysis, examination, consultation, strategic timing, or, when all else fails, the repudiation of a commitment made by an officer junior to the Secretary.

"An Opening for Growth?" The enormous efforts that have already been devoted by the government to economic reform have not gone unnoticed by the international financial community. The positive, optimistic tone of the World Bank's most recent review of the Philippine economy is indicative of such recognition. The WB's Country Economic Memorandum on the Philippines, released in December 1992 is entitled "The Philippines: An Opening for Sustained Growth". The report emphasizes that from a perspective, the Philippines' performance with economic policy reform "... is similar, if not superior..." when compared to those of Indonesia and Mexico, which have generally been regarded as successes. Other analysts also arrive at a similar conclusion. Nelson (1991) lists the Aquino period reforms as "broad" and "with considerable success". Haggard (1991) is more circumspect - he recognizes the major advances achieved

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"Secretary Y said \_\_\_\_." The implication is that often, the Philippine side did not speak with one voice.

by the Aquino government in the re-establishment of democratic structures - and also the Aquino government's inability to implement a "basic transformation in the social structure" of the country. The WB adds to the list of actions that must be taken by the Philippines not only substantial action on reforms, but also the encouragement of the "perception of progress on reforms..." (WB, 1992)

### A Concluding Note

The Aquino government was carried into office on the strength of expectations. In 1985 the Philippine economy had fallen to its lowest depths, while its neighbors had raced onward into NIC-hood. Thus the Filipino people and most other observers of the Philippines pinned their hopes not only for political and social renewal, but also economic recovery and sustained, rapid growth, on President Aquino and her government. In short, miracles were expected of the Aquino government.

The Aquino government clearly falls short of most popular expectations. No miracles were performed. It may be said that since the expectations were impossible to meet, then these are inappropriate to impose as the standard by which to judge the achievements of the Aquino period. Other standards may be more appropriate, including progress from the depths of the 1985 situation, comparison with the performance of neighboring countries and actual accomplishments versus promises made by the government.

Expectations. Yet such expectations cannot be dismissed lightly, because these form a critical feature of popular support for the government, which is its fundamental wellspring of political strength. Particularly in the absolutely untrammelled cacophony of the Philippines' free speech and press, popular expectations are constantly applied as yardsticks for the assessment of government performance. Columnists and commentators, talk shows and

editorials fill substantial proportions of airtime and the pages of the three dozen or so dailies. Given the shallowness of the Aquino coalition, critics provide the most newsworthy and titillating commentary. The media, attracted to controversy, amplify disagreements, point out gaps, feed expectations, and gloss over any achievements. A vicious cycle of high expectations and perceptions of poor performance is set in motion, one which gathers momentum and becomes very difficult to dispel. The problem of unrealistic expectations has been true not only domestically but also internationally. The EDSA event acquired a fairy-tale quality - that the Philippines would "live happily ever after" once Marcos was deposed.

The lesson of expectations is that the government, in addition to actually performing well, must also build and shape the perception of good performance. The Aquino government learned, painfully and at a late stage, that good deeds do not necessarily speak for themselves. Perhaps even more importantly, the perception of the Filipino of himself has to be improved. EDSA renewed the Nation's self-confidence. The self-confidence did not last, as the Filipinos were confronted with the task of rebuilding its democracy and economy as it continued to be buffeted by calamity after calamity, both political and natural. The size of the task, as well as the Aquino government's achievements were severely underestimated. As a result, most Filipinos, battered, bruised and frustrated - and unable to gain a perspective, has developed a very poor opinion of himself. If the Filipinos cannot have confidence in themselves, can they expect that investors, tourists, traders, financiers and donors will?

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