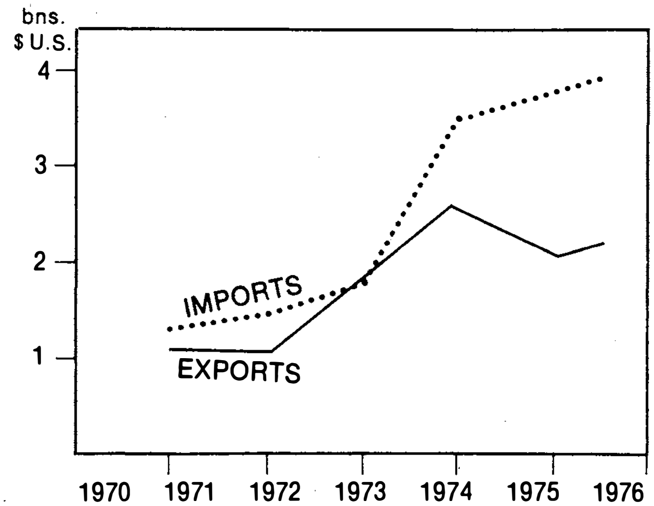
The Philippines: Debt High and Sugar Low

The Philippine economy, after a "success story" of dramatic recovery from the nadir of financial crisis in 1970, came badly unravelled during 1976, largely because of the shallowness of the 1970 "solutions." However, the response to crisis this time, in a very different world situation, has also been quite different. President Marcos has stated his desire to bring the Philippines into the Non-aligned nations movement, to rapidly establish diplomatic and economic ties with Vietnam, and bring strong pressure on the United States to either provide real aid, or remove its military bases from the Philippines.

The crisis hit late in 1976 in the form of a severe debt payments crunch, the details of which have been largely suppressed to avoid touching off a panic. However, officially acknowledged debt rose from under $4 billion in 1975 and $4.9 billion in October to a figure of $5.5 billion by year end, according to the Jan. 14 *Far Eastern Economic Review*. During the year, real GNP rose a meager 6.3 per cent. Since 1973, the total debt accumulation has soared above real GNP (see *Graph 1*) making the burden of debt service even heavier. There also may exist $1 billion or more in unreported short-term debt, exacerbating the crisis.

Underlying the debt crisis is a disastrous foreign trade picture for the past three years (see *Graph 2*). The foreign trade deficit began in 1974 partly because of the oil crisis, widened drastically in 1975 when the IMF index of terms of trade fell from 97 to 68, and has continued in the doldrums in 1976, during which sugar exports have collapsed. According to the London *Financial Times*' Quarterly Economic Review, sugar exports during the first five months of 1976 fell by 73 per cent from the same period last year, $454 million to $122 million.

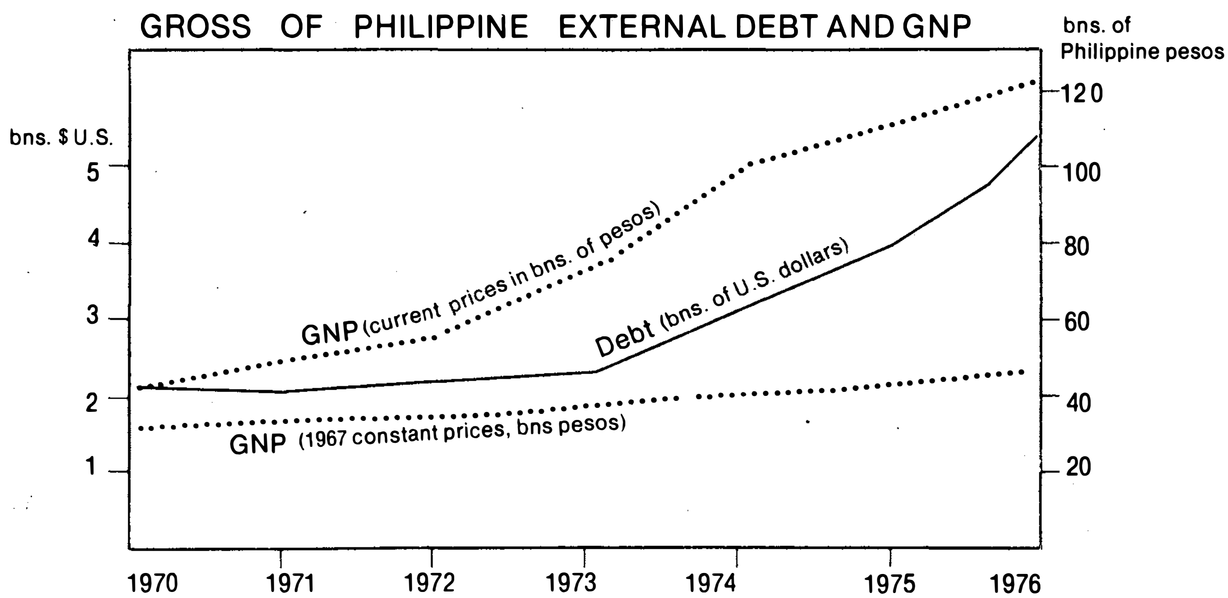
GRAPH 2
PHILIPPINE IMPORTS AND EXPORTS
1970—1976



Source: Financial Times Quarterly Economic Review, Oct. 1976

Year end figures are not yet available, but the depression in the sugar industry is so bad that the sugar planters have been able to retain their workers for only two or three days a week in the last year, according to the Manila economic daily *Business Day*. Planters are now planning layoffs in March if exports do not revive and withdrawal from sugar production of 60,000 hectares, 12 per cent of all land planted in sugar, is likely. The *Financial Times*, reported Jan. 17 a rumor that the Philippines had made arrangements to sell 500,000 tons of sugar to the Soviet Union, and 450,000 tons to China, the

GRAPH 1
GROSS OF PHILIPPINE EXTERNAL DEBT AND GNP



latter in exchange for low-priced Chinese oil. There has been no comment from China and a skeptically-received denial from the Soviet Union, but if true, the deals would fully suffice to solve the sugar crisis.

In 1976, the Philippines imposed certain austerity measures to deal with its financial problems, primarily limits on imports and a damaging domestic credit crunch. However, inflation was curbed (under 7 per cent) while workers were given a wage increase, which ended a three year slide in real wage levels.

The question now is how far, and how fast, Marcos will lead the country into the alliance of Non-aligned and pro-development western nations who are now building the framework for a new international economic order.

Indonesia: Holding Action Against Austerity

In an address to the Indonesian Parliament Jan. 6, President Suharto presented a $10.11 billion budget for 1977-78, highlighted by a 53 per cent increase in expenditures for salaries of government workers. Coupled with recent moves to force foreign oil companies to yield more revenues to the Indonesian government, Suharto's budget represents a refusal by the Suharto regime to implement the austerity policies demanded by New York banks and Indonesia's major foreign creditors, grouped in the Inter-Governmental Group on Indonesia (IGGI). But under prevailing international circumstances, and despite Indonesian determination, this refusal is merely a holding action against the worsening international economy, and a failure to extricate itself from a crushing debt burden.

An inflation rate of 14 per cent brought down from last year's 20 per cent, will erode the new budget's development allocations of $5,100 million, which was only a 13 per cent increase over last year's $4,600 million. The budget calls for debt servicing of $532 million dollars, a 28 per cent increase over last year and reportedly only accounting for 11.8 per cent of foreign exchange earnings. The figure is deceiving, however. Indonesia's reported public long-term debt of $10.4 billion fails to account for all the $6-10 billion debt of Pertamina, the state oil company. Nor does it account for short-term debt acquired for balance of payments, debt that may run into several billions more. And of course it fails to take into account the private foreign debt of the sizable local Chinese business community. In fact, the Indonesian government has continued to be a major borrower on the Eurodollar market as well as the Asia dollar market.

Fighting Foreign Oil Companies

The major focal point of Indonesian struggle to stay one step ahead of its creditors while maintaining its development efforts has been a determination to get the needed revenues from foreign oil companies rather than by ravaging its own population.

The government has been renegotiating contracts with foreign oil companies for the past six months. Caltex, which accounts for two-thirds of Indonesian oil production, has yielded another $1 per barrel in revenues to the government. The other companies (unlike Caltex, which operates on an old work contract) have had their production-sharing contracts renegotiated. Provisional agreements increase the government's share from the old 65-35 ratio to 85-15. In addition, the 40 per cent off-the-top which companies were allowed for expenses has been replaced by the more conventional 10-year depreciation allowance formula. But finalization of new contracts has yet to occur, and negotiations remain deadlocked.

In a campaign to force concessions from Indonesia, the oil companies have all but ceased exploration, withdrawing over 20 oil rigs in the past six months. Indonesian sources report that only four rigs are in operation, although four more are expected to resume operations. Despite an increase of production in December to 1.583 million barrels a day, up from November's 1.503 million, production might drop next year if exploration is not resumed. Informed sources also note that both the Finance Ministry and the Central Bank are reporting falling revenues.

Despite this pressure, and not withstanding wild rumors to the contrary, Indonesia is determined to abide by the decisions of the Organization of Petroleum Exporting Countries (OPEC) and maintain its firm commitment to the new world economic order. In accordance with last December's OPEC meeting, Indonesia will increase prices from 5.85 per cent to 10 per cent on its different grades of crude, and will raise prices again by another 5 per cent in mid-1977. Revenues will increase by $200 to $300 million.

Although western observers speculate that Indonesia cannot afford such militancy, Pertamina's president, Major General Piet Harjono, stated Indonesian policy in unequivocal terms. "We have decided to side with the majority, and thus we shall be consistent with the decision. If necessary we will even accept losses as the consequences." Indonesia is a great and respected country, he said. "How then will the world look at Indonesia if it sways only to the wind of profits?"

New Economic Ties?

Concurrent with the strengthening of European-OPEC relations, a high-level Indonesian delegation lead by Ali Murtopo, a top Suharto advisor, toured West Germany, Britain, and France recently. Discussions were held with top industrialists as well as government officials. The Soviet Union is meanwhile in the process of concluding several agreements for credits for Indonesian development projects, for the first time since 1965. In addition to funding several hydroelectric projects, the Soviets will be involved in financing several industrial projects that U.S. banking interests had refused to fund. And while U.S. direct investment has turned to a mere trickle, the Japanese have concluded the huge billion-dollar Asahan aluminum smelter project deal with Indonesia, as well as another billion-dollar liquified natural gas project.