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The Philippines gets the 'Latin treatment'

by Gail G. Kay

The announcement in late November that the International Monetary Fund has agreed "in principle" to a $650 million standby credit for the Philippines has brought a brief sigh of relief to international banking circles and the Manila government. Prime Minister and Finance Minister Cesar Virata made the announcement following a meeting in Washington, D.C. with IMF managing director Jacques de Larosière, and thus ended for the time being the month-old suspended sentence on the Philippines debt crisis. The IMF is expected to give its final seal of approval at the end of the month.

The price the Philippines will have to pay will be zero growth in 1984, according to the *Christian Science Monitor*. Drastic cuts will be made in credit expansion, particularly to any sector not producing for export, as well as slashes in outlays for public enterprises and an end to government backing for private-sector loans.

At best the IMF is offering the Philippines a short-term bailout from a crisis that, by mid-October, had shut down the country's ability to import anything but essential fuel and food supplies. In the long term, the conditions attached to the IMF loan, and to World Bank and private commercial credits the loan is expected to free up, will destroy productive capacity, meaning that the debt problem will surface again and again with ever more strenuous conditions attached. As one British banker said, the Philippines is "the first debt domino for the Far East."

Prime Minister Virata and central bank head Jaime Laya will use this ostensible vote of confidence to restructure payments to the country's commercial bank creditors on the Philippines' $20-plus billion foreign debt. Those talks are expected to start in New York in the next two weeks.

Manila gets the 'Latin American treatment'

In mid-October, Prime Minister Virata and central bank head Laya had flown to New York for emergency consultations with a 10-bank creditors' committee to negotiate a 90-day moratorium on over $3 billion in payments on debt principal. The way in which the crisis developed bears the earmarks of what is becoming known in the halls of governments and banks as the "Latin American treatment." First, capital flight creates a balance of payments emergency. Second, that emergency is used to force a devaluation of the nation's currency. Third, lines of credit are cut off.

In February of this year, Prime Minister Virata negotiated terms for the first phase of 1983 IMF standby credits on the basis of keeping the payments deficit down to a target figure of $598 million. By the end of June, the deficit was already at $562 million, with capital reported to be leaving the country at a rate of $2 million per day. The government was faced with reducing the deficit for the rest of the year, or going back to the IMF. It chose to devalue the peso by 7.3 percent, cut back on capital goods imports, place import restrictions on 556 other products, and hike domestic bank-reserve requirements from 18 percent to 20 percent, thereby reducing domestic money supply by about $1 billion.

Despite the government's willingness to cooperate, the measures did not work. On Aug. 21, top opposition leader Benigno Aquino was assassinated as he was escorted off a plane at Manila airport. The assassination, and the crisis in political confidence that followed, was used by the nation's creditors to pull the plug on loans. Banks that had previously made commitments began pulling up stakes; loans as they came due were rolled over at shorter and shorter terms or not rolled over at all. Capital flight for the period from September to early October was reported at a whopping $500 million, averaging $5 million a day. In mid-September Prime Minister Virata was back in Washington to renegotiate the terms of the February IMF credit; by the end of that month, there had been no significant improvement from the June devaluation.

By the first week of October, the payments deficit was an astounding $1.36 billion, an $800 million increase in the third quarter alone. On Oct. 5, at the IMF's bidding, the peso was devalued another 21.4 percent; more cuts were made in the budget, including scrapping or postponing a $1 billion steel mill project. And the central bank announced that all banks would have to turn over 80 percent of all foreign exchange to pay for essential imports because foreign reserves had dropped $1.4 billion due to capital flight and, probably, call-ins of short-term debts.

On Oct. 15, the government sent telexes to its 350 bank creditors announcing the unilateral moratorium on all principal repayments between Oct. 17 and Jan. 16, 1984, following Virata's and Laya's consultations with the 10-bank creditor supervisory committee in New York. The moratorium would bring the balance of payments deficit to $1.4-$1.6 billion for the year, a more than 200 percent increase from the projections worked out in February. Within the week, the government again raised the reserve rate for banks from 20 to 23 percent, and on Nov. 3 ordered banks to sell 100 percent of their foreign exchange to cover the cost of essential imports. The country's ability to import had collapsed; at the end of October, foreign reserves stood at $430 million, less than enough to cover the cost of one month's imports.

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To say that the Marcos government had been backed into a corner by its creditors, led by the IMF and the World Bank, is an understatement. Commentators on the IMF loan agreement express concern that the money may not come through fast enough to counter the delayed effect of this import collapse by the turn of the new year, raising the specter of mass layoffs and explosive labor unrest in an already tense political climate.

The damage becomes permanent

The tragedy of paying the IMF's price is seen in the steady erosion of the Philippines' productive capacity over the past two to three years in two areas: First, the IMF's and World Bank's efforts to break control of the raw-materials-producing industries—the backbone of the economy—out of the hands of family interests, and second, breaking the back of the 11-project development program President Marcos had launched in late 1979.

In the language of the international banks, breaking the families' control over the sugar, copper mining, coconut, and other raw materials industries is called ending Marcos's porkbarrels to his "cronies." In 1981 and 1982, the government repeatedly bailed out and then consolidated under direct government control private-sector financial concerns which had become overextended, due to short-term borrowing to compensate for the collapse of international commodity prices, as well as speculative ventures. The IMF and World Bank warned Marcos that this would have to stop, and the conditions for the IMF standby credits negotiated this October included clauses calling for an end to subsidies to public concerns and an end to government backing for private-sector loans.

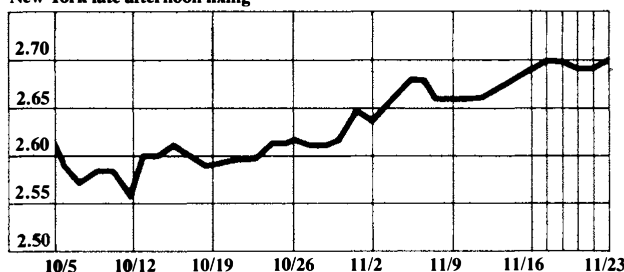
Of Marcos's 11 development projects, by the end of 1982, a proposed petrochemical complex and aluminum smelter had been indefinitely postponed. New timetables were being set for a paper mill and heavy engineering plant; targets for an integrated steelmaking and gasohol manufacturing facility had been scaled down. Construction of a proposed medium- to high-horsepower diesel engine plant and a cement plant had not been started. Out of 11 projects slated for completion in the early 1980s, only a copper smelter, phosphatic fertilizer plant and a low- to medium-horsepower diesel engine plant were on schedule.

Zero growth is the IMF's demand for the Philippines in 1984, and for the time being the government appears willing to meet the banks' demands in the false belief that this is the only road to stability, a stability ultimately premised on the recovery of the U.S. economy. The last 18 months' experience of Mexico, Brazil, and Argentina shows that this is worse than wishful thinking. There is another alternative: the Operation Juárez proposal of *EIR* founder Lyndon LaRouche, which calls for the conversion of the nations' debt into long-term, low-interest credits for industrial development. It is high time Marcos and other Third World leaders explored this alternative.

Currency Rates

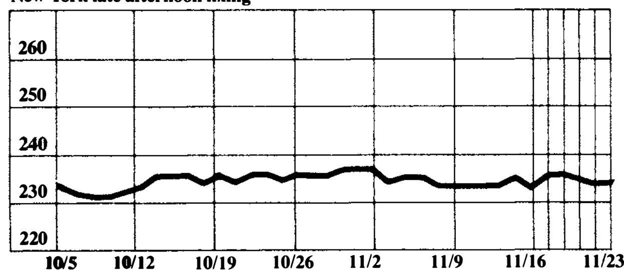
The dollar in deutschemarks

New York late afternoon fixing



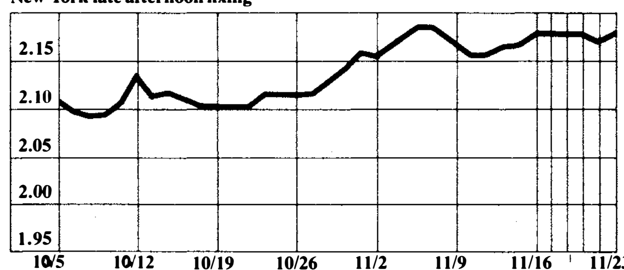
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing