IMF turns screws on the Philippines

by Gail G. Kay

A new phase opened in the bankers' campaign to bring down President Ferdinand Marcos when, earlier this month, Philippines Central Bank head José Fernandez announced measures to loot the domestic banking system in order to pay the country's outstanding foreign debt.

Coming on the eve of a visit from an IMF delegation, the announcement was a gesture toward resolving the stalemate in debt negotiations which has kept the country in a state of economic limbo since October 1983.

The Philippines economy was put through the wringer by its creditors, led by the IMF and the World Bank, in the six-week period following the Aug. 21, 1983 assassination of opposition leader Benigno Aquino, an event that triggered the country's worst political crisis since World War II. By October 1983, foreign credit had evaporated, loans were being called in on short notice or canceled outright, and flight-capital was pouring out of the country to the tune of hundreds of millions of dollars. The government suspended payment on the principal of its outstanding $25 billion in foreign debt to 483 lending banks. Nothing has changed today.

If phase one of the bankers' campaign against Marcos involved starving the victim, central banker Fernandez's phase two promises to put the victim out of its misery. Says Fernandez, "We think we are pragmatic enough to realize that the international financial markets will not be as easy to tap in the future as they have been in the past. More and more of the investible funds must come from domestic savings." Fernandez also proposes to turn over prosecution of banks for fraud and mismanagement to the recently created Office of Special Investigations, an offshoot of a scandal over the entral bank's bookkeeping that helped put Fernandez in office, to the IMF's delight.

Banco Filipino, the country's largest savings bank, has been the first target. The bank was forced to close its doors July 23, after a run by depositors amid charges by Fernandez of irregularities and a pledge not to bail out the bank. President Marcos intervened, ordering emergency credits of up to $160 million to rescue the deposits of some 3.7 million Filipinos. Fernandez retaliated on the eve of the IMF delegation's arrival Aug. 14, implying that bail-outs hurt his "targets" for cutting back on liquidity in the economy, and that failure to meet such goals means no loan from the IMF.

Widespread food shortages, increasing layoffs, 50% inflation, and a freeze on foreign exchange except for essential commodity imports are the main causes of the popular protests against Marcos. It is the uncertainty surrounding Marcos's response that has the IMF's allies in the State Department and U.S. Treasury worried.

Washington 'reconsiders' commitment

Preliminary readings suggest that the Reagan White House is in the process of moving from what Senator Melcher described last April as "benign neglect," to something less than "benign." The Philippines is "another Vietnam waiting to happen," and the administration may be preparing to "cut its losses" early, even though the political forces do not now exist to take Marcos' place.

Last month the Reagan administration launched an interagency review on the Philippines to define "a unified U.S. strategy at least for 1985." The findings are to be released after the November election. The policy review was prompted by two reports submitted in mid-June, one by U.S. Pacific commander Adm. William J. Crowe, and the other by the U.S. embassy in Manila, now under the firm control of longtime Kissinger associate Barry Bosworth. Both reports focus on the radicalization of the Philippines population, as seen in the growing strength of the guerrilla insurgency led by the New People's Army, the military wing of the outlawed Communist Party of the Philippines.

The NPA now operates as a national insurgency, in 53 out of 73 provinces, and controls one-fifth of the "barrios," the smallest political unit in the country. They collect taxes, provide "protection" for local businesses, and "administer" justice. Some sources estimate that half of the Philippines 160,000 troops are committed to operations in the southern island of Mindanao, where the NPA has joined forces with the Muslim Moro National Liberation Front (MNLF).

KGB Democrat Rep. Stephen Solarz (D.-N.Y.) has asked the Reagan White House to "seek alternatives" to Marcos, while linking continued U.S. economic assistance to satisfying the IMF. The first taste of this came Aug. 7, when the U.S. Treasury overrode the State Department to quash a proposed $150 million World Bank loan, to give Marcos no leeway in IMF negotiations the following week.

Solarz's "alternative" is now taking shape under the auspices of the most radically anti-U.S. Filipino opposition leaders. Former Foreign Minister Raul Manglapus reported recently on a meeting in Hong Kong in April 1984 to discuss creation of a "transitional government." Attending were Jose Diokno, Lorenzo Tanada, Jovito Salonga, Agapito Aquino, brother of the murdered Benigno, and Abraham Sarmiento, the latter a representative of former President Diosdado Macapagal.

Diokno and Tanada lead the movement to oust the U.S. from the Philippines, starting with the facilities at Clark Air Field and Subic Bay, central to the drive to turn the Pacific into a "nuclear-free zone." They work with the pro-Khomeini Ramsey Clark and Richard Falk in the United States, and are leaders of the political support apparatus for the NPA.