Philippines faces social, economic chaos because of Gulf crisis

by Uwe Parpart

For the Philippines and the government—if it still deserves to be called that—of President Corazon Aquino, the Persian Gulf crisis could not have come at a worse time. With cleanup from the devastating July 16 northern Luzon earthquake, which probably claimed over 2,000 lives, barely under way, and already in deep economic and social crisis before the Aug. 2 Iraqi invasion of Kuwait, the country now appears headed for unprecedented social and economic chaos, to be followed by one form or another of overt authoritarian rule. On Aug. 27, the eve of the third anniversary of Col. "Gringo" Honasan's first serious coup attempt against Aquino, Defense Secretary Fidel Ramos characterized the situation in much the same way, likening the Philippines to a sinking boat, with the people in it all rowing in different directions, but he then bravely added: "I don't believe it will sink."

To stick for a moment with Ramos's metaphor, the boat may not sink on its own, but it almost certainly will be sunk by the immediate fallout from the Gulf crisis—50% higher oil prices and repatriation of tens of thousands of Filipino Middle East workers—and unless there is an early and dramatic reversal in the Philippines foreign debt situation.

Oil fallout will hit hard

The Philippine economy depends on imports of crude oil and finished oil products for 95% of its current oil consumption. Close to 50% of the country's electricity generation is oil-based. It was precisely this large oil import dependency, in combination with collapsing commodity export prices and post-1979 usurious U.S. dollar interest rates, which led to the rapid 126% rise in new foreign debt from 1979 to 1982, currently at $27 billion, the economic collapse of the early 1980s, and the subsequent social crisis that swept away the Marcos regime in February of 1986.

Contrary to Aquino administration pronouncements, and in stark contrast to the other ASEAN countries' remarkable economic development since 1986, the Philippine economy never substantially recovered from the first half of the 1980s depression. Gross Domestic Product growth between 1987 and 1989 is said to have averaged 6%, but even in terms of this dubious measure, the economy only grew by 7% between 1983 and 1989, while the country's population in the same period of time increased from 52 to 60 million, i.e., by 15%, or more than twice the GDP growth rate. With population growth expected to continue at an annual rate of 2.2-2.3%, even accepting the highly optimistic NEDA (National Economic and Development Authority) economic growth projections, GDP per capita will not recover the 1983 level until the mid-1990s.

At present, in any case, the administration's focus is not on longer or even medium-term development, but on the immediate prospect of utter financial (and political) collapse. What little economic growth occurred between 1986 and 1989, was based on heavy public domestic borrowing—with public internal debt outstanding increasing by 97% from 116 billion pesos to 229 billion pesos during the Aquino years—and additional foreign borrowing—or "begging," as Aquino's Finance Secretary Jesus Estanislao himself called it in a speech on Aug. 23 in Cebu City. Since these funds, in the main, did not flow into urgently needed infrastructure and industrial investment, but instead served to support the government's operating budget and various pump-priming measures to increase consumer spending, the results at the half-point of 1990 were an inflation rate of 14% (and rapidly increasing), interest rates in excess of 20%, and ongoing peso devaluation—over 10% since the beginning of 1990.

Simultaneously, in the first semester of 1990, exports have crumbled (−1.4%), while imports, especially of food products and consumer goods, rose by 9.6%, producing a record trade deficit of $996 million. International reserves (minus gold) stand at just over $1 billion, covering less than two months of imports. The Philippines depends on exports to the U.S. for 37.7% (1989) of its total exports.

This bleak picture existed *before* the Aug. 2 onset of the Gulf crisis. Thus, unlike the other ASEAN developing economies or those of South Korea and Taiwan, which at least in the shorter run have a fair chance of weathering the current storm, the Philippine economy does not. Nor, with some likelihood, do Mrs. Aquino's and General Ramos's ship (or boat, as it were) of state. Domestic oil price increases of between 30% and 50% appear almost inevitable, as do the subsequent reactions.

Shrewdly exploiting the extreme economic and social sensitivity of the oil (gasoline) retail price issue, Col. "Gringo" Honasan chose the occasion of two previous oil retail price increases—August 1987 and December 1989—to launch the two most serious coup attempts against the Aquino administration. This time around, he may be spared the effort: The administration may coup itself, and talk is rife in Manila of an impending preemptive declaration of martial law.

Return of the 'new Filipino heroes'

Aside from higher oil prices, the Gulf crisis is forcing the return to the Philippines of tens of thousands of Filipino workers from the Middle East. In a speech in June, Mrs. Aquino gave the name "the new Filipino heroes" to these workers (and those in Hong Kong, Singapore, Japan, etc.), who annually remit some $2 billion to the Philippines—a substantial portion (close to 20%) of the country's foreign exchange earnings and covering fully two-thirds of annual foreign debt service. On Aug. 2, there were 93,000 Filipino overseas workers in Kuwait and Iraq, 350,000 in Saudi Arabia, 80,000 in the United Arab Emirates (U.A.E.), and 4,000 in Jordan, for a total of 527,000 in the potentially war-affected areas. Close to 100,000 are expected to return to Manila and some of the poorest provinces in the coming months. Jobless and destitute, they will swell the ranks of the already large numbers of the urban and rural unemployed, will cast their families, who often lived only off their remittances, into abject poverty, and will hardly receive "heroes" welcomes.

Growing outcry against usury

As of May 1990, the Philippines external public and private debt stood at $26.98 billion, representing 65% of the GDP, and being serviced at an annual rate of over $3 billion, representing about 40% of merchandise export earnings, or 20% of the national government budget. By law, and as an undertaking of the government demanded by the International Monetary Fund on behalf of international creditor banks, servicing this foreign debt is the first budgetary priority. Given the country's dire economic straits and impending social chaos, both houses of the Philippine Congress and the Catholic Church are now challenging the Aquino administration's unwavering determination since she was installed by the United States in 1986 to put foreign debt service above all other concerns.

The Philippine House of Representatives has passed a bill by Rep. Edcel Lagman to limit annual debt service to 15% of merchandise export earnings, and the bill is now under consideration by the Senate. Concurrently, the Senate, based on an initiative by Sen. Bert Romulo, is debating revocation of the legal provision declaring debt service the first budget priority. Mrs. Aquino has vowed to veto both bills if and when they reach her desk.

For the first time in four years of debate over the debt issue, however, and after a several-year delay folowing the issuance of a Vatican report questioning the morality of debt service when it causes "privations incompatible with human dignity," the Archbishop of Manila, Jaime Cardinal Sin, has now come out in open opposition to Mrs. Aquino's stance. During an Aug. 23 memorial mass for victims of the July earthquake, attended by Aquino, the cardinal backed congressional calls for debt service limitations, saying that "something indeed seems morally wrong when, in the face of such widespread lack of basic necessities among our people, we still feel compelled to service our debts in a business-as-usual manner."

Aquino, who was helped to power by Cardinal Sin in 1986, had no immediate comment on the cardinal's speech; however, at a Sept. 3 press conference, she again defended her administration's position: "What we are hoping to do is to have a negotiated arrangement. We are against a unilateral approach to the debt problem."

With mutually reinforcing economic and social chaos, the Republic of the Philippines appears on the verge of disintegration. The consequences of the U.S. military intervention in the Middle East, for which the U.S. bases in the Philippines in part serve as a staging ground, will be more obvious here than almost anywhere else.