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Philippines puts out welcome mat to cancer of financial speculation

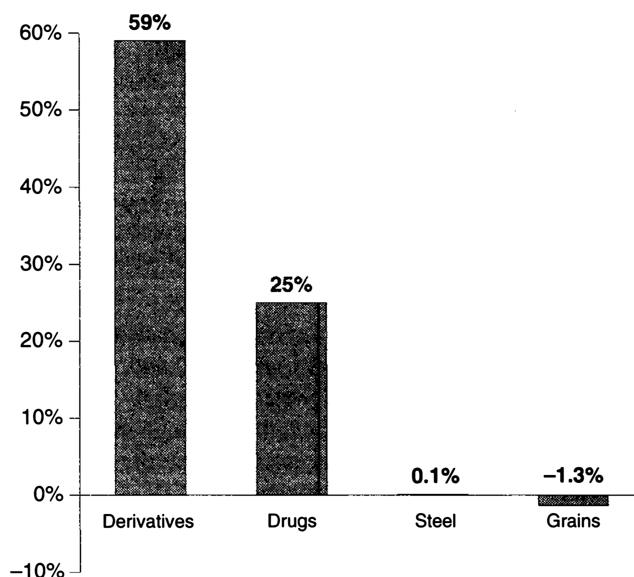
by Gail Billington and Dennis Small

There is an eerie similarity between the debt-laden economies of the Philippines and Mexico, looking over the period from 1980 to the present. Both are relatively populous Third World nations: The Philippines has 68 million people, Mexico close to 95 million. Both have large and growing foreign debts, although Mexico's $141 billion at the end of 1994 is proportionately much larger than the Philippines' $38 billion. Both resisted implementing International Monetary Fund (IMF) policies in the early 1980s, before being crushed into submission by the international financial oligarchy. And both nations are today being torn apart, economically and politically, by similar "free trade" policies being imposed from abroad.

Behind these two similar cases, there lies a common cause: the disintegration of the world financial system, and the suicidal adoption at home of liberal economic policies as demanded by the City of London and Wall Street.

Why is the Philippines in fact "heading down Mexico way"? It is not a matter of some Mexican "Tequila Effect" spreading outwards to other unfortunate countries, such as the Philippines. The fundamental problem lies neither in Mexico nor in the Philippines, but in the IMF/World Bank monetary system itself. **Figure 1** shows that over the last eight years, the fastest-growing "business" in the world has been the financial speculation known as derivatives, which have risen an astonishing 59% per annum on average during this period, while productive physical economic activity has been collapsing. Grain production per capita, for example, sustained negative growth during this same period, while steel production remained dead flat. Only drugs, at 25% per annum, came anywhere close to equalling the growth of unadulterated speculation.

FIGURE 1
World growth rates, 1986-94
(average annual percent)



Sources: U.S. Departments of Agriculture and Commerce, EIR.

We present here, in graphic form, the evidence to prove our case regarding the Philippines. The documentation shows that the governments of the Philippines, since 1983, have made and are making the same mistakes the Mexican governments made and continue to make. Using official Philippines government statistics and those of the IMF, World Bank, International Labor Organization, U.N. Food and Agriculture Organization, and the U.S. Department of Agriculture, we will put to rest the myth that the Philippines economic crisis was *caused* by the extravagant foreign borrowing and lavish lifestyle of deceased President Ferdinand Marcos; that the Philippines is still paying off the "illegitimate" Marcos debt; but that "people's power" and "free trade," ushered in by Corazon Aquino and Fidel Ramos, have miraculously produced today's "recovery."

The reality is otherwise: The Philippines was growing up to 1982, such that the country is still largely living off the infrastructure and other development achieved prior to 1982. The ability of the country to feed itself has yet to return to levels reached in the late 1970s. That process of nation-building under the Marcos government, flawed as it may have been, was sabotaged, deliberately, from abroad, starting with the 1982 debt crisis and continuing through the depression of 1983-85. In 1986, a far more serious debt and economic crisis was unleashed, and has gained momentum exponentially, as first the Aquino, and now the Ramos administration, rammed through IMF "free trade" policies. As a result, the Philippines today cannot feed itself without vast (and unreliable) foreign

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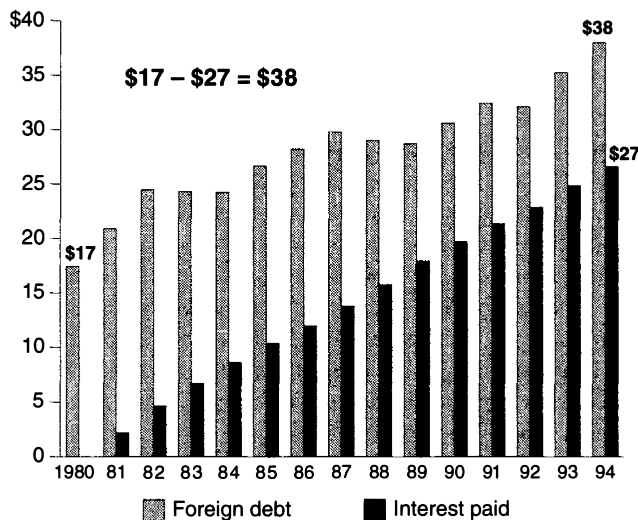
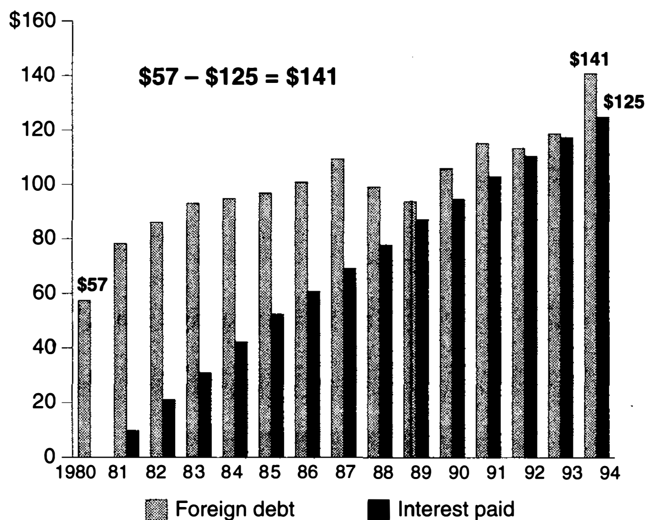
FIGURE 2
Philippines: debt and interest paid
(billions $)



Source: World Bank.

FIGURE 3
Mexico: debt and interest paid
(billions $)



Source: World Bank.

imports; and it is exporting the country's greatest wealth, its own population, as Overseas Contract Workers (OCWs), in order to obtain foreign exchange with which to pay the foreign debt.

The Philippines does not *have* to "go down Mexico way" on IMF orders; but to stop that from happening, it has to recognize why current policies will inexorably lead to a Mexico-style implosion.

The Marcos ouster: Nation-building comes to an end

In the early 1970s, the Philippines was the third largest developing economy in East Asia and the Pacific, behind Indonesia and South Korea, with the largest U.S. business presence in all of Southeast Asia. So too, until December 1994, Mexico was Wall Street's "success story" among developing countries.

Looking at **Figures 2** and **3,** comparing the Philippines' and Mexico's foreign debt and cumulative interest paid, it is clear that both countries have been the victims of "bankers' arithmetic" for the past 15 years. Despite slight differences in certain years, even the rates of increase are virtually identical. What is "bankers' arithmetic"? In 1980, the Philippines owed $17 billion in foreign debt; over the next 14 years, it paid $27 billion in cumulative interest alone on that debt; yet at the end of the period, in 1994, it owed $38 billion, more than double the original debt. That is, 17–27=38. Talk about illegitimate debt!

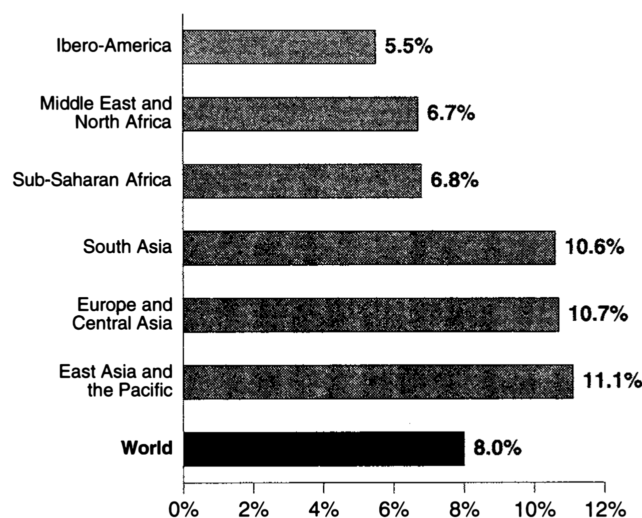
Mexico, in 1980, owed $57 billion; it paid $125 billion, and it then owed $141 billion. That's right: 57–125=141. That's enough to give anyone a "Tequila Effect."

Mexico's debt is almost four times larger than that of the Philippines, although both have been growing at about the same rate. If we look at their respective regions of the world (**Figure 4**), we see that Ibero-America is the relative slow poke, with "only" 5.5% per year growth of the foreign debt. East Asia and the Pacific, including Southeast Asia, set the pace on debt accumulation for the entire world in the last 15 years, at over 11% per annum—twice the Ibero-American rate. Are several of the Philippines' neighbors perhaps ahead of Manila in the line-up behind Mexico, as candidates for the next debt bomb explosion?

In Mexico, the debt crisis first exploded in 1982, as it did in the Philippines. This was a global crisis. Developing sector countries, particularly a group of the most politically, economically, and strategically significant countries, were hit with a double whammy, following the open-spigot credit *lending* and borrowing of the 1970s. U.S. Federal Reserve Chairman Paul Volcker first enunciated "controlled disintegration" as a deliberate policy during his confirmation hearings as Federal Reserve chairman. Then he raised interest rates into the stratosphere to expedite that policy. Caught between the late 1970s double-digit interest rates, spearheaded by Volcker's Fed, and the high cost of energy imports following two oil hoaxes, by the summer of 1982, the debt bomb was ready to blow in Mexico and in many other countries.

Volcker's "controlled disintegration" fit perfectly with the strategic approach to these leading developing sector na-

FIGURE 4
Annual growth of debt, by region, 1980-94
(percent annual change)



Source: World Bank.

tions, spelled out in U.S. National Security Study Memorandum 200 (NSSM-200) of Henry Kissinger, who admitted in a 1982 speech at London's Royal Institute of International Affairs (Chatham House) that he takes direction from the British Foreign Office, while telling American Presidents what to do. NSSM-200 identified the population growth in Third World nations as a national security threat to the United States, and then specified a hit-list of developing nations with the greatest potential for rapid industrial, technological growth. The message was summed up in the late 1970s by both Kissinger and National Security Adviser Zbigniew Brzezinski, who told Japan, specifically with regard to its investment plans in Mexico and Iran, that the United States *would not tolerate any new "Japans" in the Third World.*

The Philippines' particular importance was its geographical location, and the presence of the largest U.S. military installations in Asia on its territory, including the irreplaceable Subic Bay. But in 1983, a new geopolitical arrangement was reached between the circles of Soviet President Yuri Andropov and the Bush-Kissinger circles within the Reagan administration, in opposition to the new strategic antiballistic-missile defense doctrine, the Strategic Defense Initiative (SDI), which had been adopted by the Reagan administration. The Harriman wing of the Democratic Party fully supported this new geopolitical "spheres of influence" policy: United States out of Asia; Soviet Union out of Ibero-America.

President Marcos didn't believe, or didn't want to believe, that the United States would sack him; that Reagan, personally, would abandon him. He was wrong. By 1984-85, the power center in Washington was in the hands of the Project Democracy cronies of Vice President George Bush, and his London and Wall Street patrons. Acting Chief of Staff of the Philippine Armed Forces Lt. Gen. Fidel Ramos, with backing from U.S. Ambassador Stephen Bosworth, played a key role in facilitating Marcos's ouster.

Manila's 1983 forced negotiations with the IMF were not the first, but were perhaps the most devastating, both in the conditions attached and the prolonged process of negotiation. These negotiations set out the regimen that would dominate financial and economic policymaking to the present.

Until the fateful shooting of opposition leader Benigno Aquino on Aug. 21, 1983, Marcos had kept the banks and the IMF at bay, to some extent. But within six weeks of the assassination, the Philippines' foreign reserves plummeted to less than enough to cover one month's imports. Marcos declared a debt moratorium on principal payments, and a 20-month wrangling with the banks ensued, while his political ouster was mobilized and orchestrated from abroad. An IMF letter of intent was not agreed to until November 1984, contingent on reaching agreement with the creditor commercial banks. This was not signed until May 1985, and even then, the standby loan was not released until after Marcos was out in February 1986.

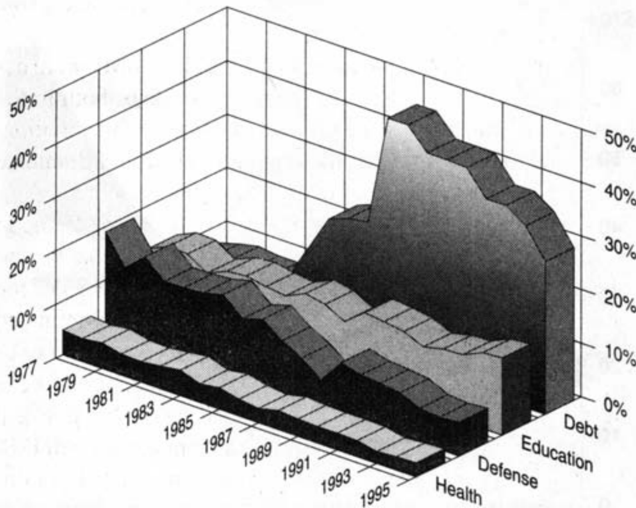
The bailout package was a classic IMF swindle. The $9.7 billion IMF and commercial bank package consisted of three pieces: a $925 million "new money" facility, $3 billion in trade credits, and $5.8 billion for debt rescheduling ($3.4 billion in short-term loans and $2.4 billion in medium- and long-term loans that came due on Oct. 17, 1983 and Dec. 31, 1986). In other words, the entire package went either for debt rescheduling or, as in the case of the "new money" components, to pay off overdue debts and current obligations. Nothing went to private industry; no new development loans were made available to the government. Instead, this was the typical IMF racket: "no money in, all money out" to pay the debt.

The "restructuring" measures agreed to by Finance Minister Cesar Virata included:

- takedown of any protectionist measures with respect to tariffs, including removing certain items from the restricted imports list, and liberalization of imports;
- promotion of exports, with restructuring of investment incentives to that end;
- "rationalization" of certain industries;
- implementation of a "flexible" exchange rate for the peso, which was devalued 34% in 1983 and another 29.3% in 1984;
- deregulation of interest rates and other bank reforms;
- dismantling of monopolies, aimed at the so-called Marcos cronies, particularly in the sugar and coconut industries;
- privatization of some government corporations; and
- diversification of energy resources.

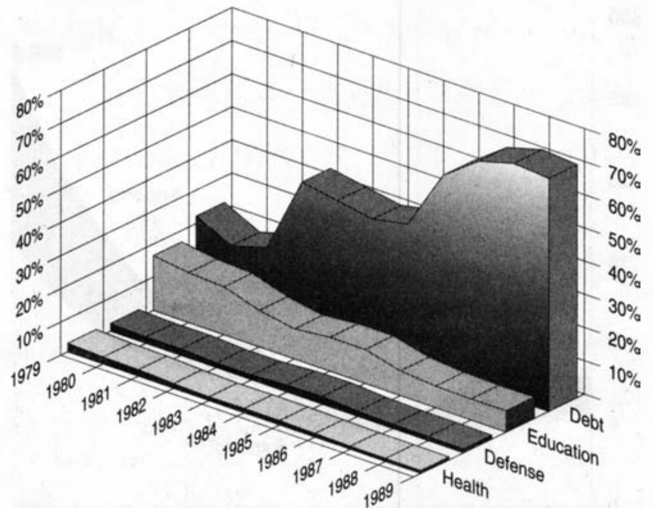
The Philippines went into its worst depression since World War II, from which, it was forecast in 1983, the country

FIGURE 5
Philippines: government budget
(percent of total public expenditures)



Source: Deptartment of Budget and Management, Philippines.

FIGURE 6
Mexico: government budget
(percent of total public expenditures)



Source: Informe de Gobierno, 1990, Mexico.

would not recover before the mid-1990s. President Marcos's 11 "major industrial projects" were shelved.

Aquino: debt comes first

A comparison of **Figures 5** and **6** shows that 1982-83 was an inflection point, but that a far worse crisis has been developing in the Philippines since 1986. Debt service as a percentage of the total government budget, more than tripled between 1982 and 1994, leaping from 9.6% to 33.9%. It diminished to a "mere" 28.4% in 1995. Defense spending was cut by more than half, from 13.9% to 6%; health care was cut by 40%, from 4.2% to a pathetic 2.5%; and education remained stagnant at 12-14%.

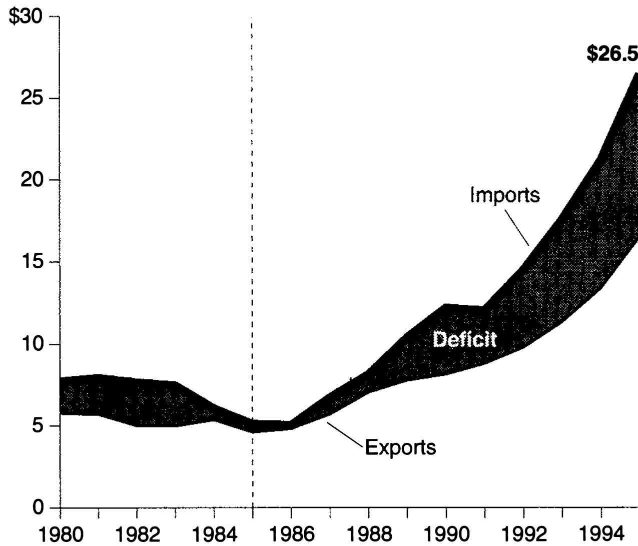
The slashing of military expenditure takes place in the context of decades-old insurgency campaigns against the constitutional government of the Philippines, from both the left Communist Party of the Philippines/New People's Army and derivative networks, including the Alex Boncayao Brigade hit squad in the Metro Manila area, and the Islamic separatist insurgency, which, up until 1995, had largely been contained to the southern island of Mindanao. A clear qualitative shift has taken place in 1995, indicated by overwhelming evidence of connections between Filipino Islamic separatists and the global afghansi apparatus linked to the British and George Bush. Thus, it should be clear that, beyond looting the Philippines, IMF policies have created a serious national security crisis by destroying the defense budget.

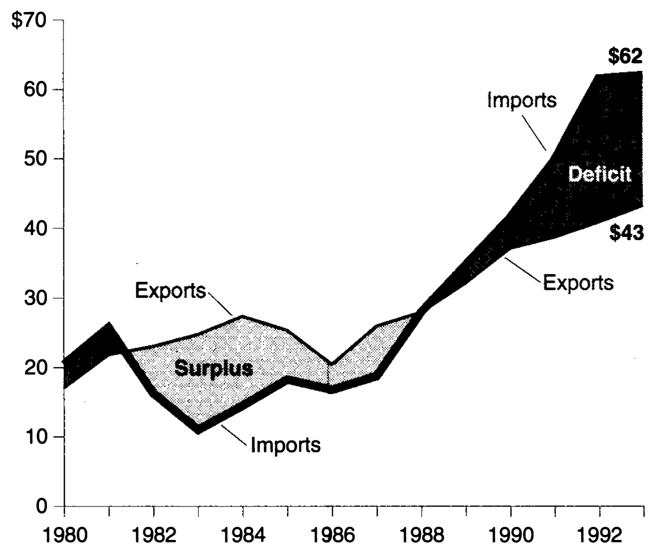
Mexico's situation is similar, where the government is also facing a British-sponsored separatist insurgency—the Zapatistas in Chiapas.

The Aquino administration's (1986-92) priority commitment to "normalize" relations with the IMF and creditor banks shows clearly in the debt line in Figure 5. From the outset, Aquino massively indebted the government, both at home and abroad. This was justified under the rubric of "pump priming." The result was that debt service as a percentage of the total government budget increased *85%* in her first year in office, and stayed at over 40% of the total national budget throughout her term of office. Under the successor Ramos administration (1992-), debt service has averaged a still whopping 34% of the total budget. Compare this to the average of 16% per year from 1981-85 under Marcos. No wonder the banks have been ecstatic about both Aquino and Ramos: They have been handed one-third to one-half of the entire government budget, year after year, for the last decade, under these two governments.

The Aquino administration's Policy Agenda for People-Powered Development, approved in June 1986, was fully incorporated into Manila's agreement with the IMF the following February, and further elaborated in the Medium-Term Development Plan, approved in November 1986. In 1989 and 1990, the government budget was further targeted in IMF negotiations, and austerity measures imposed included more reductions in government spending (except for debt service, of course), devaluation of the peso by a further 27% in 1986-90, abolition of subsidies on domestic petroleum prices, and liberalization of foreign investment laws.

The trade picture also clearly reflects Aquino's imposition





of British "free market" policies, where again the parallel with Mexico is striking (**Figures 7** and **8**). In the case of Mexico, IMF "free trade" policies were imposed by force in late 1982 and 1983, and immediately Mexico's balance of trade surplus began to decline and then turned into a large, and growing, trade deficit, as tariff barriers were wiped out and the country opened up to foreign looting. In the case of the Philippines, we can see that with Marcos's ouster and Aquino's takeover in early 1986, the trade deficit quickly began to soar. Her government promptly liberalized tariffs on some 929 items, while reducing the number of restricted items down to 438 by 1990. As a result of these measures, today the country is running a $10 billion annual trade deficit, as the country is flooded with foreign-produced goods of every imaginable kind, and domestic industry is being wiped out as a result.

Equally disastrous for the productive sectors of the Philippine economy, were Aquino's domestic economic policies. Average interest rates were immediately raised from 21% to 27%. Manila's western creditor banks moved in, snapping up 40% of the Philippines' failing commercial banks in the first wave of a debt-for-equity fire sale. Government purchase of agricultural goods stopped, eliminating a subsidy to farmers already suffering from low commodity prices, and forcing them to turn to private traders. The Ministry of Food and Agriculture froze farm production loans.

All of this laid the groundwork for what today is rapidly becoming a major national security problem: The country can no longer feed itself, and has grown dangerously dependent on foreign food imports, especially rice, the main staple crop.

Throughout this period, there was a political brawl over these IMF policies that wracked the Aquino administration, which was the target of an unprecedented number of coup attempts. The key political fights were over debt service and trade liberalization. There was widespread opposition support for the so-called "Peruvian solution," setting a cap on debt service payments of 10% of foreign exchange earnings, which had been adopted in 1985 by then-Peruvian President Alan García. This became the watchword of the fight against IMF looting in the Aquino years. Only after the wholesale theft of congressional elections in 1987, at the expense of the Grand Alliance for Democracy slate, led by businessman Vicente "Teng" Puyat, which advocated a series of anti-IMF policies, and the use of U.S. military air power to help put down a coup in December 1989, did the bankers' nerves settle down.

In July 1990, a natural disaster was added to those wrought by the IMF: The Mt. Pinatubo volcano erupted, claiming over 2,000 lives and wiping out rice and other food production in central Luzon. Then George Bush's Iraq war, starting in August, sent the country into an even deeper recession for two reasons. First, the Philippines was 95% dependent on imports of crude oil and finished oil products, nearly 50% of power generation was oil-based. Second, the Iraq war also caught 527,000 Filipino overseas contract workers in a war zone; 100,000 were expected to return to the Philippines, threatening to sharply curtail the remittances that were even then so critical to paying the foreign debt.

Ramos: Fast track to free trade

Elected by a small margin in 1992, President Ramos has moved with breathtaking speed to put the Philippines on a fast track to reach "newly industrializing country" status by the turn of the century, outlined in his "Philippines 2000" program. "Philippines 2000" embodies the core of the structural adjustment programs demanded by the IMF since 1983: It eliminates trade and tariff barriers, makes the peso fully convertible, opens up the banking sector to foreign ownership, makes the Central Bank independent, privatizes the public sector, including utilities, opens up the energy sector to foreign investment, gives incentives to foreign investors, and places a stiff value-added tax on consumer goods.

Implementation is outlined in the Medium-Term Philippine Development Plan (MTPDP) which created a network of special free-trade economic zones that will serve as regional industrial centers (RICs), complemented by key production areas (KRAs) in the agricultural sector to maximize "comparative advantage" of crops based on "best use" of land, whereby high-value export crops will be developed for each region.

In an Oct. 2, 1995 survey of the Philippines economy, *Financial Times* correspondent Edward Luce commented, "Almost all textbook moves recommended by the International Monetary Fund are in place. The Philippine economy is one of the most liberalized in Asia. Yet, economic growth . . . does not seem to be in any great hurry."

In June 1994, the IMF rewarded Manila with a three-year, $684 million credit facility, and extended the ceiling of permitted domestic monetary growth from 16% to 24%, raised again in June 1995 to 31%. The IMF also took the Philippines off its list of "most severely indebted countries" for the first time since the early 1980s.

Between 1992 and 1995, the Philippines has privatized almost all State assets, including out-of-use military land and much of the country's power generation system. The much-touted government budget surpluses in 1994 and in 1995, are due almost entirely to one-time sell-off of public assets. In 1994, the sale of 40% of the State oil refinery, Petron, to Aramco of Saudi Arabia, accounted for three-quarters of the total budget surplus, and at least $500 million of the $882 million in foreign investment reported. The 1995 surplus was secured by the sell-off to Hongkong investors of the Ft. Bonifacio army base, with half of the $3.2 billion sale price coming in 1995, and the balance due in 1996.

The apparent surplus is also due to the overhaul of the Central Bank in 1993, in which the bank was set up as an agency independent of government, modeled on the U.S. Federal Reserve. The bank generated a profit of 7 billion pesos in 1994, but that is only because the government swallowed whole the 308 billion peso debt of the old Philippines Central Bank—i.e., it was put on the shoulders of Filipino taxpayers.

In the areas of tariff reduction and opening up the banking sector, the Ramos administration has gone farther, faster than many of the "tigers" in the Association of Southeast Asian Nations (ASEAN), of which the Philippines is a member.

The Senate ratified the General Agreement on Tariffs and Trade (GATT) in December 1994. In July 1995, a sweeping tariff reform set a new regime with an upper limit of 30% for finished goods, and a 3% minimum for imported raw materials and capital goods. The goal is to have most tariff rates down to 10% or less by the turn of the century, with the ultimate target of a 5% tariff on *all* goods by 2004. As of Jan. 1, 1996, a 10% value-added tax (VAT) went into effect.

Extensive perks have been offered to foreign investors moving into the free-trade zone RICs, including duty-free importation of machinery and raw materials, a minimum four-year tax break, up to eight years in some cases, the promise of reasonable infrastructure, and extended land-lease rights up to 75 years. In the mining sector, a new code was passed in 1995 allowing 100% foreign ownership of mining projects and lifting restrictions on profits to foreign firms engaged in joint ventures. In addition, the retail sector has been severely undercut by the proliferation of duty-free retail trade, including large durable goods and even bedroom furniture. Retail sales of Duty Free Philippines, a huge, Sears-type retail chain, increased 12-fold from 1987 to 1991. With $299.5 million in sales in 1994, Duty Free Philippines could beat out sales of all the major department stores in the country by 2000. For the first time since 1954, the retail sector will be opened to foreign ownership.

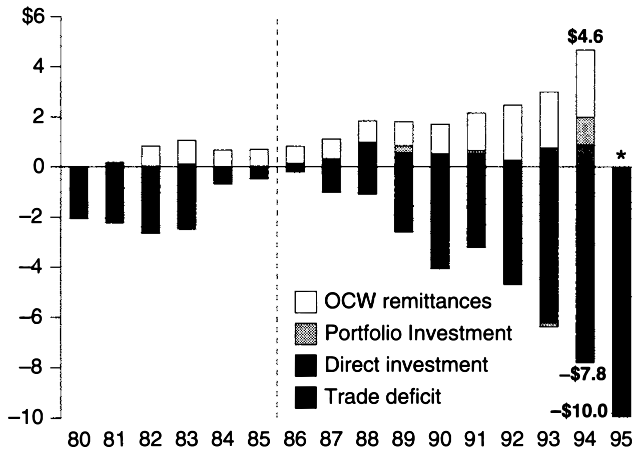
Entering the cancer ward

But this is only the beginning of the disaster the Ramos administration is bringing to the Philippines. Even worse is what is happening on the financial front: Derivatives have begun to invade the Philippines, much as they did Mexico in the early 1990s, and the Ramos administration has put out the welcome sign with the Filipino greeting: "*Mabuhay.*"

Figures 9 and **10** show where the two countries have gotten the funds to cover both the growing trade deficits that IMF policies created, and to keep paying on the illegitimate foreign debt. In the case of Mexico, there was a vast influx of speculative capital ("portfolio investment") that went mainly into the stock market and the purchase of government bonds, such as the notorious Tesobonos. In 1993, at the peak of the derivatives frenzy, over $28 billion of this hot money entered the country. Foreign direct investment in plant and equipment was only a fraction of this amount—and most of that went to privatization purchases, not into building new plant and equipment. When the derivatives bubble burst in 1994, the country was left high and dry, unable to cover its induced trade deficit, nor its foreign debt obligations. Mexico was bankrupt.

A similar process is under way in the Philippines—albeit on a smaller scale. First of all, much of the direct foreign investment coming into the country is not productive: It is concentrated in real estate, in export-oriented free-trade zones

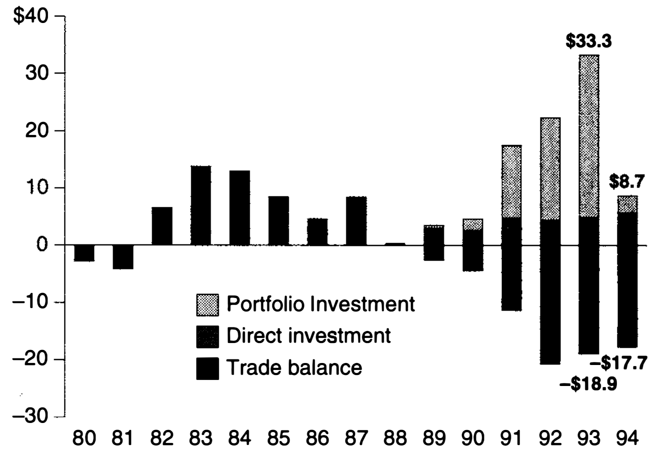
FIGURE 9
Philippines: financing the trade deficit
(billions $)



* 1995 data are not available for direct investment, portfolio investment, or OCW remittances.

Sources: IMF, Philippine Overseas Employment Administration.

FIGURE 10
Mexico: financing the trade deficit
(billions $)

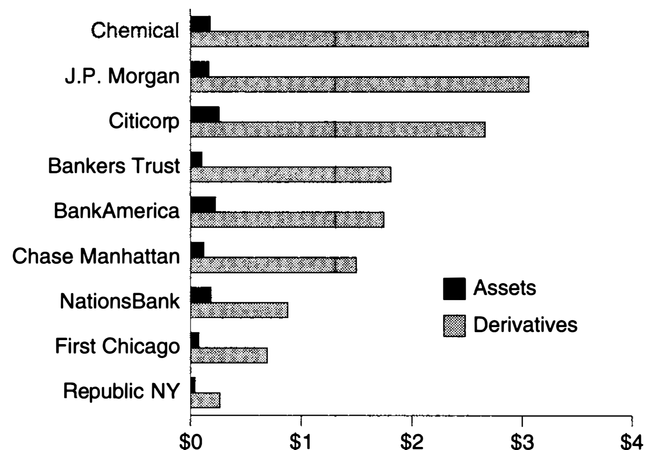


Sources: IMF, Banco de México.

with their perks, and in buying up existing equity through privatization sales. Portfolio investment is growing even more rapidly, both in government securities and the stock market. Capitalization of the stock market increased tenfold in the last five years; volume was up 154% in 1993 alone. But an estimated 80% of funds coming in are portfolio investments. In 1994, for example, $3.2 billion in portfolio investments came into the country, but $2.1 billion beat a retreat, leaving a net inflow of $1.1 billion for the year. To make matters worse, all four leading foreign investing nations in the Philippines (Britain, Hongkong, the United States, and Singapore) are also top derivatives-dealing money centers. They are bringing the derivatives cancer with them into the Philippines. To accommodate this influx of speculative capital, the financial sector has been opened up big time, starting in September 1992, when the government lifted restrictions on the transfer of foreign currency in the Philippines. In February 1995, the banking sector was further opened up to foreign takeover, with the licensing of ten foreign banks. **Figure 11** shows how deeply into derivatives are several of the foreign banks in Manila already or soon to arrive. Twenty foreign insurance companies will also set up shop within the next two years, ten in life insurance and ten general insurers. And, politically, the proponents of "fast track" derivatives dealing scored a coup in late 1995, ousting the head of the Securities Exchange Commission, Mrs. Rosario Lopez, whom the bankers considered too cautious on opening up to derivatives trading. Not so Philippine Central Bank Gov. Gabriel Singson, who released speculator-friendly guidelines governing trading of all types of derivatives instruments in mid-December.

A tantalizing list of new privatization targets was also compiled for early 1996, including the Social Security system, the Philippine National Railways, the Manila Waterworks and Sewerage System, the National Power Corporation, Local Waterworks Utilization Authority, and the Philippine Ports Authority. Also slated for 1996 is the overhaul of the tax system, and lifting the de facto government subsidy on gasoline and other petrochemical prices, while opening up that sector for "foreign competition." Twice, al-

FIGURE 11
They're not banks anymore: derivatives versus assets
(trillions $ as of June 30, 1995)



ready, the Ramos administration has had to shelve plans to raise the price of gasoline, in the face of mass protests.

In mid-December 1995, Finance Secretary Roberto de Ocampo made explicit where the next phase of "liberalization" is headed, in a policy proposal calling for the "Hongkongization" of the Philippines. Harvard-trained economist de Ocampo, who was named "Finance Minister of the Year" by *Euromoney* magazine, is not the first IMF technocrat to endorse a model based on drug-money laundering and sweatshop labor.

Paying the debt by exporting the workforce

Figure 9 identifies another key source of foreign exchange on which the Philippines depends to cover its trade deficit, and to service its foreign debt: remittances from Overseas Contract Workers (OCWs). This is the most stable source of foreign exchange earnings over the last decade, generating nearly $3 billion in officially reported remittances in 1994.

Beginning as a program under the Marcos administration, by 1982 there were officially about 314,000 OCWs. By 1993, this had risen to over 740,000, a 136% increase. During this same time frame, the total labor force only grew by 31%, from 18.6 million to 24.4 million. Annualized, the total labor force has been growing by about 2.5% per year, while the OCWs are increasing at more than three times that rate, or 8.1% per year. Currently an estimated 40% of those entering the labor force every year are now joining the ranks of the overseas Filipino workers. In other words, OCWs have been the real "growth" sector of employment. If these workers, most of whom are relatively skilled, could be productively employed at home, for example, in manufacturing, they would be a major contribution to domestic development. In **Figure 12,** we show that OCWs have almost doubled as a percentage of such a potentital manufacturing workforce between 1982 and 1993.

The current sad state of affairs of the Filipino labor force overall, is shown in **Figure 13.** The share employed in agriculture remains at close to 50%, and the small reduction which did occur went into services, rather than industry. In fact, the stagnation of the manufacturing labor force is such that its share of the total dropped from an already low 11% in 1980, to about 10% today.

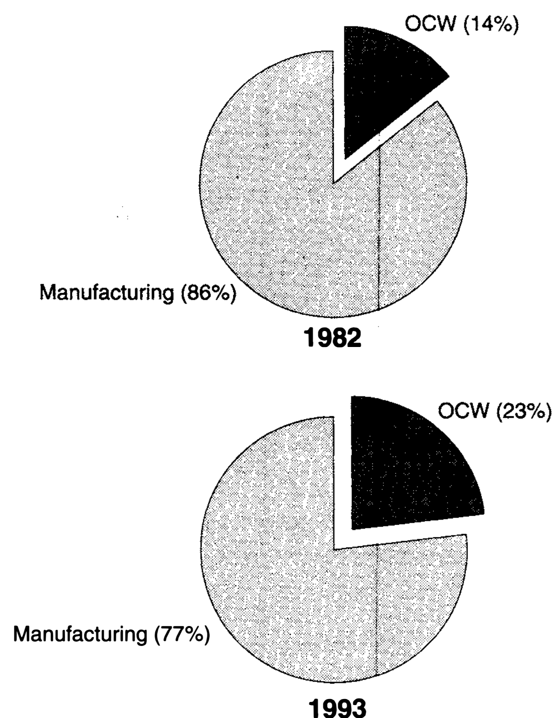
It is widely admitted that government OCW figures understate the reality, because they do not include "illegal" overseas workers, which conservatively would add 30% just to those working in the United States. The percentage of illegal workers is even higher in the Middle East, where the vast majority work.

"Free trade" is also taking its toll on the earning power of the OCWs. Several sources told *EIR* that, where an OCW used to earn $500 a month, they are now being offered, and accepting, the same work for $150-200 a month. Will this mean doubling or tripling the number of people exported to pay the foreign debt? Besides the straight looting aspect, the OCW phenomenon is leading to grave social results as well, such as the destruction of family structures through lengthy, enforced separations.

FIGURE 12

Philippines: manufacturing and overseas contract workers (OCW)

(percent of total)



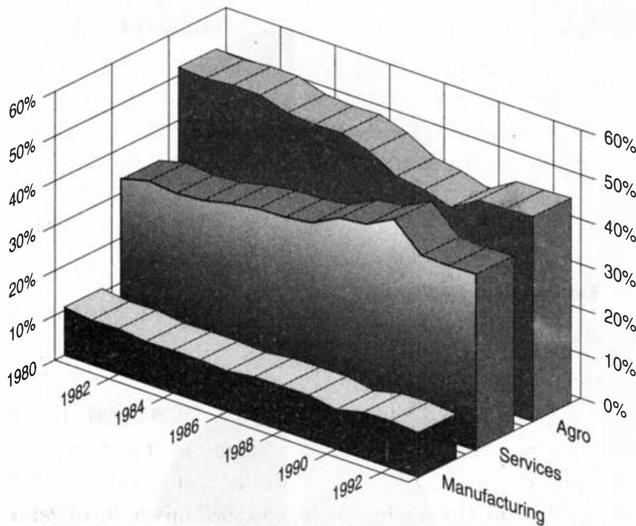
Source: Philippine Overseas Employment Association

It should be noted that Mexico, too, "exports" millions of cheap laborers to the United States every year, whose remittances also add significantly to Mexico's ability to service its foreign debt.

The Philippines today, after a decade of IMF destruction, not only can't employ its population, it also can't feed them. How did this happen?

Land reform was a central feature of the "restructuring" that took place under the Aquino government, and is taking on new meaning today. The concept of "key production areas" of the Ramos administration, to put "land to best use," is the agricultural equivalent of the free-trade industrial processing zones. The focus is export, export, export. Under the KPAs, high-value export crops will be promoted in each area, such as asparagus and cut flowers. Even if such specialty crops make a lot of money relative to the land area involved, ultimately the plan is to divert 3.1 million hectares of the existing 5 million hectares in rice and corn production into commercial crop and livestock production. This will help the Philippine

FIGURE 13
Philippines: labor force composition
(percent of total)



Source: ILO.

economy earn foreign exchange with which to pay the debt, but it means there is less food to eat at home. On top of this policy insanity, the Mt. Pinatubo eruption of 1990 wiped out the entirety of the rice belt in central Luzon, one of the largest rice-producing areas of the country.

The Philippines is facing a rice crisis. As **Figure 14** shows, rice production per capita rose slowly from 1965 to about 1985—the Marcos years. Since then, it has actually declined, to the point where per-capita production today is lower than it was 15 years ago, in the late 1970s. The same pattern holds for total cereal production.

The IMF and government technocrats have argued that the Philippines need not worry about the drop in rice production, since cheaper rice can always be imported. For example, in 1994, the Philippines imported 250,000 tons of rice; in 1995, it was up to 585,000 tons; and another 500,000 tons have already been scheduled for early this year. Some well-informed Filipinos told *EIR* that these official statistics vastly understate the reality, and that as much as 30% of domestic rice consumption is now being imported, from such places as Thailand, whose agriculture minister was trained in the Philippines. Yields on domestic rice crops are admittedly very low, due to low use of fertilizer and irrigation, by comparison with other Asian nations. The bitter irony is that Manila is the headquarters of the International Rice Institute, which coordinates world research and development in this field.

Figure 15 shows that Mexico made the same mistake. "Buy foreign, it's cheaper. You'll be doing the consumer a favor," the banks insisted. As a result, per-capita production dropped sharply from 1981 on, and the country became import-dependent. But when the peso crisis hit in late 1994, the money to import food disappeared. Now, starvation stalks parts of Mexico.

In 1985, *EIR* representatives told President Ferdinand Marcos, in person, that the solution for the Philippines was to break with the IMF, join with Mexico, the rest of Ibero-America, and other nations, to put the IMF and World Bank

FIGURE 14
Philippines: cereal production
(kilograms per capita)

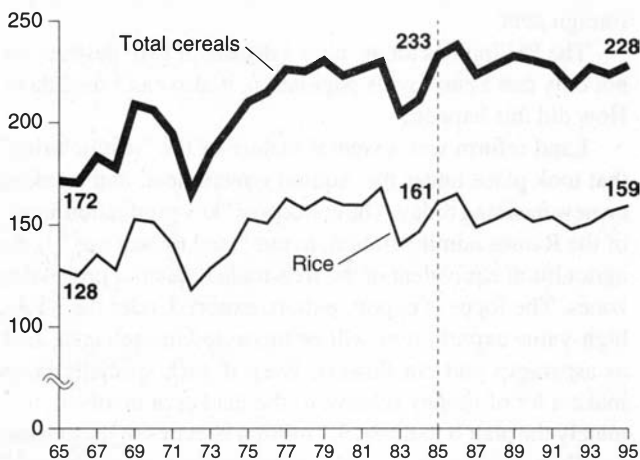
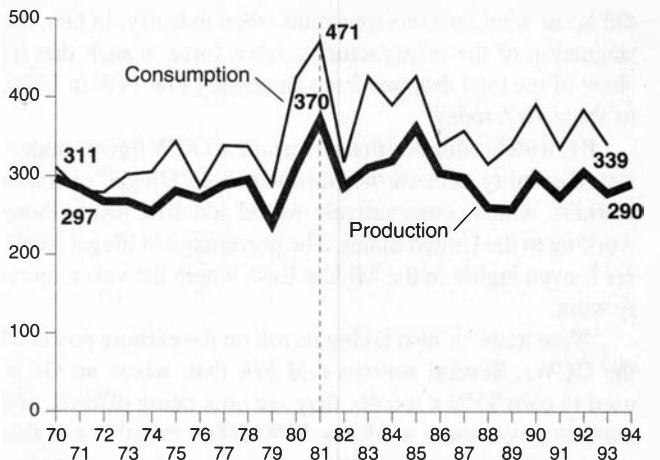


FIGURE 15
Mexico: grain consumption and production
(kilograms per capita)



into receivership. The financial oligarchy's "Bush-IMF dictatorship" overthrew Marcos.

In 1986, *EIR* told President Corazon Aquino, also in person, that the success or failure of the Yellow Ribbon revolution hung on ending the tyranny of the IMF. But Aquino did the bankers' bidding, and what came in with a bang in 1986, went out with a whimper in 1992.

President Ramos now has a choice. The entire IMF system is hopelessly bankrupt. The Philippines can either go down with it, or it can join forces around a different agenda with a growing movement among nations and nationalist political forces, as reflected in the Memorandum to Mankind signed by leading citizens of 30 nations from all five continents in early December in Eltville, Germany (see *EIR*, Dec. 15, 1995, p. 51). An agreement among sovereign governments to put the IMF/World Bank into standard bankruptcy reorganization proceedings is both necessary and do-able; only this can stop the spread of financial cancer.

For the moment, however, the sign in Manila reads, "*Mabuhay!*"

Documentation

'After Mexico . . . ?'

This column, by journalist and TV talk show hostess Jullie Yap Daza, was published on Nov. 27 in the Manila Standard, *under the headline "After Mexico . . . ?" Yap Daza had invited* EIR*'s Dennis Small to present an analysis of the Mexico crisis to the weekly Bulong Pulungan press conference on Nov. 21. Small was the second speaker, after former First Lady Imelda Marcos; about a dozen journalists stayed to hear him.*

The Philippines going the way of Mexico?

Dennis Small, an economist who handles the Ibero-American desk of the weekly *Economic Intelligence Review* [sic], published in Washington, told a small group of journalists last week what they have been afraid to hear, but keep hearing anyway, and only half-believing half of what they hear. But hearing it from someone who predicted the Mexico crash two years before it happened was a different experience. We were all ears.

"The signs are all there," he began, a little too cheerfully for comfort. Forthwith, he drew the parallels.

"In 1980, Mexico owed $57 billion. By 1993, it had paid $372 billion in interest alone. Today, its debt is over $513 billion.

"In 1980, the Philippines owed $17 billion. In the last 13 years, it paid $25 billion. It still owes $38 billion. In other words, 17 minus 25 is 38.". . .

Small: "Mexico was self-sufficient in food (corn, beans) and importing only 5 million tons until it began importing for the good of the consumer. Imports rose, the trade deficit rose. Now Mexico imports 15 million tons without money."

Sounds familiar? One remembers how the Philippines used to export rice. Now we are importing rice and the secretary of agriculture is proud and happy about it.

Small: "Twelve billion dollars left the Mexican stockmarket, plus another $30 billion in other investments. Foreigners took the money and ran."

I keep reading in the business pages that trading in the Manila stock market is down because the big players have pulled out (though no one is saying how much). . . .

Who is Dennis Small? From the way he was taking potshots at the economic theories of bankers and moneymen schooled in the Adam Smith tradition, and in the style of Harvard, Yale, University of Chicago and University of Pennsylvania, where did he cut his teeth?

"None of the above," he said. He is an "intelligence director" of the *Economic Intelligence Review* whose founder, Lyndon H. LaRouche, was sentenced to 77 years [sic] in jail by the Bush administration on charges of tax fraud, which Mr. Small vehemently denied. They were fabrications, he said, because President Bush and Oliver North, who were LaRouche's enemies, could not stand idly by while LaRouche and his disciples called the two "drug lords" and started a movement for a debt moratorium for Third World countries. "Not because the debt is unpayable but because it has already been paid."

LaRouche a political prisoner? Not only LaRouche, but also Dennis Small. LaRouche was paroled after serving five years of his sentence in January 1994, after which he ran as a candidate of the Democrats in the Presidential elections.

Now you know, there are political prisoners in America, land of the free. Mr. LaRouche and his friends, including Mr. Small, are waiting for the U.S. federal courts and the Justice Department to apologize to them for wrongful conviction.

Meanwhile, the *EIR* team continues spreading the gospel against loans.

"The IMF [International Monetary Fund] is dead. The entire financial system of the West is over. The Japanese financial system in bankrupt. Capital has fled from the banks to the only 'safe' bank, the Japanese Postal Union Bank.

"Banks and governments are broke. There's a financial meltdown. There has been no flow of credit from abroad. It's the IMF and the guys in London, the international banks, that are insolvent."

Not content with that grim pronouncement, he adds: "We are entering a period of financial disintegration—a crash of