

THE PHILIPPINE FOREIGN DEBT PROBLEM:  
A SEARCH FOR ALTERNATIVE POLICIES\*

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Introduction

The growth and development of the Third World is effectively impeded by the constricting consequences of its foreign debt. While the burden of debt servicing does not constitute all of the development concerns of the Third World, the pervasive nature of the problem impresses on most all others and therefore merits that the developing world take on the task of defining an explicit debt policy to set the parameters within which economic growth and development become possible. At the same time, any proposal aimed at providing lasting solutions to the Third World debt crisis must be informed by an understanding that the developed market economies must release their effective control over the Third World and allow genuine growth and development to take place.

The combined effect of the imposition of contractionary policies upon the debtor countries by the international

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financing institutions and the deflationary policies pursued by the developed market economies have caused untold suffering in the developing world. Indeed, even a cursory inspection of the recent histories of the debt-ridden countries reveals that as external debt levels relative to gross domestic products and per capita incomes started to escalate, the standards of living for the greater majority of those living in these countries have fallen. The reported levels of unemployment have gone up; the effective rates of underemployment have likewise increased; and the real per capita incomes have fallen. Moreover, the stiff protectionist policies adopted by the developed countries have not only reduced the demand for Third World commodity exports but have also allowed for the concomittant drop in the prices of these commodity exports relative to the industrial manufactures of the developed market economies in the international market. This has induced a heightened dependence of the Third World on foreign borrowing for their import requirements.

The increased availability of funds for lending in offshore banks following the oil price hikes of the early and late 1970s provided the Third World countries with immediate relief from the domestic pressures of balance of payments deficits. Hindsight now reveals that many of the loans issued by the transnational banks to the developing world were indiscriminating in character, failing a thorough examination of the debtor countries' real capacities to pay. At best, much of the debt was contracted by the developing

world when the banks' expectations of the growth of Third World trade far exceeded what has materialized or what is now apparent. Domestic economic mismanagement by corrupt governments in many of the debtor countries - ranging from varying degrees of institutionalized patronage to the inordinate emphasis given to unproductive infrastructure and industrial undertakings - further eroded their capabilities to make good on these foreign loans, thus exacerbating the need for continued borrowings.

In the context of the variable interest rates on the loans issued to the developing world in the 1970s and well into the 1980s, the result has been an effective net transfer of resources from the indebted countries to the creditor countries. The level of debt servicing by the Third World now stands at more than US\$100 billion yearly, of which about half is for interest payments alone. The Third World countries are clearly further disadvantaged by the prevailing structures of international commodity trade that permit the realization by the developed market economies of large profit margins on their manufactured exports and allow them further savings from the discounted rates at which commodity exports from the developing world can be purchased. And as if this were not already sufficient, capital flight from the developing countries has also contributed to the net transfer of resources from the debtors to the creditors.

Throughout all this, there can be no question as to who pays the price of debt-dependent economic policies in the

developing world. As the debtor country governments implement the imposed contractionary policies attendant to their foreign exchange obligations, the poor have little option but to suffer the consequences of unemployment, underemployment, declines in real per capita incomes, higher prices of basic commodities and the cutbacks in the delivery of basic social services.

This paper specifically addresses itself to the Philippine foreign debt problem, its place in the wider concern of the Third World debt crisis and the options being considered towards the resolution of this problem. It shall begin with an analysis of the current Philippine debt situation within the context of the socio-economic and political conditions prevailing in the country today, while at the same time giving emphasis to the primary considerations and historical factors that have given rise to the present situation. It shall then proceed to a discussion and analysis of the different positions various groups in the country have taken vis-a-vis the issue of foreign debt. Following this, the paper shall consider the various alternative debt policies presently considered as possibilities that the Philippines may pursue. From among these alternatives, the paper shall go into a discussion of an alternative development model that will allow for genuine growth and development to take place. The paper will end with a section situating the Philippine debt problem in the context of the search for an European debt policy.

## The Philippine Debt Situation

The Philippine economic crisis of the 1980s was largely conditioned by the qualitative change in the character of the country's foreign debt problem. Debt service as a percentage of merchandise exports shot up from 37.9 percent in 1981 to 61 percent by 1987. The combined pressures of the slow, even regressive growth of the country's export sector, the scaling down of new credit facilities available to the country, as well as the increases in interest rates on foreign borrowings to high double-digit levels have effectively caused what had been debt-driven economic growth from the mid-1960s to crumble like a house of cards, giving rise to what has been the most serious economic crisis the country has ever faced. In this context, the changes in the nature of the country's foreign debt over time become important to understanding the present economic crisis; and at the same time, economic growth and development cannot be achieved outside the pursuit of a solution to the country's debt problem.

In 1965, the country's foreign debt fell a little short of US\$600 million, or about \$19 per capita. By 1970, the figures had more than trebled to \$2,297 million and around \$63, respectively. Over the next five years, the level of foreign debt again more than doubled to \$4,939 million, or about \$118 per capita. The doubling and redoubling of the level of the country's foreign debt continued unabated over the years so that by 1980, it had reached \$17,252 million or \$359 per capita. The level of foreign debt recently

reported for 1987 stood at \$28,560 million. For the same year, the per capita debt burden was computed at \$502 - this in a country where the annual gross national product per capita is only \$500.

Over the same period from 1965 to the present, the growth of the public sector debt has been even more precipitate. In 1965, public sector borrowing accounted for 60 percent of the country's total foreign exchange obligations. By 1970, however, the figure had gone down to 50 percent. Over the next decade until 1980, the level of public borrowings accounted for 50 to 55 percent of the country's external debt. On 17 October 1983, the Marcos government made formal its request for a moratorium on its debt repayments to foreign creditors. By this time, public sector borrowing accounted for 68.3 percent of total loans. As the country's foreign debt continued to balloon, so too did the percentage of public sector debts. In 1985, public sector borrowing accounted for 73 percent of total loans; and by 1987, the figure had gone up to 77 percent.

The shift away from governmental and international financing agency to commercial bank lenders has not only shortened the maturity periods of many of the country's loan transactions but has also accounted for the sharp increases in the average interest rates on these loans. Consequently, the debt service burden has dramatically increased from about \$60 million in 1965 to about \$2.7 billion for 1988, of which \$2.3 billion is earmarked for interest payments alone. Estimates of both the World Bank and the National Economic

Development Authority of the country's annual debt service burdens for the period 1987-92 is of the order of \$3-4 billion.

Quite plainly, throughout the years, the Philippines has fallen slowly but effectively and deeply into a debt quagmire. Like other developing countries similarly placed, the reasons behind the debt enslavement of the country's economy are multiple. And a closer inspection of these primary considerations that have given rise to this debt-dependence will reveal that a substantial number of factors have similarly affected not only the Philippine economy but many other debt-ridden economies throughout the developing world.

Tracing the roots of debt-dependence. Of primary importance to understanding the country's debt problem is the consideration that the Philippines' external balance position has historically been shaky, having relied as it had on agricultural commodity trade in preferential markets such as the United States for a substantial portion of its foreign exchange earnings, and since the 1970s, on manufactured exports such as semiconductors and garments that are highly import-dependent and of low value-added.

The country's balance of payments throughout the years since independence in 1946 has been characterized by chronic current account deficits. Prior to 1983, extreme economic difficulties were experienced in 1949 with the exhaustion of the War Rehabilitation Fund and which spawned what is now

considered by many as the "golden age" of import substitution in the country; again in 1962 when the import-substitution industrialization strategy failed to rectify the defects of the country's economy, signalling in what has become the country's continuing relationship with the International Monetary Fund; and then again in 1970 as a result of massive election spending by Marcos as well as his investment spree in the late 1960s. Since the 1970s, the government has increasingly relied on foreign borrowings to finance the balance of payments deficits, particularly following the oil price hikes in the early and late 1970s and as the IMF-supported export-oriented industrialization strategy failed to generate enough foreign exchange to pay for the increasing imports.

The escalation of the levels of the country's foreign borrowings was in large measure enhanced by the availability of huge amounts for loans to the developing countries from commercial banks since the 1970s. The shorter maturities as well as the higher and even variable interest rates on these commercial bank loans, especially during the late 1970s and early 1980s, account for no small measure of the country's present foreign exchange obligations.

The world depression of 1930-32 and the unbroken crisis in lender confidence with respect to all but a few developing country borrowers have also significantly contributed to the unabated negative growth in the country's trade deficits. At the same time that heightened protectionist policies in the West have made it more



difficult for Third World exports in general to penetrate the developed market economies, there has also been a drying up of new moneys available for lending to the developing world.

The institutionalized patronage so blatantly characteristic of the Marcos regime has, in retrospect, also contributed heavily to the significant increases of the country's foreign debt. Under the Marcos regime, there has been a massive leakage of the funds borrowed, and where funds were actually deployed, there have been high levels of inefficiencies and wastage. The estimates of funds appropriated by Marcos and his cronies for their purposes add up to the \$10 billion range. And the estimates of capital flight are in the league of \$12 billion. Many of the crony ventures, even when not corrupt were unsound and therefore contributed to the inefficient, if not altogether wasteful use of the foreign funds. Other crony ventures, while seemingly sound, were heavily ridden with corrupt overpricing, achieving the same over-all effect with respect to the use of the foreign loans.

Without the additional debilitating effects of the extreme forms of institutionalized patronage under the Marcos regime, it is estimated that the country's external debt would be lower by anywhere between \$10 and \$14 billion, the debt service burden would be proportionately lower, and the annual export earnings for servicing this debt would be significantly higher. It is important to note that while institutionalized patronage under the Marcos regime was at

its most extreme, it was not characteristic of the Marcos government alone. It would be more appropriate to say that institutionalized patronage has been endemic in the country for over 40 years, perhaps even longer, albeit in less extreme forms.

Outside institutionalized patronage, there are other factors relating to the domestic economic management that have contributed to the growth of the country's foreign debt. Increased state borrowing was also conditioned by the requirements for boosting the country's non-traditional exports, particularly in garments and electronics components, as well as for enhancing the Marcos-World Bank strategy of infrastructure creation. While these need not necessarily be considered unsound, the absence of effective state intervention to attain full resource mobilization and allocation in the manner achieved in South Korea and Taiwan somehow undermines the relative efficiencies to which the use of the foreign loans have been generally directed.

The 1983 crisis. Not surprisingly, the economic crisis came in 1982-83, and tightened over 1984-85. While there is no doubt as to the effects of the worldwide recession on the country's economy, the 1983 crisis as far as the Philippines was concerned related more to the sudden changes of lenders' perceptions about sovereign debt following the 1982 Mexican debt crisis. However, the deepening of the crisis over the two subsequent years was in large measure influenced by the deterioration of the country's economy, vulnerable as it was

to external pressures brought about by its own debt dependence bred over the years.

Although the Aquino assassination and the resulting political turmoil and capital flight directly led to the debt repayment moratorium in October 1983, it was the conscious restrictive policies imposed the following year that accounted for the economy's deep plunge in 1984-1985. What was imposed in the Philippines by both the IMF and the over-enthusiastic Central bank Governor was the classic monetarist cure for price inflation and balance of payments deficits.

The priority given to debt repayment led the government to undertake sharp austerity measures and the mopping up of excess liquidity. The sale of super-high interest bearing Central Bank bills brought interest rates soaring to 60 percent and constricted the availability of domestic credit. Local firms which were heavily dependent on domestic and foreign credits had to cutback production, layoff workers and even close shop. The severe recession caused price inflation to fall from a peak of 50 percent in 1984 to 17 percent in 1985 and finally to less than 2 percent in 1986. In real terms, the current account and balance of payments position over the same period also showed improvements. In a general sense, the policy improved the capacity to pay debt mainly through the drastic reduction of imports. But imports fell precisely because of the massive contraction in output and production. In this sense, recession was the conditionality answer to the debt moratorium.

The social costs of debt dependence. There can be no question that throughout the years the government has continued to prioritize the repayment of the country's foreign debt over economic growth and development. And as the government persists in the implementation of the IMF conditionalities, what is apparent is that the austerity measures pursued by government places the heaviest burdens on those already having to cope with extreme poverty.

The official figures on government expenditures indicate a reduction in over-all public expenditures beginning in 1982, and becoming most pronounced in 1984. These reductions were in no small measure due to the contractionary policies undertaken by the government, in turn due to the debt problem. Economic services, social services and general public services all suffered substantial losses during this period.

Measured in constant 1972 prices, government spending for economic services to agriculture, industry, and utilities and infrastructure dipped from P5,937 million in 1981 to P4,938 million in 1982, dropping further to P2,389 million in 1984. In 1986, the economic services expenditures posted at P2,619 million - not quite half the 1981 level. In the area of social services, again as measured in 1972 constant prices, the government spent P3,395 million in 1981, P3,245 million in 1982, and P2,245 million in 1984. In 1986, the government expenditures for social services added up to P3,195 million - still not quite the 1981 level. For general public services measured in

1972 constants, the government spent P2,941 million in 1981, P2,890 million in 1982, and P1,916 million in 1984. The reported expenditures for 1986 of P2,226 million again demonstrate that the 1981 levels have not been recovered.

What is even more pronounced is that alongside the contraction in public expenditures, the public fund allotted to debt service began to increase as total debt service grew and as government began to assume the private debts that could no longer be repaid. The official figures in constant 1972 prices show that from P1,423 million in 1982, the government debt service fund increased to P2,199 million in 1983, P2,606 million in 1984, P2,768 million in 1985 and finally to P4,051 million in 1986. Substantial as these increases may have been over the period under consideration, these figures still do not include the net lending of the government to government corporations, which were mainly for paying the debts of these government corporations. If this figure is computed into total public expenditures, the debt service of 1984 to 1987 would comprise 40 percent of total expenditures - almost as big as the budget for economic and social services combined. The cuts in economic, social and general public services and the present government's incapacity to fund its ambitious agrarian reform program can be directly attributable to the policy of prioritizing debt payments over economic growth and development.

The social costs of the depression in the 1980s are tremendous, and it continues to inflict long-lasting and often permanent damage to the country's social fabric. Of

the country's 57 million population in 1987, 65 percent fell below the poverty line of an annual income of P2,500. The highest incidence of poverty is in the countryside where an estimated 70 percent of the country's population is to be found. According to reports from the National Economic Development Authority, a total of nine out of the country's 13 regions posted poverty levels higher than the national average.

The average family size in the country is six. According to the estimates of the Food and Nutrition Research Institute, the average cost of the daily nutritional requirements of a family of six at the end of 1987 was P87.80, up from the P80.34 estimate for the previous year. And to cover the costs of their daily food and other basic necessities, a family of six will require P120 in an agricultural environment outside the national capital region. Within a non-agricultural environment, the same family of six will need P130. Again, comparing these to their 1986 counterparts, these figures have gone up from P111 and P118, respectively.

The legislated wage rates in the country in 1987 in nominal terms were P69.33 for non-agricultural workers, P58.50 for plantation agricultural workers, and P47.12 for non-plantation agricultural workers. While these figures were higher than the levels of the previous year (P57.08, P46.67, and P35.67, respectively), when deflated to 1978 prices, the increases are not all that significant. The legislated wages in 1987 as measured in 1978 constants

amounted to P16.81 for non-agricultural workers, P15.55 for plantation agricultural workers, and P12.52 for non-plantation agricultural workers. The figures for 1986 at 1978 prices were P15.41, P13.25 and P10.12, respectively.

Quite clearly, for those benefiting from legislated wage rates, there is no question about being able to afford the daily nutritional requirement and basic necessities. Not surprisingly, both poverty indicators and public health problems have continued to persist at alarming levels. Considering that half of the country's population is accounted for by the 20 and below age group, there are enormous repercussions on the country's future generations.

Indeed, one out of every two Filipino families eat less than the minimum nutritional levels. As a consequence, 70 percent of the Filipino children are malnourished. The more detailed figures available for 1985 indicate that at least 2.5 out of 11 million pre-schoolers were underweight, 2.7 million were stunted (low height for age) and 1.5 million were wasted (low weight for height). The incidences of common illnesses are likewise alarmingly high. An estimated 32 percent of the country's population is infected with varying degrees of tuberculosis. Another 2.3 percent of the population suffers from varying degrees of blindness owing to Vitamin A deficiencies - this is the third highest rate in the world. And 85 to 90 percent of the population are infected with ascariis, the highest rate in Southeast Asia, second only to Iran in the developing world.

An estimated 83 percent of the country's households occupy dwelling units less than 50 square meters, with 56 percent living in units less than 30 square meters. The extreme poverty in the countryside has pushed many of the rural residents into the cities where they settle as slum dwellers, in even more deplorable conditions. According to the estimates of the National Housing Authority, more than one out of every four residents in Metro Manila are slum dwellers or squatters. And with the increases in the number of slum dwellers come the concomittant increases in the deployment, abuse and exploitation of child labor. The sad truth is that where increasing number of the country's youth is forced to augment family incomes, they automatically loose out on their right to basic education and training which, over the long-run, would improve their chances for better employment.

While it is true that in 1987 both the gross national product and the per capita GNP posted real increases of 5.05 and 2.58 percent, respectively, this is already a marked improvement from 1985 when the per capita GNP dropped to their 1975 levels. Moreover, the income and asset distribution remains extremely skewed. It is reported that 60 percent of the total household income is shared by only 20 percent of Philippine households, as compared to the lowest 40 percent receiving even short of 15 percent of the total income. Even the government's Department of Agrarian Reform recognizes that 80 percent of the country's lands is owned by only 20 percent of the country's population.



The continued depreciation of the Philippine peso against the US dollar, coupled by an inflation rate of 3.82 percent in 1987 have effectively caused the deterioration of the real incomes of the greater majority of Filipinos. While the labor force participation rate for 1987 was 66 percent, of concern is the number of establishments that have actually shutdown or retrenched. In 1987, the number reported was 1,874, up from 1,013 in the previous year. Furthermore the erosion of the purchasing power of the peso to P0.27 as measured in 1978 constants strongly suggest significant changes in the consumption patterns of the lowest-income groups. The most vulnerable social groups would of course include the landless and upland agricultural workers, small fishermen, indigenous communities, the urban poor, women and children.

Clearly, the prioritization of debt service payments over national economic growth and development has compromised the government's ability to deliver basic social services such as health care, education, housing and human settlements, and even social security. Indeed, of the 1987 budget of P160 billion, 47 percent, or P75.2 billion was allocated to debt service. The priorities will still have to change as in the government's 1988 budget of P179 billion, roughly 40 percent, or P69.2 billion, will go to servicing the country's foreign debt. Some quarters have raised questions as to the constitutionality of the budgetary appropriations as the 1987 Constitution provides that the highest budget allocation should go to education.

However, with the lion's share of the national budget going to debt service payments, it would seem that the most vulnerable groups will continue to bear the brunt of the country's foreign exchange obligations. As it stands, they are allowed little room for manoeuvre; and it seems that they are provided little hope as well.

The Aquino government debt policy. While many look to the Aquino government as having heralded in signal changes in the country's history, this is not necessarily true with respect to the external debt issue. It is felt not just by a few that the first year of the Aquino government would have been the most opportune time to act on the country's foreign debt problem. The government absconded on the chance to request for a temporary suspension of debt service payments to the creditor banks in the meantime that it completed a comprehensive review of the composition of the foreign debt. Not only could it have negotiated for the repudiation of all fraud-tainted and Marcos behest loans, but it could have also sought for a debt burden reduction package that would have been consistent with the government's projected economic recovery targets. Speculating that these requests would have in fact been granted is altogether a separate concern, but the truth of the matter is that it would have been easier accomplished then than it is now.

On May 1st 1986, President Aquino publicly announced her government's debt policy of repaying all of the country's foreign debt. In September 1986, President Aquino

again reiterated her promise before the joint session of the US Congress, indicating that national honor required nothing short of the full repayment of all loans.

By January 1987, the government concluded the rescheduling of some \$870 million worth of bilateral loans with the Paris Club. In March 1987, the government reached a rescheduling agreement with its commercial bank creditors. The agreement involved the rescheduling of \$9.3 billion worth of medium and long-term loans that fall due in period 1987-92. The payment of these loans are to be paid over 17 years with a grace period of 7 1/2 years. Interest rates were set at 7/8 percent over LIBOR, lowering the old rate of 1 5/8 percent over LIBOR. The negotiations also lowered the interest rates on the \$925 million new money facility loaned to the country in 1985 as well as on the \$2.96 billion trade credit facility due to expiring. There was also a four-year renewal of the trade facility commitment from 30 June 1987 to 30 June 1991. Under the terms covering this agreement, interest will be paid in full without the additional injection of loans to cover these payments. In addition, a token yearly payment of \$37 million is required for the years 1987-89.

While the terms of rescheduling have been hailed by the country's negotiating team as notable achievements, to many others, these were at best palliative, with little gain made with respect to longer-run and more lasting solutions to the country's debt problem.

Notably, the terms did not vary significantly in either form or substance from the prior reschedulings worked out by the Marcos regime. Moreover, no significant new moneys were secured. The additional \$925 million accounts for no more than 15 percent of the total 1986 and 1987 interest payments due, and less than 30 percent of that due to commercial banks.

It has even been pointed out that the rescheduling, if anything at all, in fact raises the total nominal interest and principal payable - if only because lengthening the repayment schedule also extends the period over which interest must be paid. More significantly, despite the marginal interest rate concessions, the present discounted value of the future payments is projected to be higher for the rescheduled commercial bank loans. When inflation measured in Philippine export volumes required to service the loans is considered, the net result is fairly clearly to raise the present discounted value of future debt payments in return for a momentary breather covering the period 1987-92.

The position taken by the Philippine negotiating team is obviously a dangerous one. Since no new commercial loans are being requested, there will be a tremendous net outflow of funds for the period 1987-92. Even official bilateral and multilateral loans will register a negative flow. Estimates from the National Economic Development Authority indicate that after the rescheduling agreement, the net cash outflows will exceed the net inflows by some \$16.2 billion

for the six year period. Even after the inclusion of grants, transfers from abroad and direct investments, there is estimated to be a net foreign exchange outflow of some \$7.7 billion.

Given this environment, there is no reason to suppose that the country will be in a position to afford the projected rates of debt servicing, let alone begin to service the rescheduled 1986-92 principal payments. Lurking behind the terms of the rescheduling agreement is the sinister fact that it would indeed be difficult for the country to rebound from the previous depression. While the general picture of the balance of payments has improved since the rescheduling agreement was effected, a closer inspection of the balance of payments will reveal that the current account continues to post negative. And as pointed out earlier, the agreement has just put off actually paying the debt for some later date. At best, another crisis seems to be looming in the horizon.

### Dealing the Debt Debacle

Without doubt, the magnitude as well as the far-reaching effects of the country's debt problem has spawned active discussions and heated debates on the issue. Quite clearly, if the Philippines is to escape from the quagmire it is now in, an alternative debt strategy to the Aquino government's official position must be adopted.

Indeed, it has been pointed out that the Philippines provides a strong case for substantial debt relief, particularly among lower middle income countries. In international discussions, debt relief for countries has been suggested under the following conditions: (a) unexpected significant increases in the debt burdens due to exogenous shocks, (b) low per capita incomes, (c) the absence of a threat to stability of the international financial system, (d) little prospect of the resumption of debt service without an unacceptable welfare cost, (e) poor use of the loans, (f) irresponsible lending, (g) doubtful solvency of the government that contracted the loans, and (h) the refusal on the part of lenders to extend further loans in support of an adjustment program. It is worth noting how many of these conditions are actually met by the country, thus strengthening the case for debt relief.

The options for an alternative debt policy leading to some debt relief range from demanding new money from creditors, to debt swaps, to varying degrees of moratoriums, to moratoria and limiting payments on the

back of the country's real capacity to pay. As to which of these policy options will in fact materialize for the country will critically depend on the political will of the government, the level of understanding and support generated among the people for these policies and the level of international solidarity and common actions worked out by the country with other debtor countries. Following is a discussion of the general features of each of the policy options, and an indication as to who the proponents of each of these positions are.

Demanding new money facilities. The least radical among the alternatives is to demand new commercial loans to cover at least the estimated financing gap of \$7.7 billion for the period 1987-92 as projected by the National Economic Development Authority. The idea is to minimize the outbreak of another foreign exchange crisis within the period specified. However, the request for this new money facility will still amount to an \$8.5 billion net outflow to official and commercial creditors. A stronger position would be the capitalization of interest payments, which according to the National Economic Development Authority's estimates, will entail asking for additional loans of some \$12.7 billion. This will provide some buffer on the international reserves to make sure growth is supported with the necessary foreign exchange.

The arguments in favor of this policy option would be three-fold. First, this is obviously a less confrontational strategy to adopt and would therefore be suited to a

government whose political will is not yet very strong and where popular support for debt ceilings or moratoria is still weak. Secondly, it is clear that the new loans will postpone to the future the more substantive foreign exchange outflows from the country. In this sense, it is considered by its proponents as a wise move as it allows the country some breathing space in the hope that output and exports grow so that the country can better afford to pay its debts. Finally, and even more important than the second reason, the proponents of this option glean from this de facto bank debt restructuring that the wave of the future is more and more towards debt relief and "forgiveness".

The disadvantage for the country of this particular option would be as follows. First, while speculating into the possibility of debt relief being granted in the future would tend to encourage further borrowing, if debt relief does not occur within the next two decades, and if external markets and/or domestic policies do not encourage high export growth or reduce import needs, then the debt problem is only postponed to some future date, certainly involving bigger interest payments and larger outflows. Moreover, while bank debt restructuring may have worked for Mexico and Brazil, the truth of the matter is that the export sectors of both these countries are far stronger than the Philippines' own and therefore there is less pressure for them to borrow for servicing interests. And sadly enough, this option fails to keep the stringent austerity measures



of IMF conditionality at bay, and with it, domestic economic self-reliance.

Given the fundamental premise that all loans will be repaid in due time, it is to this policy option that many of the more conservative groups would subscribe. Quite obviously, the country's debt negotiators have pinned their hopes on greater concessions in terms of bank debt restructuring agreements. Unfortunately, the heads of the country's negotiating team lacked the aggressiveness of their Latin American counterparts and gave in easily to the commercial banks. In part, this can be traced to the fact that both the Central Bank Governor and the Finance Secretary then were also of the big business sector in the country and while technically on leave from their private businesses, had very close relationships with the transnational banks. By extension, the greater proportion of bankers in the country will recognize this option as the best among viable options for the country.

Debt swaps. In the Philippine context, the debt swaps being considered are of several types. These include the debt-to-equity swaps, debt-to-development swaps, the less known debt-to-conservation or debt-for-nature swaps, debt-for-bonds swaps, and the notoriously popular debt-for-US bases swaps. Each of these shall be considered in detail below.

The standard swap is the debt-to-equity swap. Essentially, it involves a would-be investor buying

discounted Philippine debt papers in the secondary markets and having them encashed at face value in local currency. This has been made operant in the country under the Central Bank Circular 1111. And it has also been made to dovetail with the government's privatization program, particularly of non-performing assets.

The government obviously sees this option as a convenient way of reducing the debt burden. However, only a small fraction of the debt has been traded in for equity. Moreover, several problems are apparent. Most objectionable is of course the fact that the scheme subsidizes foreign investments and contributes to the de-nationalization of the economy. The scheme gives undue advantage to entities with foreign currency available for investment in the country, to the detriment of course of the local entrepreneurs. Not only are the investors' costs lessened, they are also afforded windfalls on future profits. In addition, when the debt papers are liquidated with the Central Bank, there is a big tendency to create inflation since most debt papers are owned by the government, having assumed most of the country's foreign debt. Also, it allows a rather convenient though legal means by which Marcos cronies can buy back at discounted rates non-performing assets repossessed from them by the government in connection with the foreign loans attached to these assets. Finally, debt-to-equity swaps may generate an increase in the immediate import demand of firms which may partially offset the debt service actually saved. This is particularly true since Central Bank Circular 1111

gives priority to debt-to-equity swaps where the proceeds payment for the debt papers are to be used for the purchase of capital goods, much of which are imported.

The other variants would be the debt-to-development and the debt-for-nature swaps. Invoking essentially the same principles underlying the debt-to-equity swap, the debt-to-development swap involves an external body buying the debt papers and turning this over to development NGOs in the country. The same dangers of negative external payments apply unless the external agency purchasing the debt papers provide the hard currencies for all of the import content of the programs to which the moneys are directed. However, in cases where there is little or no import content, and the country was previously servicing the debt papers bought, there can be substantial foreign exchange savings in both the long and short run.

While the more conservative groups would tend not to draw the fine line of distinction between these two variants and the debt-to-equity swaps, these swaps may in fact be useful, particularly in the arena of building the capability of development NGOs in the country. But these may be difficult to structure - they may be even be blocked on technical ties - and likelihood of substantially reducing the debt burden through these types of swaps is slim. Quite obviously, the sector that is most enthusiastic about these types of swaps is the non-government and private volunteer sector.

Still another variant of debt swaps would be the Mexican model for debt-for-bonds swaps. Again this type of swap follows the principle of investors purchasing the discounted debt papers in secondary markets. In return for their investments, they receive the full value of the loan in the form of bonds issued by the debtor governments that are backed by some industrialized country. In the case of the Mexican debt-for-bonds swap, the Mexican bonds were supposed to have been backed by US bonds. For the scheme to work, the transnational banks will have to voluntarily accept the terms of the swap. However, the Mexican experience has demonstrated that this has not been the case, however attractive the options may have been. While the debt-for-bonds swaps have as yet to be considered for the Philippines, other debtor countries should consider the option in greater detail and possibly demand for alternative solutions along this line.

A final type of debt swap in the Philippine context would be the debt-for-US bases swap. The presence of the US bases in the country and the rather convenient timing of the negotiations for a renewal of the bases agreement has brought forth a rather interesting type of debt swap. Initially raised by a prominent businessman closely identified with the deposed dictator, this type of swap involves actually trading the country's foreign debt, or at least a significant portion of it, for the continued operations of the US bases facilities in the country. By

design, the US government would take charge of servicing the debt in lieu of rentals payable to the government.

This policy option is quite controversial. The conservative, pro-bases sectors of the country have hailed this proposal as ingenious. However, conservatives who do not necessarily support renewing the bases agreement would tend more to explore the option of bank debt restructuring. For their part, the popular movement and the nationalists object to the proposition, charging that national sovereignty is not for sale. They argue further that for a Third World country that has perennial trade and external deficits, this may lead to a permanent economic blackmail that will make the Philippines more and more dependent on the United States and other countries that share its world interests.

Total repudiation of foreign loans. The most drastic measure with respect to debt relief for the country would of course be the total repudiation of foreign loans. However, the option to repudiate all foreign loans is carried by only a small segment of the population. More particularly, the position is shared among the more radical labor groups in the country.

The case against total repudiation is completely pragmatic. Any repudiation by the debtor countries would provoke the creditor banks and even the First World countries to retaliate. Any coordinated effort among the top debtor countries would cause the collapse of the entire international financial system. However, the big Latin

American debtors are quite far from organizing a serious debtors' cartel, let alone planning a concerted repudiation of their loans. As far as the Philippines is concerned, if the country were to repudiate unilaterally, it would have to deal with the political, financial, as well as other forms of pressure that will most definitely be exerted by the creditor banks and countries. Likewise, it is important to remember that many of the banks have increased their capitalizations, making any unilateral repudiation less of a threat to them in the time being.

Selective repudiation of onerous and fraud-tainted loans. It is a known fact that the bulk of the country's foreign debt was transacted during the Marcos regime to prop up a dictatorship that was notorious for its wasteful and corrupt practices. Indeed, many of the loans were wasted on useless projects or pocketed by the cronies through kickbacks and lavish payolas and hidden wealth.

The loans attached to the Bataan Nuclear Power Plant epitomizes the spirit behind the popular sentiment for a selective repudiation of the country's foreign loans. The Bataan Nuclear Power Plant deal was a \$2 billion loan designed to finance the construction of one overpriced nuclear power plant atop an earthquake fault and beside an active volcano. It also involved a well-publicized multimillion dollar payoff by Westinghouse to Marcos crony Herminio Desini to secure the bid for the project. Despite the popular resistance to the project, construction began. The plant, however, has not yet begun operations. And

neither will it as the Aquino government has taken on the position of mothballing the project. However, the country continues to pay upwards of \$300,000 daily on interests for the original loan.

It is indeed a pity that President Aquino failed to seize the opportunity open to her government immediately following the February uprising in 1986 to demand that investigations be made into the loans incurred by the previous government and to further demand debt reduction based on the results of the investigation. The Aquino government's popularity was at its peak, both internationally and domestically, during the first few months of office. It would not have been difficult to lobby for popular domestic and international support for this position. The non-payment of these loans could also have been tied to the freezing of the assets of Marcos and his cronies. A deal with the commercial banks might have even facilitated the recovery of these assets in Europe and the United States, especially if the banks were offered a share of the assets as partial payment for the debt.

Even if the above scheme had not worked out, the uncovering of much information concerning the possible collusion and suspicious deals between transnational banks and Marcos cronies should have given the Philippine negotiating team enough leverage to win a better deal for the country in terms of rescheduling the principal payments and requests for new money facilities.

The option to selectively repudiate onerous and fraud-tainted loans would have and can still provide the country with substantial debt relief and afford the country with additional resources that can be directed to achieving economic growth and development. However, immediately pursuing this policy option requires a strong political will on the part of government. Not only will the government have to defend the position to the country's creditors, it will also have to go through the process of identifying which of the loans are classifiable as onerous and fraud-tainted.

Full disclosure of all loan transactions from the Central Bank is required. And while the Central Bank Governor has in fact provided Congress with a five volume report on all transactions, the data require further processing into a form that is easily understandable. There are few summary tables provided; and the manner by which the data can be of some use in establishing the nature of the loan transactions is hardly known to those outside a very small circle in government. Clearly, more purposive efforts by interested and concerned parties both within and without government will have to be directed in this area.

Despite the seemingly difficult and complicated processes involved, the option to selectively repudiate onerous and fraudulent loans is quite popular. Certain sectors of business, the workers, peasants, women, youth, students, overseas contract workers, substantial segments of the academe and professionals, and multisectoral mass



organizations all seem to be advocating for this particular option. In most cases, the call is for selective repudiation alongside the demand for repayments of all other loans on the basis on the country's capacity to pay. This relates closely with two other policy options, the last two of the various policy options that figure in the debt debate in the country.

Monatorium on payments. The policy option to temporarily halt payments may either be formally announced or tacitly implemented by the debtor country. In 1983, the country formally requested for a monatorium on loan payments, as required by the extreme economic conditions prevailing in the country at that time.

Given the widely-held sentiment for selective repudiation of onerous and fraud-tainted loans, the monatorium option has been raised within the specific context of the time required to establish which loans are to be repudiated. The call for a monatorium is perceived by its advocates as a means by which the creditors can be called in to facilitate the process of establishing which loans are in fact to be repudiated. At the same time, it is also a good opportunity to demand for concessions such as the capitalization of interest payments or imposing debt ceilings.

Limiting payments on the basis of the country's capacity to pay. The interest payments for commercial debt and the principal payments of the country's loans as

presently rescheduled pose a very clear and immediate threat to economic recovery and growth. If, as the banks say there are just no more net funds for lending the Third World countries, then the Philippines may choose to reduce its debt burden by putting a cap to the debt service it will be paying. This option is much more feasible than what most analyses would credit it to be.

If at all, a cap on exports payments on the basis of the country's capacity to pay as measured in a percentage of total exports would serve a three-fold objective. First of all, it presents a clear and simple alternative to the current government policy of paying as much as possible. Secondly, it insists that priority be given to economic growth and development over debt servicing. And finally, it forges an efficient link between the capacity to import and export and acceptable debt service levels.

For the Philippines, in order to avert the onslaught of another likely foreign exchange crisis, a reduction in the debt payment is required for the period 1987-92. At the very extreme, a complete debt moratorium may be resorted to, while still assuming that net transfers and all loan inflows would stop and the net outflow of direct investments would be at \$1 billion. The result would be a foreign exchange surplus of \$3.1 billion. A more practicable position would be limiting payments to 10 percent of merchandise exports, in which case net transfers would be reduced from \$3.1 billion to \$2 billion. And assuming that net direct

Investments would be zero, there can still be expected a net surplus of \$1.94 billion.

The gains for the country are obvious. The savings can be deployed to finance other equally pressing development concerns in the country. This would include, among others, agrarian reform, the creation of new jobs and the delivery of basic social services. In part, this accounts for the wide popularity of the option to pursue a 10 percent cap on debt repayments. More importantly, as mentioned earlier, economic growth and development in the country is given a new lease on life. Of course, the longer term implications are clear: there will be a need to restructure the country's debt portfolio to insure that the debt burdens do not again become untenable past the 1987-92 period for which the 10 percent cap on payments may become effective. Failing this, the option would again simply mean postponing debt servicing to a future date - in this case, to post-1992 - so that any gains made over the short-run will most certainly get reversed with the sudden increases in the debt burdens.

At the same time, other costs of the 10 percent cap option may not fully be reflected in the estimated \$1.94 net surplus expected. For instance, the banks' refusal to open letters of credit may affect the relative ease of export-import trading. And foreign investment declines may affect certain other areas of the economy. But sanctions from commercial banks need not necessarily be serious, as the case of Peru would seem to indicate. Foreign investors

may side with the banks but it would be presumptuous to expect that they would immediately dissent simply because debt ceilings have been set.

What would be more serious would be the possible divisions that such a move would create within the country itself. For instance, big business and domestic banks have always been dealing closely with the multinational banks and foreign investors. These sectors have, for obvious reasons, been resisting any radical solution to the debt problem. Should it happen that the Philippines imposes a debt ceiling, any malfunctioning of the economy such as trade deficits and price inflation would immediately be traced back to the debt policy. The alliance of big business, the multinational banks, multilateral agencies and foreign investors may have tremendous bearing on the country. It is therefore important to underscore the need for a strong political will from the government to effect what to others may seem like a radical debt policy. It is important to generate strong popular support from all sectors of the country to sustain and fight for the policy.

A variant of the policy proposal for a 10 percent cap has been for fixing the debt ceiling on net debt service, thus providing an incentive for new credits. If the ceiling is expressed as net debt service or net resource transfers, the higher amounts in which the new credits wflow into the country, the higher would be the debt servicing for any period. At same time that this achieves the objective of

in the country, the proposal also seems less controversial and less confrontational as well.

Indeed, it would seem that much is to be gained for the policy option to limit payments, especially where debtor countries work together, coordinate with each other and support each others' initiatives. A common action by a large number of debtor countries may eventually push the commercial banks and multilateral agencies to give concessions to the highly indebted countries. And the truth of the matter is these countries have a strong leverage because they comprise a big chunk of net capital exports to the First World.

The FREEDOM FROM DEBT COALITION proposal. The anti-debt movement in the country which is a coalition of various sectoral and people's organizations representing a broad political spectrum has adopted for its official position a combination of various proposals considered above. The Freedom From Debt Coalition is united around a platform of three minimum demands: (a) declare a moratorium on foreign debt service payments until acceptable terms based on the country's capacity to pay are won in a new rescheduling agreement; (b) disengage from foreign loans that did not benefit the people, particularly those tainted with fraud, and refuse to assume parivate borrowings. Investigate thoroughly government officials, institutions, and other entities involved in irregular loan transactions and prosecute those responsible; (c) limit foreign debt

service to not more than 10 percent of export earnings to enable the country to finance economic recovery.

Further demands of the Coalition include: (a) opposition to the IMF-WB conditions which hamper Filipino industry, and deny Filipinos economic well-being through wage restraints and currency devaluations; (b) the utilization of funds saved from debt servicing for pressing needs such as genuine agrarian reform, Filipino-led industrialization, education, health and housing; and (c) the development of effective options to counter possible retaliatory moves by creditors.

The Coalition's position is obviously informed by a concern for the net transfer of resources from the country and its curtailing effects on the process of national economic recovery. The position is a rejection of the government's policy to honor all foreign debts incurred by the past regime, given the consideration that many of these loans were transacted by Marcos and his cronies for their own benefit. On a higher plane, the Coalition's position also is a rejection of the violation of the country's sovereignty by the IMF-WB conditionalities that heavily impress upon the debilitating impact for ordinary citizens of the government's economic program. What the Coalition is advocating towards is a development-over-debt policy for the country that will spell a stable and more meaningful development for the country over the long haul.

Despite the relative youth of the anti-debt movement in the country, the Coalition has won over the support of the major multisectoral mass organizations. Strong popular support for the Coalition's program has been gained from the business and professional sector, the academe, the studentry and the youth, workers and peasants, women, overseas contract workers, the consumers movement and a sweep of unorganized Filipinos who have phoned in, written and made other similar indications of their support. Also, the Coalition's position has won over some like-minded members of the Philippine Congress, who have on their initiative, introduced legislative proposals that are attuned to the spirit of the Coalition's position. Drawing inspiration from the support it presently enjoys, the Coalition has resolved to conduct a massive nationwide campaign to arrive at a national consensus on the debt problem and a national resolve to bear the price demanded by a self-reliant economic policy.

Defining the Environment Required for an  
Alternative Development Strategy

The above strategies concerning the repayment of foreign loans are at best, only palliatives. Foreign debts are but a reflection of a more serious illness that afflicts the Philippine economy. It is hardly likely that the Philippines can find an easy way out of the debt trap considering that for two decades now both trade and balance of payments deficits have been growing and accumulating. This hemorrhaging of foreign exchange has forced the country to increasingly depend on the infusion of foreign loans, aid and investments to keep the economy alive. There is no justification for this to go on unabated. It is therefore high time that the basic structural defects of the country's economy underlying the conditions of underdevelopment and debt dependence be confronted. Following would be some of the more important considerations.

Weak productive forces. A closer inspection of the Philippine economy today will reveal a system that is now completely dependent on foreign loans and dominated by multinationals and inefficient local monopolies. The high dependence on foreign inflows relates directly to the low value-added component of national production, as compared to the costs of the inputs and capital goods the country imports. This results in perennial trade deficits as export earnings are not sufficient to cover the full costs of the import requirements.



The easy but lazy, and inevitably worse way of dealing with this situation would be to passively acquire foreign debts as trade deficits accumulate over time. Another way is to encourage direct foreign investments so that, presumably, the capital that comes in from abroad will augment the export earnings needed to finance imports. But neither foreign loans nor foreign investments will solve the problems over the long haul because interest and principal payments for the loans as well as the remittances of profits will aggravate the external deficits or balance of payments problem, as they have been effectively been doing so at present.

Thus, unless the structure of the economy is altered so that the productive forces are increased, in part reflected by increases in the value added component of national production vis-a-vis imported inputs, the country's debt dependent, underdeveloped and perennial-crisis situation cannot hope to be improved.

Rent-seekers and multinational stranglehold. The low level of the productive capacity despite the country's well-endowed natural and human resource base is precisely the fault of those who command ownership and access to the wealth and resources of the country.

In the agricultural, industrial and service sectors, big landholdings and big firms are owned by monopolists who extract super-profits either in the form of land rent, or monopoly pricing. The main bulk of their income is

therefore not derived from productive industrial activity but through kickbacks and ownership of some fixed assets or through the monopoly privilege over an economic territory. This kind of income may be called rent. And this is where crony capitalism has taught the country an important lesson. Throughout the country's entire post-war economic history, the state bureaucracy has been continually used to expand the monopoly interests of many a powerful person and conglomerate. This practice manifested itself at its most extreme under the Marcos regime.

In this game, productivity and efficiency - which are important characteristics of a capitalist society - become irrelevant as efforts are channeled into forging the right political and business connections. The result is a chaotic economy where even the capitalist rules of accumulation, competition and free markets are given only secondary importance, or even ignored. Reinvestment for accumulation likewise takes a back seat to lavish consumption and hidden wealth. The mentality produced by such a system is a rentier mentality that blocks the road to genuine entrepreneurship, innovation, dynamism and development.

The weak productive forces of the economy brought about by the rent-seekers' hold make it generally easier for multinationals in the developed countries to exploit the weaknesses and inefficiencies of the country's economic system in order to further their own interests. Within this context, it is not surprising that key industries such as drugs and pharmaceuticals, tires, and petrochemicals have

become monopoly territories of these multinationals. At the same time that they enjoy the benefits accruing to them, the country is made increasingly vulnerable to the international lending agencies that make use of the situation of indebtedness to shackle the country to their own policy prescriptions.

Lopsided distribution of wealth. A corollary to the above consideration is the fact that the rent-seekers' domination has resulted in the lopsided income and wealth distribution that reinforces the stagnation of the economy over time.

A society where the top 10 percent owns more than 40 percent of the country's income and wealth cannot be expected to have a large enough market to stimulate efficient and effective forward and backward linkages in industries. It comes as no surprise therefore that the country's manufacturing sector is heavily loaded in favor of the final assembly of some luxury products because essential consumption goods, and the intermediate and capital goods sectors do not have a strong domestic market.

Underlining the need for change. If the above analysis is to be used as the basis for an alternative development strategy geared towards nationalist industrialization, then it should also be clear that the process requires going beyond anti-debt rhetoric. The groundwork to be laid has to be conducive to and able to sustain Philippine economic development. The internal

structures within the economy will have to be changed. Principally, the rent-seekers hold on the economy will have to be broken. At the same time, the structures of the country's external relationships will have to be modified to insure that any and all such internal reforms are not effectively undermined.

### Towards Defining an Alternative Development Strategy

There are no illusions that any reductions in the debt service burdens of the country will automatically solve all the country's economic problems. But any downward adjustments in the present debt service burdens will provide an opportunity to pursue an alternative development strategy that may initiate the processes leading to genuine economic growth and development founded on an appreciation of the particular structural characteristics of the country's economy.

The call for an alternative development strategy is anchored on the appreciation that previous strategies have failed to address the structural roots of the country's underdevelopment and that the current one does not seem to be better informed either. In the main, an alternative development strategy must work at building the domestic base and infrastructure of the country's economy to insure that the environment required for the effective implementation of a strong development plan is in place. Below, therefore, is a general program for nationalist industrialization.

An activist, pro-people government. Fundamental to any alternative development strategy is the need for an activist, pro-people government. Any and all such proposals will be reduced to nought if the state bureaucracy implementing the proposals is controlled by rent-seekers. It is therefore imperative that a system be devised whereby officials in the executive, legislative and judicial

branches adequately represent the various sectors of Philippine society. Once this is achieved, a thorough-going campaign against graft and corruption must be waged.

Throughout the country's history, the state bureaucracy has been used by big foreign and local political and business interests to develop patronage and expand their power and influence, as amply illustrated by the crony and behest loans transacted under the Marcos regime.

Within this arena, there is also place for the full participation of people's organizations and the popular movement. Indeed, the involvement of people's organizations is an indispensable element in overcoming the socio-political and economic obstacles to genuine development. Not only can they provide significant inputs for and actively participate in government programs; they can also serve as an effective mechanism for checks and balances to government as they strive to forward the popular movement's agenda for development.

Agrarian reform and other redistributive programs. It would seem that the single biggest obstacle to nationalist industrialization would be the constraint defined by the limited size of the domestic market. To create a dynamic domestic market, it becomes necessary to redistribute income and wealth principally through a genuine agrarian reform program, progressive taxation schemes, increased social services delivery and a labor policy that will not permit a deterioration of real wages as labor productivity increases.

With respect to the issue of agrarian reform, the fundamental requirement would be a land-to-the-tiller program, involving a ceiling in hectareage ownership, the immediate redistribution of crony, idle and abandoned lands, and the provision of basic support services to the program beneficiaries. In the implementation of the agrarian reform program, the challenge is to explore various ways by which access to lands is assured the country's agricultural workers. For example, in developed large landholdings where there are arguably greater economies of scale, the conversion to state-owned or even peasant-owned cooperatives should be explored and the mechanics for the transition to such a system can be subjected to closer analysis. The program should also effect a more national distribution with respect to the production of both cash and subsistence crops. More active state intervention may be required in breaking up the prevalent monopoly trading in the procurement of inputs and in the marketing of agricultural produce. Active state support for credit and input subsidies to small peasants should be given priority, most especially in the early stages of the program.

Many studies point to the fact that agrarian reform will eventually lead to increased land cultivation since land speculation and idle lands will be minimized. Moreover, the rise of improved distribution and productivity in the countryside will spur the development of a dynamic rural market that will serve as the base of rural industrialization and the forging of a strong interlinkage

between agriculture and industry. With this, a more stable investments environment throughout the country is created.

On the issue of progressive taxation, the present dependence on regressive sales taxes on essential consumption should be ended. A more vigorous implementation of direct taxes on incomes and wealth should be effected. Tax policies must not penalize the ordinary consumer; instead, it should be graduated on the basis of wealth, and moreso with respect to large real estates, condominiums, inheritances and luxury goods consumption, for these do not serve any significant economic and productive function.

A large part of the taxes generated from wealth and income in the amounts saved from debt servicing should be channeled to social services delivery to the low-income groups. Not only is the provision of basic services a fundamental government responsibility but also and equally important is the consideration that any increases in the incomes of the poorest groups in the country may be nullified by their need to spend for these basic services. Health, education and a clean environment are public goods and thus benefit society in general. It is therefore imperative that these areas should eventually be taken out of the private sector and placed into government control.

On the matter of labor policies, the repressive labor practices designed to tame the working class and keep the wage share low must be reversed. Real wages have been consistently falling since 1970. In contrast to demands



from certain sectors to control and discipline labor, labor must not only be given a just share of the produce but also sufficient power to combat the strong monopolies that dominate the country's economy. In particular, labor must be allowed to recover its real wage to at least match its productivity. Anti-labor laws and decrees should be repealed and replaced with fair practices that guarantee the workers' right to organize, to strike, to decent wages, and to healthy and safe working conditions. Aside from the redistributive effect of these on the domestic market, a satisfied and healthy work force will ensure that productivity and output is enhanced.

To this discussion on agrarian reform and other redistributive programs, an additional, though perhaps controversial point may be raised. Given the full impact of the concentration of ownership and access to resources by rentiers, a proposal well worth looking into would be a revision in the concept of private property and property rights. Although the proposal may not be immediately implemented due to the perceived destabilizing effects it may cause over the short-run, plans can and should be made for long-term change. Private property, particularly large landholdings, real estate, big plants, buildings and the like can be held in "lease" or "custodial" status. Even the Catholic Church in the country has come out openly for the "custodial" interpretation of ownership. The country's experiences with sequestration demonstrates that ill-gotten wealth and ill-used resources can be expropriated by the

state. But the same experience unfortunately has also showed that these sequestrations can also be rent-seeking activities for the new bureaucrats and the powers that are. The levels of wastage and corruption under the Marcos regime poses a constant challenge to recast popular thinking about the absolute right to property. This bears significantly upon the people's access to the country's other natural endowments which include among others, mineral, forests, and aquatic resources.

A strong development plan. Given the rent-seekers' hold over the economy as well as its monopoly-dominated structure, it has become fairly common to overreact to the Marcos regime's overbloated and corrupt bureaucracy. The popular sentiment has veered in favor of having the state withdraw from most economic activities and allow the market to decide the allocation of resources. However, this may be a tragic mistake.

Every developing country that had any semblance of economic success had a comprehensive long-run and short-run economic plan. This is precisely important in determining the direction of investments that should be undertaken since markets cannot adequately predict future prices and earnings. Thus a comprehensive and detailed plan for the various sectors of the economy should be drawn up. This plan should strive towards enhancing the value-added and processing of the country's exports and the development of intermediate and capital goods industries over the long-run.

This is of course crucial to the sustainability of the country's economy given the overarching environment of external debt reconstruction. Whatever the external debt strategy adopted is, there is the assumption that the country has a strong exports base bringing in the foreign exchange needed for payments. The specific content of the country's export sector should be looked into in greater detail by government as the low value added of many of the country's exports make them vulnerable to the drastic price fluctuations in the international markets. Also, present exports are dependent on agro-mineral products and on manufactured products, the inputs for which are mainly imported. Again, this reflects the structure of the economy that is highly dependent on the importation of intermediate and capital goods.

A strong development plan that delineates public participation in the economy, defines long-term targets, sets priorities, directs resource allocation, and provides the appropriate incentives and/or sanctions is what is required. The strength of state planning in Japan, South Korea and some ASEAN countries explain partially their relative successes in the transition to high value-added export-oriented and self-reliant economies. As indicated earlier, the state's role in economic development is an active one; the state should not just be a passive market arbiter.

Anti-monopoly drive. In all sectors of the economy, there must be a drive against monopolies for this is where

the rent seekers and multinational hold on the economy is manifested. Monopolies that are not "natural monopolies" should be dismantled and the free entry of firms to these industries should be allowed. For "natural" monopolies, the state should either closely regulate these sectors and make sure the firm has a broad base of ownership or nationalize them if the expertise is available.

A related concern would be controlling and regulating the operations of multinationals in the country. Given a detailed and comprehensive economic plan, planners should delineate areas of the economy where multinationals can still participate in the country's economy. Generally, transnationals may be allowed to operate when they can provide access to foreign markets which would otherwise remain inaccessible to the country, where they can provide the scarce capital in areas not ventured into by domestic investors, and where there is some technology the country lacks but may wish to access. Even then, multinationals that are permitted should be regulated because they usually tend to come in with monopoly power.

Promotion of science and technology. Any successful self-reliant growth should develop research and development attuned to the long-run economic plans of the government. The modification and improvement of the imported technologies to suit our particular needs and conditions, as well as product and technological innovations and changes that are consistent with the overall economic plan should be implemented. A different set of laws regulating patents

that is more conducive to the country's needs should be drawn up. The state should appropriate more of its expenditures to the development of the country's science and technology, and upgrade the domestic capability for research and development. After all, an economic plan may only be as good as the technology and level of scientific knowledge that supports it.

Situating the Philippine Debt Campaign  
in the International Setting

The Philippine debt problem is only appropriately considered within the context of the debt problem of the developing world. As the country exerts efforts to draw attention to the particularities of its debt problem and lobbies for an acceptable debt reconstruction package that is consistent with economic growth, both inspiration and support can be drawn from sectors of the international community sympathetic to country's proposals. In this endeavor, external support can come mainly in the form of advise, promotions and publicity for the main themes and issues of the problem, and the provision of data and other supports requested by the country within an authentically Philippine context so as not to undermine the country's sovereign right to determine the course and directions of its own future development.

Within a broader context, voluntary organizations and institutions concerned with and involved in Philippine development, the economic development of the South, human rights concerns and the global debt crisis are enjoined to familiarize themselves with the Philippine foreign debt situation and identify how this relates with their own concerns. Whenever possible, the country would appreciate opportunities to continually promote and publicize its debt situation. The coordination of all such external support and assistance to foreign-based Filipino nationals working

on the debt problem will also go a long way in the pursuit of a more lasting and permanent solution to the problem.

Presently, the Freedom From Debt Coalition has already been drawing tremendous inspiration from all the initiatives towards comprehensive debt reconstruction for developing countries at the international front. As the Coalition continues with its efforts to forge a national debt policy and a strategy for its implementation, it pledges its efforts towards the common search for humane and practicable options to the debt problem and its solidarity with all peoples working towards the process of genuine democratization in the Third World.

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Table 1

## Total Debt and Per Capita Debt of the Philippines

Year	Total (\$ millions)	Population (millions)	Per Filipino
1965	599.50	31.99	18.79
1970	2297.00	36.70	62.59
1975	4939.00	42.10	117.32
1976	6768.00	43.30 <sup>a</sup>	156.30
1977	8069.00	44.50 <sup>a</sup>	181.33
1978	10694.00	45.70 <sup>a</sup>	234.00
1979	13352.00	46.90 <sup>a</sup>	284.69
1980	17252.00	48.10	358.67
1981	20893.00	49.25 <sup>b</sup>	424.22
1982	24677.00	50.43 <sup>b</sup>	489.33
1983	24816.00	51.65 <sup>b</sup>	480.46
1984	25418.00	52.89 <sup>b</sup>	480.58
1985	26252.00	54.16 <sup>b</sup>	484.71
1986	28256.00	55.46 <sup>b</sup>	509.48
1987	28560.00	56.79	502.91

**a**

By interpolation

**b**

Assuming 2.4% annual population growth rate.

Sources: Central Bank of the Philippines  
Philippine Statistical Yearbook, 1987



Table 2  
Debt Service in the Eighties

	Debt Service (in billion S)	Philippine Merchandise Exports (Billion S)	Debt Service as % of Merchandise Exports
1981	2.186	5.722	37.900
1982	3.050	5.021	69.700
1983	2.725	5.005	54.400
1984	2.886	5.391	53.500
1985	2.921	4.629	63.100
1986	3.000	4.842	62.000
1987	3.128 <sup>a</sup>	5.122 <sup>a</sup>	61.000

<sup>a</sup>  
Figures pertain to January to November 1987 only.

Source: Central Bank of the Philippines

Table 3

## GNP at Constant 1972 Prices and Per Capita Values

	GNP (in million pesos)	Growth Rate of GNP	GNP per Capita	Growth Rate of GNP Per Capita
1981	96041	3.60	1939	1.15
1982	97539	1.56	1921	-0.93
1983	98619	1.10	1895	-1.35
1984	91644	-7.07	1718	-9.34
1985	87766	-4.23	1605	-6.58
1986	89115	1.54	1591	-0.87
1987	93617	5.05	1632	2.58

Source: National Economic Development Authority

Table 4

**Current Account and Balance of Payment  
Positions in the Eighties**  
(in million of dollars)

	Merchan- dise Exports	Merchan- dise Imports	Merchan- dise Trade	Non- Merchan- dise Trade	Current Account <sup>a</sup>	Balance of Payment
1980	5788	7727	-1939	-399	-1904	-381
1981	5722	7946	-2224	-309	-2061	-560
1982	5021	7667	-2646	-1040	-3200	-1621
1983	5005	7487	-2482	-740	-2750	-2068
1984	5391	6070	-679	-823	-1116	258
1985	4629	5111	-482	0	-103	2301
1986	4842	5044	-202	757	996	1242
1987	5720	6337	-1017	-76	-539	264

<sup>a</sup> Current Account is Merchandise Trade + Non-Merchandise Trade + Net Transfers.

Source: National Economic Development Authority

Table 5a  
 NATIONAL GOVERNMENT EXPENDITURE PROGRAM  
 BY SECTOR, OBLIGATION BASIS, 1977 to 1986  
 (in million pesos, at constant 1972 prices)

ITEMS	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Services	4022	5257	5292	5074	5937	4938	4087	2389	2744	2618
Trade, labor	869	1284	589	800	1025	1131	920	590	597	640
tourism	312	448	396	456	873	662	496	238	234	177
and structure	2841	3526	4306	3819	4040	3145	2671	1561	1912	1801
Services	2153	2495	2658	2728	3395	3245	3134	2245	2273	3195
on	1382	1671	1604	1664	1836	1865	1631	1361	1516	1574
Security and welfare and community development	481	449	501	486	548	621	647	401	414	530
	207	245	231	252	603	360	364	241	234	891
	81	131	322	326	408	399	487	242	110	200
	2297	2118	1963	1738	1723	1730	1699	1102	1202	1161
Public Service	1826	2151	2295	2277	2941	2890	2788	1916	2079	2226
ice Fund	925	948	1137	1252	1232	1423	2199	2606	2768	4051
Expenditures	11222	12970	13344	13069	15229	14226	13907	10258	11066	13252



Table 5c  
 PERCENT GROWTH RATE  
 NATIONAL GOVERNMENT EXPENDITURE PROGRAM  
 BY SECTOR, OBLIGATION BASIS, 1977 to 1986

PARTICULARS	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Economic Services		30.73	0.65	-4.10	17.00	-16.83	-17.22	-41.55	14.83	-4.57
Agriculture		47.70	-54.15	15.84	28.16	10.33	-18.64	-35.87	1.21	7.21
Industry, trade, labor and tourism		43.67	-11.47	15.03	91.36	-24.18	-25.03	-51.99	-1.73	-24.19
Utilities and infrastructure		24.11	22.15	-11.33	5.78	-22.13	-15.07	-41.56	22.50	-5.84
Social Services		15.91	6.53	2.62	24.47	-4.42	-3.43	-28.37	1.27	40.56
Education		20.91	-3.97	3.71	10.36	1.56	-12.56	-16.54	11.39	3.87
Health		-7.03	11.70	-3.10	12.91	13.26	4.16	-38.00	3.12	28.01
Social security and welfare		18.37	-6.04	9.28	139.40	-40.31	2.55	-34.85	-2.91	281.49
Housing and community development		60.85	146.63	1.32	24.91	-2.06	22.01	-50.26	-54.54	81.74
Defense		-7.75	-7.36	-11.43	-0.90	0.45	-1.82	-35.14	9.08	-3.41
General Public Service		17.78	6.70	-0.79	29.20	-1.74	-3.56	-31.28	8.52	7.09
Debt Service Fund		2.53	19.90	10.11	-1.56	15.42	54.62	18.50	6.20	46.36
Total Expenditures		15.58	2.88	-2.06	16.53	-6.58	-2.24	-26.24	7.87	19.76

CASHFLOWS, OFFICIAL AND COMMERCIAL CREDITORS  
1987 - 1992  
(In \$ Billion)

	Inflows	Outflows
I. Interest Payments	0	12.7
A. Official Creditors		3.9
Bilateral		2.1
Multilateral		1.8
B. Commercial Banks		7.8
C. Suppliers' Credit and Others		1.0
II. MLT Loan Availments/ a Amortization	4.2	6.0
b		
A. Official	4.2	5.3
Bilateral	1.8	1.0
Multilateral	2.4	4.3
B. Commercial Banks	0	0.7
III. Short-term Capital	0	1.7
 TOTAL	 4.2	 20.4
=====	===	=====

NET CASH OUTFLOWS = -\$16.2B

- 
- a  
Includes monetary and nonmonetary amortization.
- b  
Includes IMF purchases and identified new money.

Source: National Economic Development Authority

Table 7  
 FOREIGN EXCHANGE INFLOWS AND OUTFLOWS  
 1987 - 1992  
 (In \$ Billion)

	Inflows	Outflows
Exports/Imports	41.6	50.5
Non-Merchandise Trade	24.9	24.6
of which: ESF	0.5	
Interest Payments		12.7
- Official		3.9
- Commercial Banks		7.8
- Suppliers' Credits and Others		1.0
Transfers	3.1	0
of which: Grants	0.7	
MLT Loan Availments/Amortization <sup>a</sup>	4.2	6.0
Official	4.2	5.3
Commercial	0	0.7
Direct Investment	1.4	0.4
Short-Term Capital and Others <sup>b</sup>	2.4	3.8
<b>TOTAL</b>	<b>77.6</b>	<b>85.3</b>
=====	=====	=====
<b>GAP = \$7.7B</b>		

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 a  
 Includes monetary and nonmonetary amortization.

b  
 Includes monetization of gold and reserve build-up.

Source: National Economic Development Authority



Table 8  
 FOREIGN EXCHANGE INFLOWS AND OUTFLOWS  
 ASSUMING NON-PAYMENT OF DEBT  
 1987 -1992

	<u>Inflows</u>	<u>Outflows</u>
Exports/Imports	41.6	50.5
Non-Merchandise Trade	24.9	11.9
Transfers	0	
MLT Loan Availments/Amortization	0	0
Direct Investment	0	1.0
Short-term Capital and Others	0	0
<b>TOTAL</b>	<b>66.5</b>	<b>63.4</b>

**SURPLUS = \$3.10 B**

Table 9

FOREIGN EXCHANGE INFLOWS AND OUTFLOWS ASSUMING 10%  
 MERCHANDISE EXPORT CEILING ON DEBT PAYMENT  
 1987 - 1992

	<u>Inflows</u>	<u>Outflows</u>
Exports/Imports	41.6	50.5
Non-Merchandise Trade of which:	24.9	16.06
Interest Payments		4.16
Transfers	2.0	
MLT Loan Availments/Amortization	0	0
Direct Investment	.5	.5
Short-Term Capital and Others	0	0
<b>TOTAL</b>	<b>69.0</b>	<b>67.6</b>

**SURPLUS = \$1.94 B**

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