

Views on the Philippine Economy through the Nationalist Lens: 1945-1992

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ABSTRACT

This paper looks into Alejandro Lichauco's concept of economic nationalism. Lichauco's idea on economic nationalism centers in finding the root cause of what he called as the Philippine Crisis which is imperialism and neocolonialism and in the course of solving this crisis, there is a need to de-colonize the country, and at the same time industrialize and democratize our economy. In analyzing the articulation of Alejandro Lichauco's economic nationalism from President Manuel Roxas to Corazon Aquino, this paper used the descriptive-analytical method guided by the theory of nationalism as power which states that are more than loving the country, the citizens should instead find ways to empower its nation and put the country in the pedestal of greatness and progress.

Keywords: Power, Economic Nationalism, Imperialism, Neo-colonization, De-colonization, Industrialization, Economic Democratization

The Struggle for an Independent and Industrialized Economy

The Philippines is an agricultural and colonial economy, and it is because of the economic policies forced to be implemented by our presidents through American Intervention. By intervening in the political aspect of the country, the Americans were able to control not only the head of state but also the economy of our country. As the chief executive of the government, responsibility must be shouldered by our president. Since our independence in 1946, the presidents became the prime medium of our neo-colonization. Except for President Carlos P. Garcia, all of our presidents are known to have been indebted to the United States for their elections. Moreover, as expected, they delivered accordingly.¹

¹ Alejandro Lichauco, *The Lichauco Paper: Imperialism in the Philippines* (New York, Monthly Review Press, c1973): 56.

The Roxas Administration: Post-War Rehabilitation (1946 – 1948)

The Philippine condition was at its worst when it was granted independence in 1946. The conclusion of the Second World War left many destroyed infrastructure including schools and offices. Trade and commerce experienced recession after the war burned to the ground many farms and factories. The efficiency of the transportation system became poor due to bombed bridges and roads. With lack of means to generate money for rehabilitation and without any reparation aid coming from the Americans, the Philippine economy was left paralyzed.

During the election of 1946, the Liberal Party standard bearer Manuel Roxas won the election against Sergio Osmena, Sr. of the Nacionalista Party. The burden of national rehabilitation fell on the shoulders of the administration of Manuel Roxas. With the economy down and no other ways to generate income to fund the rehabilitation program of the country, Roxas sought the help of the Americans and asked for financial aid that would be used to rehabilitate and reconstruct the Philippine economy. Financial aids are granted to those countries that are in need of money to sustain their economy or in any use that would benefit the nation. However, in the hands of international agencies controlled by the imperialists, then it became hazardous for the country as it develops into an instrument for exploitation. The United States offered payment for war damages to the Philippines under the condition that the Philippine government will approve the Bell Trade Act. The provisions of the said act set quotas on Philippine exports to the United States, tied the peso to the dollar at an exchange rate of 2:1 ratio, and free trade between the two countries for eight years followed by the gradual implementation of tariffs for the next 20 years.² Tying the reparation payments to the Bell Trade Act ensured that President Roxas would do everything to persuade the Congress and the Filipino people to accept it.

The provisions of the Bell Trade Act laid the foundations of the Parity Rights wherein there will be equal rights between the American and Filipino citizens in the exploitation of natural resources of our country and at the same time the ownership and operation of public utilities. The Bell Trade Act and the Parity Rights opened the economy to the Americans and left no protection for the rights and privileges of the Filipinos.

² Lichauco, *The Lichauco Paper*, 22

Roxas' term was cut short due to his death in 1948 caused by a heart attack. Then-Vice President Elpidio Quirino succeeded him.

The Quirino Administration: The Birth of Economic Controls (1948 – 1953)

The untimely rise of Quirino to presidency tackled the rough challenges left unanswered by his predecessor. His administration has gone through a severe financial crisis, implementation of controls, and passage of laws and agreements that would balance the government budget.

There are many ways available to avoid the total collapse of our economy, but the government lacked the power and will to implement those. The next presidential election was in 1949, and Quirino knew that if the government implements controls before the elections, then he will lose the support of the Americans, making his presidential bid challenging to win. Therefore, the Import and Exchange Control Act of 1948 was not fully implemented until December of 1949, a month after Quirino won the elections. It was also during Quirino's term that the Congress approved, upon the recommendation of the American financial officials, the creation of the Central Bank of the Philippines which will be on command to control of the currency, banking, and credit of the country.

However, there was still a condition before the controls were to be implemented. According to the Bell Trade Act, all policies concerning foreign exchange needed the approval of the President of the United States of America. President Harry S. Truman approved the implementation of controls provided that the Philippines must agree by an all-American economic mission which is later on known as the Bell Mission.³ Led by Daniel Bell, the said mission arrived in July 1950 and started to survey the economic conditions of our country. The findings of the mission saw the harsh condition of the economy and recommended measures that will promote its development. These led to the signing of two agreements in 1950. These are the Romulo-Snyder Agreement and the Quirino-Foster Agreement.

The Romulo-Snyder Agreement acts as the approval of the \$70 million loans appealed by then Central Bank Governor Miguel Cuaderno to the United States. The agreement was signed by Ambassador Carlos Romulo who was appointed by Miguel Cuaderno to be the official representative of the Philippines and US

³ Bob Corcuera, *The Economic Nationalism of Claro M. Recto* (N.p.: N.p.,2015): 23.

Secretary of Treasury John Snyder. On the other hand, the Quirino-Foster Agreement was signed on November 14, 1950, by then President Elpidio Quirino and William Foster, Administrator of Economic Cooperation Administration of the United States. The agreement implemented the economic measures recommended by the Bell Mission Report which was published in October of the same year. Its provisions stated that the United States would provide an amount of \$250 million in 5 years that will be utilized for the economic development of the Philippines mainly in the agricultural sector and infrastructure.

On the other hand, the agreement urged the renegotiations of the Bell Trade Agreement and the signing of the Treaty of Friendship, Commerce, and Navigation that will formally United States' recognition of the political independence of the Philippines. However, this was described by Senator Recto as a "mendicant foreign policy" ⁴ for the said agreement gave the United States the power to send advisors to different government offices which eventually became the basis of the official intervention of the American in our government and economy.

Another reason why the United States agreed to implement import and foreign exchange control in the Philippines was that of the threat of Communist takeover.⁵ Allowing the Philippines to go bankrupt, without any cash to buy commodities and to pay employees and soldiers would possibly lead to the conversion of the Filipinos to Communism, and if such thing will happen, then American businesses would be lost on the archipelago. While the Americans are experiencing setbacks due to the implementation of the control program, there are some excellent results for the part of the Filipinos. Under the impact of these rigid controls, there was a growth in import-substitution industries and the stimulation of a native industrial sector.⁶

In the last years of his term as president, Quirino started to assume an independent posture, which is the possible reason why he lost the confidence of the United States thus giving their support to Ramon Magsaysay, who was then his Defense Secretary.

⁴ Alejandro Lichauco. *The Lichauco Paper: Imperialism in the Philippines* (New York, Monthly Review Press, c1973): 57.

⁵ Pedro V. Salgado, OP. *Philippine Economy, History and Analysis* (Quezon City: R.P. Garcia Publishing Co. Inc., 1985): 38.

⁶ Alejandro Lichauco, *The Lichauco Paper: Imperialism in the Philippines* (New York, Monthly Review Press, c1973): 23.

The Magsaysay Administration: On the Threshold of Industrialization (1953 – 1957)

The election of 1953 saw an open intervention of the Americans and their manipulation of the election process of the Philippines. Ramon Magsaysay won over his counterpart, Elpidio Quirino with the help of the Americans and the Central Intelligence Agency or known as the CIA, the civilian foreign intelligence service of the United States Government.

There was a high expectation when Magsaysay was elected president that he would be able to solve the Huk problem which was responsible for the deteriorating economic and social conditions in many rural areas of the country.⁷ Considerable parts in Central Luzon were not being cultivated because of the threat of the Huk.

The administration of Magsaysay saw the beginning of industrial development brought about by the imposition of controls during Quirino's tenure. The strict restriction on importation and shelling out dollar reserves created import-substitute industries which caused for products imported from the United States to be manufactured in the Philippines.

Under Magsaysay's leadership, the nationalists raised the issues of the killing of Filipinos who were crossing the perimeter of American military bases and the growing resentment of the Filipinos against the unequal provisions of the Bell Trade Act and the Parity. Negotiations were held to discuss the criminal jurisdiction of the military bases agreement and the one-sided provisions of the trade act. Thus, to keep the balance between the Filipinos and the Americans; these agreements were revised and became what is known as the Laurel-Langley Agreement. This was signed on December of 1954 by Senator Jose P. Laurel and James Langley. The agreement ceased the control of the Americans over the Philippine currency and flight of dollars. Also, it extended the parity to cover all forms of business activities, thus, opening the United States to Filipino businessmen.

On the other hand, the revised agreement also had deficiencies. The Laurel-Langley Agreement opened the economy to all American capitalists reviving the competition and creating large deficits between the foreign and local products. It was also used by the Americans to exempt themselves from the Retail Trade Nationalization law and other Filipinization procedures. It was

⁷ Miguel Cuaderno, Sr. *Problems of Economic Development* (Manila: N.p., 1964): 40.

Recto who exposed the folly of the Laurel-Langley Agreement and after that led a one-man crusade against Magsaysay which later on became the reason for him to be expelled from the Nacionalista Party.⁸

Magsaysay was not able to finish his presidency due to his untimely death on March 1957 caused by a plane crash and was succeeded by Carlos P. Garcia.

The Garcia Administration: Nationalism as Economic Policy (1957-1961)

Carlos P. Garcia is known for his Filipino First Policy. The objective of the said policy was to make sure that the growing industrialization of the economy worked to benefit Filipinos first and primarily.⁹ During the tenure of President Garcia, import and foreign controls were utilized not only as a policy weapon with which to induce industrialization but as a policy weapon with which to place Filipinos in control of both the industry and the economy.

The 50's saw the rise of the pioneers of industrialization in the country. Among those were Salvador Araneta, who first built the flour and engine industries; Hilarion Henares, Jr. founder of the industry of chemicals and school supplies; Filemon Rodriguez who co-founded FILOIL, the first oil refining company owned by the Filipinos; Severo Santiago who started the production of telecommunications equipment; and The Marcelo, Martel, and Jacinto families who pioneered the steel industry. It was a decade of the brilliance of the Filipinos in utilizing their resources and organizing productive enterprises. This process of industrialization, triggered by protectionism eventually gave birth to two critical social classes in the Philippines, One was the class of nationalist entrepreneurs, and the other was the industrial working class with a nationalist leadership.¹⁰ These social classes pushed for the increased introduction of machine and machine technology to the economy for their lives depend on these. If there will be an increment in the industries, then profits, as well as employment opportunities, will also expand.

The American businesses could no longer freely export their products in the Philippine market and at the same time repatriate their profits entirely because of the ongoing implementation of the exchange control. This steered the

⁸ Alejandro Lichauco. *The Lichauco Paper: Imperialism in the Philippines* (New York, Monthly Review Press, c1973): 57-58

⁹ Alejandro Lichauco, *Hunger, Corruption, and Betrayal: A Primer on U.S. neocolonialism and the Philippine Crisis* (N.p.: Citizens' Committee on the National Crisis, 2005): 59.

¹⁰ Alejandro Lichauco, *Nationalist Economics* (Quezon City, Institute for Rural Industrialization, Inc., 1988): 151.

American businessmen, with the protection and assistance of the United States government, to appeal to open once again our country to free trade.

As early as 1957, pressures were applied to the Philippine government to dismantle the controls. One of which is the International Monetary Fund who gave the condition that unless our government lifted the controls, there would be no loans to be approved. In one of Miguel Cuaderno's book, he reiterates how the Americans rejected their application for a \$25 million stabilization loan because they disagreed to the demands of the Americans. These are (1) To open the economy to imports which means there will be minimal or if possible, absence of tariffs; (2) create a foreign exchange policy that is free from any restrictions which mean there will be no control over the transactions involving the use of dollars or other foreign currency; (3) the value of peso should be devaluated; and (4) to implement a strict fiscal and monetary policy which is austere with welfare projects and social services and maintain a highest interest rate policy.¹¹

Between 1949 and 1960 the manufacturing sector grew at a rate of 29% a year. Relatively, it moved faster than any other sectors accounting only 8.1% in 1949 and rose to 17.7% in 1960, and it is because of the quantitative restrictions which serve as a protection and catalyst for domestic industrialization.

Unable to lift the controls through pressures because of President Garcia's solid stand on pro-control and pro-Filipino economic policy, the CIA intervened to topple him down and to replace him with a president who is pro-foreign and pro-free trade candidate. The CIA made use of black propaganda and electoral manipulation to unseat President Garcia. The Americans accused Garcia's administration of corruption and blamed the control program as the reason why corruption became rampant in the government. The election was also utilized as a weapon by the Americans against Garcia. The first one was during the 1959 senatorial elections to drive away Garcia's men and second, in 1961 presidential elections to hinder the possible extension of Garcia's presidency.¹²

The Macapagal Administration: The Death of Controls (1961-1965)

When Diosdado Macapagal rose to power in 1962, he outlined the objectives of his socio-economic program as immediate restoration of economic stability,

¹¹ Alejandro Lichauco, *Hunger, Corruption, and Betrayal: A Primer on U.S. neocolonialism and the Philippine Crisis* (N.p.: Citizens' Committee on the National Crisis, 2005): 63-64.

¹² Pedro V. Salgado, OP. *Philippine Economy, History and Analysis* (Quezon City: R.P. Garcia Publishing Co. Inc., 1985): 41.

the alleviation of the common man's plight, and the establishment of a "dynamic basis for future growth."¹³ His administration would like to focus more on the expansion of the agricultural sector mainly rice and maize which are the staple food of the country. On August 8, 1963, the Congress passed the bill which became the Republic Act No. 3844 or known as the Land Reform Code. The law aimed the expansion of the agricultural sector through promoting higher productivity or output and producing greater farm incomes. At the same time, the law gave the farmers the opportunity to become independent. Under the provisions of the Land Reform Code, the old tenancy system was replaced by the agricultural leasehold system. The implementation of land reforms which was mostly in provinces located in Central Luzon produced good results such as improvement in the living condition of the farmers making them independent and growth in their production. While the agricultural sector experienced positive results under the reform programs instigated by the Macapagal administration, the industrial sector started to wound up, slowing once again the industrialization of our country.

President Macapagal discontinued the Filipino First Policy of his predecessor which at the same time wiped away all the gains generated by the Filipino entrepreneurial community during the 50's. It was during the term of Macapagal that the import and foreign exchange control was lifted or popularly known as the Decontrol program merely three weeks after his inauguration as president of the republic. On January 21, 1962, Macapagal signed Central Bank Circular No. 133 which dismantled the exchange controls, permitted the peso to seek its real level of value, and allowed full convertibility with the Central Bank retaining only 20% of the dollar proceeds from export. Later on, he revealed in his National Address the reason for implementing the decontrol program had the previous approval of the International Monetary Fund, World Bank, and the US State and Treasury Departments.¹⁴

However, President Macapagal wrote in his memoirs that he had no plans to dismantle the controls but because of the millions of dollar loans promised by the United States, with the pledge of US President John Kennedy to provide more millions in case the Philippines needed it. Macapagal proudly enumerated these loans in his State of the Nation Address in 1962 wherein he stated that the Philippines obtained \$300 million from the United States; an additional \$55 million from the International Monetary Fund; \$93.7 million worth for

¹³ Teodoro Agoncillo, *History of the Filipino People*, (Quezon City: Garotech Publishing, 1990): 473.

¹⁴ Pedro V. Salgado, OP. *Philippine Economy, History and Analysis* (Quezon City: R.P. Garcia Publishing Co. Inc., 1985): 42-43.

commodity and accommodations from United States law 480; and \$73 million as additional war damage payments.¹⁵

Macapagal lost the presidency to the Nacionalista candidate, Ferdinand Marcos during the 1965 elections.

The Marcos Administration: The Struggle for a Truly Independent State (1965-1986)

When President Marcos took over as President, he inherited the problems that the decontrol program has made. The Philippines was put in a dangerous situation wherein thousands of Filipino firms were in peril of shutting down that may cause a significant rise in the unemployment rate.

The decontrol program caused the devaluation of the peso to almost 100 percent which made imports more expensive to the Filipinos. Imported raw materials used by the Filipino industries were now costlier so as the machines and spare parts for repairs and at the same time increased the purchasing power of the dollar in the Philippines. Also, decontrol credit was tightened which means the government will be strict in granting loans to the local businessmen who, during that time, were in need of more money to cover up the higher operating cost produced by the devaluation of our currency. Import liberalization was once more implemented flooding the market again with imported goods and reviving competition between Filipino and Multinational Firms. Despite the reentrance of unlimited flight of imported products in the market, the government still imposed high tariffs on foreign goods which served as protection to the Filipino firms.

In his first and second term as president, Marcos continued its implementation even if he knows the evil effects of decontrol and devaluation. He directly gave the reason in his speeches wherein he exposed the role of the United States, International Monetary Fund, and World Bank in pressuring our country. Added to it was the rise of a group of people called as "technocrats."

In the mid-sixties, beginning with the administration of Marcos, a class of economic functionaries emerged who served as proxies of the IMF and World Bank. They became known as technocrats and were put in charge of policy making and implementing bodies and have come to dictate the economic policies

¹⁵ Salgado, *Philippine Economy, History and Analysis*, 43.

of the nation in the coming years.¹⁶ Being proxies' mean that they echo economic ideology and policies which the IMF and World Bank would want our government to adopt. It is through the technocrats that these two international institutions that forced our nation to accept these programs and policies that have hindered the industrialization of the economy and blocked the Philippines from becoming one of Asian Newly Industrialized Country were responsible for our continuing colonization.¹⁷

In 1965, the country already had a debt amounting to \$600 million and Marcos during that time needed even more to finance the massive amount of deficits and other projects the government had in mind. This is the reason why Marcos continued the decontrol program, and in return, he was granted with more loans. The Philippines received so much money in forms of loans from different monetary agencies and the United States that the total debt of our country swollen from \$600 million in 1965 to \$1.9 billion by the end of 1969.

Together with the decontrol and the increasing national debt, the devaluation through the floating rate significantly hampered our economy. Devaluation, as explained by Lichauco: "...was accomplished by depriving the peso of its officially-supported rate and allowing its dollar value to be determined by market transactions."¹⁸

The devaluation of our currency led to inflation or the rise in the price of goods and at the same time, the decline in the real wages of the workers between 1960 and 1975. The increasing prices plus the decline of wages resulted in a rise in the rate of poverty in our country.

With the continued implementation of the decontrol and devaluation of the peso, President Marcos passed laws that gave tax privileges and incentives to both local and foreign investors through the Investment Incentives Act of 1967 and the Export Incentives Act of 1970. These acts were enacted to attract foreign people in business to invest in our country, but the Filipino legislators reacted that if the government should pass laws to give privileges to the investors, then it should be given more to the natives, not the aliens. As stated by Gerardo P. Sicat,

¹⁶ Alejandro Lichauco, *Hunger, corruption, and betrayal: a primer on U.S. neocolonialism and the Philippine crisis* (N.p.: Citizens' Committee on the National Crisis, 2005): 64.

¹⁷ Lichauco, *Hunger, corruption, and betrayal*, 65.

¹⁸ Alejandro Lichauco, *Nationalist Economics* (Quezon City: Institute for Rural Industrialization, Inc., 1988): 189.

“The Investment Incentive Act evolved from a series of bills designed to attract foreign investments. These bills had been filed year after year in Congress without any result.”¹⁹

Despite experiencing a surging number of imports, uncontrolled repatriation of foreign profits, ballooning national debt, inflation due to devaluation, and increasing rate of poverty, the Marcos government saw a climb to both input and output of the agriculture sector together with the expansion of mining industry. Capitalists entered the sale of agricultural inputs such as fertilizers, pesticides, power tillers, tractors, threshers, and the like but were dominantly foreign-owned, generally by the Americans. This increase in agricultural inputs was because of the combined promotional efforts of American capitalists and government officials. The increment in the use of agricultural inputs resulted in the rise of agricultural outputs of the Philippines namely coconut, sugar, pineapple, banana, and timber.

The mining industry also expanded during this period. Of the P5.3 billion total investments from 1968 to 1974, mining got the largest share of P1.9 billion or 36.2%. This was also reflected in the 1960 export statistic of the country as copper, our country’s top mining product, ranked 5th in the top export list of the Philippines with a total sales amounting to \$29.6 billion and in 1966 and 1971, it went up as 4th with \$74.6 million and \$185.9 million sales respectively.

On September 21, 1972, President Marcos declared martial law. Marcos pointed out two main reasons for the implementation of the martial rule in the country. First was the rising power of the communist party and second, the violence of the demonstrations and its frequency of occurrence. In contrast, according to Alejandro Lichauco, the Martial Law served two purposes which Marcos wanted to happen. One is to ensure the indefinite rule of Marcos whose term of office was to expire in 1974 and the other was to ensure the safety of foreign investment and the permanence of free trade as the cornerstone of the nation's economic program.²⁰ The martial rule suppressed economic nationalism through the abolition of Congress, giving the technocrats full control of the economy, and junking the provisions of the Magna Carta which decreed the establishment of primary and heavy industries, the reinstatement of economic protectionism, and the Filipinization of the economy. The United States

¹⁹ Pedro V. Salgado, OP. *Philippine Economy, History and Analysis* (Quezon City: R.P. Garcia Publishing Co. Inc., 1985): 47.

²⁰ Alejandro Lichauco, *Nationalist Economics* (Quezon City: Institute for Rural Industrialization, Inc., 1988): 202.

supported the declaration of the martial law because Marcos pledged to save the American interest from the rise of nationalism in the country.²¹

Upon the declaration of martial law, it was followed by the implementation of a development strategy called "labor-intensive and export-oriented" or referred to as LIEO. This strategy aims to float the value of peso which in turn stimulates exports for the price will become cheaper and more foreign countries will buy our products. Also, it is focused more on labor-intensive industries that are export-oriented and hindered our country from investing in capital-intensive industries. Along with this was the accession of membership to General Agreement on Tariffs and Trade or GATT in 1975. There would be a progressive dismantling of tariffs and restriction from implementing import control measures thus our country was put on the threshold of a new age with is globalization.

In this period, the IMF-WB intervention in our economy intensified and became more evident. These institutions demanded our country should open its economy to foreign investments and be given with incentives. Without any hesitation, Marcos passed laws that opened up the entire Philippine economy. One of which was the Presidential Decrees No. 92 and 485 which expanded the privileges of the foreigners stated in the Investment Incentives Act of 1967 and the Export Incentives Act of 1970. Other laws were passed to facilitate foreign investments in the particular field. Some of which were the Agricultural Incentives Decree which gives foreign investors the privilege to exploit in the agro-industrial field and the Foreign Business Regulation Act which opened the country's geothermal, geological, and mineral resources to the exploitation of the foreigners.²² On the other hand, Marcos imposed the system of selective import controls to protect specific local industries from imports.

Tourism was promoted during the martial law regime. The number of tourist arrivals increased from 570, 417 in 1975 to 1, 008, 159 in 1980. Because of this, the foreign exchange earnings of the country. From 1976 to 1981, it grew an average annual rate of 31 percent covering the 15.8% of the total earnings from non-merchandise trade. Same as the other industries, tourism is also under the control of the foreign business. They control the airlines, hotel chains, credit card companies, advertising agencies, banks, travel agencies, and the like.²³

²¹ Alejandro Lichauco, *Hunger, corruption, and betrayal: a primer on U.S. neocolonialism and the Philippine crisis* (N.p.: Citizens' Committee on the National Crisis, 2005): 101.

²² Pedro V. Salgado, OP. *Philippine Economy, History and Analysis* (Quezon City: R.P. Garcia Publishing Co. Inc., 1985): 62.

²³ Salgado, *Philippine Economy, History and Analysis*, 125.

In the latter part of his term, Marcos realized that although the economy under his rule was growing at an annual average rate of 6 percent, it was not enough to solve the issues of underdevelopment and poverty. Also, the Philippine economy was far left behind from its neighbors which became part of the Newly Industrialized Countries like South Korea and Taiwan who in the process of industrialization established capital industries and implemented controls to protect its economy.

Throughout the martial law, Marcos implemented selective import controls which breached the condition of the International Monetary Fund and started making the government involved in the economy. This led to the formation of the national oil company which became Petron and nationalization of different industries including the National Steel Corporation which is the largest producer of steel products in the country. Marcos wanted a program of industrialization based on heavy industries but was not successful in doing so because of American intervention through the presence of the technocrats in his administration. Because of this, the American saw Marcos as a target for his "anti-capitalist" and "anti-free market" economic campaign.

Political crisis had troubled the Philippines since August 21, 1983, when Benigno Aquino, Jr. was assassinated after his arrival from exile in the United States. Series of demonstrations have happened to show protest against the authoritarian rule of Marcos, and on February of 1986, the First People Power ousted Ferdinand Marcos from the presidency and was replaced by Corazon Aquino.

The Aquino Administration: the Philippines on the Verge of Globalization (1986-1992)

Aquino's early years of leadership was all about political and economic reconstruction and rejuvenation. She dismantled the political structures that Marcos created by dissolving the Marcos-controlled legislature and replaced numbers of local government officials with officers-in-charge until elections. Also, Aquino formed the Presidential Commission on Good Governance and tasked them to pursue legal actions against Marcos and his cronies and at the same time identify and sequester their assets in the Philippines. Next was the necessity of a new legal framework for the government and rebuild the institutions which deteriorated during the Marcos regime. In 1986, Aquino declared a Freedom Constitution, giving her decree-making powers for a limited period while the drafting of a new constitution was on process. The new

constitution was approved and signed in 1987 and was followed by the elections of local government officials in 1988.

When Cory Aquino assumed the presidency, the Philippine economy was in bad shape for it was at the brink of bankruptcy and added to it was a large amount of foreign debt due to the continuous borrowing of Marcos from the International Monetary Agencies and the United States. Investment dropped mainly because of political and economic uncertainty, so the government drafted a plan of increasing public expenditures to give a boost to the economy through a labor-intensive program called Community Employment and Development Program. One of the priorities of the Aquino administration was to increase the participation of private sectors in the economy thus, the establishment of the Committee on Privatization. Aquino also promised to return the corporations acquired by the government and to sell other government corporations which will undoubtedly increase private sector activities. With the privatization policy, the government weakens their capacity and power to intervene and let the private capitals dominate the economy.

The Aquino government also pushed for the liberalization of imports. Import liberalization would mean an unlimited flight of foreign goods entering and circulating the economy in lower prices which led to the killing of local industries such as Caltex Refining, Matsushita Electric Philippine Corporation, and National Steel Corporation. With the closures of different local corporations and industries was followed by the marginalization of agriculture. Farmers found it difficult to compete with imported, cheap, and subsidized agricultural products. In the process of dismantling the tariff and selective import control system, the government incapacitated the economy by paralyzing its two legs of production namely, agricultural and manufacturing sectors.²⁴ Together with import liberalization was the devaluation of the peso and it was used as an instrument to promote exports making them cheap in the market, but such kind of policy is only useful if a country has a broad range of goods-particularly industrial goods to be exported. By devaluating further our currency, it became easier for foreign capital to enter and control the economy because of the sizeable dollar-peso exchange rate.

“The theory of NEDA was that it would simulate our domestic industries into global competitiveness when

²⁴ Alejandro Lichauco, *Hunger, Corruption, and Betrayal in the Philippines* (N.p.: Citizens' Committee on the National Crisis, 2005): 12.

what it did was to kill the local industries, including agriculture.”²⁵

These are the economic conditions of the Philippines, an economy struggling to become free from American imperialism and assert its power to satisfy the needs of his country. Our country may have experienced growth and development especially during Garcia's tenure where nationalism was the focal point of its economic policies. However, the Americans, through its intervention and influence, were successful in seizing the control of the economy and hindered our country to undergo full industrialization for it is the imperialist mission to ground its colony to agriculture and make it only as a source of raw materials to sustain its industries.

Reaction and Recommendations

The discussion above indicates the economic situation of the Philippines and how the different presidents responded to the challenges that hampered the economy. Recto pointed out that cause of this economic crisis was the failure to industrialize our country, but the question is what prevented the industrialization process? It is clear from the previous chapter that the presidents exerted efforts to industrialize our country by implementing reforms, amending laws, and employing stricter policies on tariffs and trade but still ended up losing the fight. Through this, Lichauco presented to us the real cause of the Philippine Crisis and what possible solutions must be done to solve this issue.

Neocolonialism and Imperialism: The Cause of the Philippine Crisis

Neocolonialism, as defined by Lichauco, is the exploitation of a supposedly independent region (or nation), as by imposing a puppet government.²⁶ In other books, Lichauco used the term “imperialism” which he defined as the policy that aims to establish control over people who are unwilling to accept to become subordinate to it.²⁷

If the goal of imperialism is to exploit its victim, then its strategic policy is to prevent the underdeveloped countries from achieving full and real industrialization. This is made possible through different modes of

²⁵ Lichauco, *Hunger, Corruption, and Betrayal*, 22.

²⁶ Lichauco, *Hunger, Corruption, and Betrayal*, 41.

²⁷ Alejandro Lichauco, *The Lichauco Paper: Imperialism in the Philippines* (New York: Monthly Review Press, 1973): 100-101.

interventionism in the affairs of the subordinate country, and its first step is to intervene in the election process of the nation in order to manipulate the outcome and elect a government which will serve as a puppet for them. This establishes the relationship between the neocolony and the neocolonial power.

Bell Trade Act and Parity Rights

Before he was elected as president, Roxas was known as the founder of the Liberal Party and campaigned against the then incumbent President Sergio Osmeña Sr., who, to his credit, along with the Nacionalista Party which he had founded, opposed the parity. On the other hand, Roxas campaigned as the pro-American candidate and promised to deliver parity, which was passed during his tenure.²⁸ The United States made sure the Philippines will accept their proposal together with independence and to become successful they made use of blackmail together with a president who is known to be a pro-American.²⁹

With all the provisions that were part of the Bell Act, It is the freedom that caused economic disaster and impeded Philippine industrialization. Free trade hindered the establishment of factories with an uncontrolled inflow of imported processed products in the market. The low price of these products is free from tax killed the competition with the locally made goods. Another reason is that free trade forced the Philippines to shell out its dollar reserves to pay for the almost unlimited flight of imports that circulates in the market. This situation was further intensified by free foreign exchange, private remittances of foreign-owned firms and by capital flight abroad.

The Bell Trade Act continued for eight years, and after that span of time the Philippines was expected to have the capacity to protect its industries and economy gradually, but we cannot deny the fact that for eight years, we delayed our industrialization program. Within three years after the passage of the Bell Trade Act, the country had grounded to halt. All the dollars that were granted as rehabilitation assistance had extinguished by 1949 squandered on imports of non-essentials, travel and capital flight which our government cannot restrain.³⁰

²⁸ Lichauco, *The Lichauco Paper*, 57.

²⁹ Pedro V. Salgado, OP. *Philippine Economy, History and Analysis* (Quezon City: R.P. Garcia Publishing Co. Inc., 1985): 34.

³⁰ Alejandro Lichauco, *Hunger, corruption, and betrayal: a primer on U.S. neocolonialism and the Philippine crisis* (N.p.: Citizens' Committee on the National Crisis, 2005): 56

The Bell Act is a betrayal of the American promise to genuine independence, politically and economically.³¹

Decontrol Program of 1962

The decontrol program was a manifestation of intervention by international monetary agencies in our economy. This program was the product of the condition of the International Monetary Fund in exchange for the \$300 million stabilization loan applied by President Macapagal. It was in the administration of Carlos Garcia that the Philippines first applied for this kind of loan. However, it was not granted because Garcia resisted and disagreed with the conditions of the IMF.

The Decontrol Program dismantled the import control system which was implemented in the '50s and devalued the peso. Dismantling controls would put the dollar reserves of the country in danger because everyone would be able to exchange his or her pesos for dollars without any limit. Also, products whose importation had been banned during the time of controls to protect domestic industries were allowed entry provided the tariffs on them be paid which introduced us to a form Import Liberalization called Tariffication which is a less effective method than import and foreign currency controls to protect domestic industries from foreign goods.³²

Foreign Loans

After the implementation of the decontrol program, our foreign debt quadrupled from \$150 million in 1961 to \$600 million in 1965. It is through the decontrol program that the Philippines first experienced the deadly mix of import liberalization and devaluation.

It is necessary for the government, through the Central Bank, to control the flow of dollars because it is essential in the world market. The dollar is the currency used to pay different transactions done abroad such as importation of goods and buying machinery to sustain the manufacturing sector. With the dismantling of controls over foreign currency, the dollar reserve of the country became vulnerable to everyone. As the central bank continues to shell out its

³¹ Salvador Araneta. *Economic Re-Examination of the Philippines, a review of economic policies dictated by Washington* (Rizal: The AIA Printing Press, 1954): 144.

³² Alejandro Lichauco, *Hunger, Corruption, and Betrayal: A Primer on U.S. neocolonialism and the Philippine Crisis* (N.p.: Citizens' Committee on the National Crisis, 2005): 50.

dollars, the government, therefore, loses funds to finance the importations, and other transactions and the only way the government saw to solve this problem is through borrowing money from other countries and International Agencies like the World Bank and the International Monetary Fund.

Foreign Investment

Foreign investments have both positive and negative impact on our economy. The presence of these multinational capitals in the country may have opened employment opportunities to the Filipinos and contributed to our dollar reserves. However, their operations also impeded the capital formation and the process of industrialization of our country. We cannot deny the fact that these foreign capitalists dominate and control our economy. American investment has been estimated by the embassy to be in the vicinity of \$1 billion.³³ Such kind of amount is worth more than the number of the peso in the circulation or the entire money supply. This is just American investment alone and not to mention other alien businessmen like the Japanese, Chinese, and the British. The increase in foreign investments also was the reason for local industries to shut down because of the lop-sided competition that is happening in the market.

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³³ Alejandro Lichauco, *The Lichauco Paper: Imperialism in the Philippines* (New York: Monthly Review Press, 1973): 101.

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