The Runt of the Tiger Cubs: Exploring the Slow Rate of Development in the Philippines

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Introduction

The Philippines’ economy is often called a “tiger cub economy” because it has followed the same export-oriented developmental model as the “tiger economies,” several key Asian economies that developed rapidly in the late 1980s and early 1990s, including South Korea and Singapore. Despite having all the trademarks of a neoliberal success plan, the Philippines has largely still lagged behind in terms of development. They have a functional, decentralized democracy with free elections; they have gone through structural adjustment policies through the World Bank and the International Monetary Fund; and they have strong ties to the United States through the world market and free trade deals. Yet, with all its advantages, the Philippines is still slow to grow with the rest of its region and has the lowest GDP per capita of maritime Southeast Asia (“GDP – per capita (PPP) Asia”). It does not seem that this is for lack of trying; both the Philippines and external forces have attempted to foster economic growth. With democratization of the state and support from both the World Bank and the United States, the Philippines should have been the most successful of the Southeast Asian countries.

Since 1946, when the Philippines claimed official independence from being a United States colony, the Philippines has had a democratic state. The Philippines was not simply endowed with a government and left to develop on its own devices; the United States acted as a guiding force for two years prior to independence to establish a constitution, a balanced parliament, and free elections (Dolan 2016). Because of this, the Philippines’ democracy is constructed in a similar fashion to the American government system, that is to say there is a constitution and separate houses of power that act as checks and balances to each other and to the president (“Philippine Government”). The archipelago does not have a federal system of state governance, but does have limited decentralization to localized municipalities and a single
autonomous region (“Philippine Government”). However, in practice their democracy is not nearly as efficient or effective as it has the potential to be. Like a fair number of newly industrialized economies, there is rampant corruption and room for dictators like Marcos to reign for long periods of time.

Despite being a relatively large archipelago, it has yet to properly decentralize into states and is stuck in the same unitary system it was gifted upon its independence. What decentralization has happened has been slow and inefficient, despite the potential for a more efficient and representative system. The selective decentralization has led to an increase in the unequal distribution of power and wealth between regions and political groups on top of corruption and wealth and land disparities. With greater demands from relative economic growth, the system is inefficient and largely unsustainable (Porio, 2012). The state lacks the structure and participation it requires for an American-style decentralized democracy. Most neoliberal policies emphasize democracy as a key factor in economic and political success in a country. And yet, despite having both a longstanding history with the United States and garnering a democratic model and constitution from them, the Philippines has not had successful economic growth come from the state or state-led policies.

The Philippines’ slow economic growth has come from a system of red lights. There are institutional barriers built into the political system that have resulted in hesitant and misguided state policies to promote growth. The root of these problems lies in power and wealth distribution and the International Monetary Fund’s and World Bank’s continued support of leaders who do not always have the Philippines’ best interest in mind.

**Description of Research**

My original research question was fairly simple and straightforward: why is the rate of
economic development slower in the Philippines than in neighboring Southeast Asian countries? I found that the question was much more complicated and convoluted than I had made it out to be. I struggled a little at first, but reached out to the University of Washington because they have a relatively large Southeast Asian Studies department. I contacted the head librarian of the department and she helped me get a library card and a better layout of the libraries they have. I spent several days in Seattle combing through books and getting a better understanding of the economic and political history of the Philippines. I found the resources at UW to be much more abundant and readily available to me than the books at Collins Library. I was even able to access some online articles that the Collins Library did not have access to. My research was largely library-based, but I think I was successful in my methods.

The budget was sufficient for my research. What I didn’t spend on rent was spent getting me to and from Seattle to visit UW and on accessing articles and journals that I otherwise did not have access to. Some academic journals were surprisingly expensive; the price of knowledge can be painfully high.

**Preliminary Findings**

Almost all of the answers I got in the first few weeks of my research were “the United States is to blame for everything” and “colonialism and neocolonialism are bad.” In general sweeping statements they aren’t outright wrong, especially the second. As I delved a little deeper I found constant themes of inequality in land, wealth, and power. Inequality was built into the political system and perpetuated by the economic system. The two systems are tied tightly together and major power coalitions seep across the blurry lines of politics and economics. Progress can be made under these circumstances, as the Philippines has proven, but it is slow and arduous.
Unitary System

The Philippines political structure and power balance is the main force that has allowed for slow economic growth to become the status quo. The Philippines is democratic in name, but has not always lived up to the values of a liberal democracy in practice. Even in times of high political freedom and electoral participation, there has been corruption and patronage and a huge disparity of power institutionalized into the proceedings of the system.

For an archipelago, it makes sense to have a decentralized federal system of governance. With the diversity in land and people and the increased desire for autonomous regions, having more local municipalities with their own local governance makes sense. It would cut down on the proposals for autonomy if there was more control of local governance by the people living in those regions. The federal government could be better representative of the needs and desires of the people if there were more opportunities for people to be a part of the government. The unitary system makes sense given the history of colonialism. The Philippines has always had an elite population that was mostly landed gentry. When the United States withdrew, it maintained connections with the Philippines and continued friendship with the Philippines through state-sponsored patronage (Lichauco 2004). The elites maintained their power and were more likely to encourage and reinforce neoliberal policies because they stood to benefit the most (Lichauco 2004).

The heart of the unitary system is power. By maintaining a unitary system, power is sectioned off to the elites, compartmentalizing power into the hands of the few. It is not a coincidence that patronage was built into the system. The liberalization and privatization of the economy has been led by the people who have privatized the government. The political and
economic private forces are too closely intertwined, leading to rampant corruption and growth in sectors that personally benefit the wealthy.

**Land Reform**

Land reform can be a key to successful economic growth and industrialization. Land redistribution can lower the wealth gap going into a time of economic prosperity and change geographical patterns of wealth and development. Lack of land reform can result in consequences for political and economic capital accumulation and wealth disparity. The Philippines did not have any major land reform policies when it transitioned from a colony to an independent state. The pre-industrial concentration of wealth led to an oligopolistic power structure in both the state and the economy. The wealth was concentrated in landed gentry, and because there were no major successful land reform policies before industrialization started, inequality was made worse during times of economic growth (Lichuaco 1993).

The concentration of wealth in landed gentry led to a concentration in power. When there are few families controlling a large percentage of the wealth, it is easy for the same families to also control politics. In the Philippines, “the state is weak in relation to the overwhelming power of big business and/or landed gentry” (Witt and Redding 2014). The influence is easily exerted over the state, and policy starts to center on private accumulation over public wellbeing. Personal interest becomes the major representation in politics and poverty eradication and social improvement become less important to the government, as displayed through policy in action. Whole families are often involved in politics, so it is easy to continue to input personal agendas even when a position of power is no longer held (Witt and Redding 2014). When the elites control a majority of the land and the means for agricultural production, there is little incentive on their part to move to large-scale industrialization. Because of the opposition and corruption,
the state does not make a large-scale move towards industrialization. As a result, the Philippines still relies on agriculture and a select few light industries. Even their industries, which are mostly manufacturing “low-productivity goods, such as food, beverages, textile, [and] clothing,” are limited in scope and geographic distribution. The owners of the industry are also usually large, oligopolistic businesses and families (Witt and Redding 2014). Land reform would not have stopped the accumulation of power and class differentiation, but it had the potential to lessen the gap between the wealthy and poor and ease the monopoly of power in politics.

Change, though, is hard. For land reform to happen, there has to be both a bottom-up and top-town desire for change (Borras 1998). The forces do not necessarily have to meet in the middle, but there has to be a willingness to legislate and enforce land reform policies from an elite and a peasant perspective (Borras 1998). Often, land reform happened in the aftermath of a major event - a revolution, war, or major political upheaval (Borras 1998). In the late 1980s, “roughly five percent of the families owned eighty three percent of all farm land,” leaving most agricultural workers as poor landless peasants (Kleinberg, Bensabat, and Clark 2000).

Prior to independence, there were proposals that would have “devolved authority over revenues and expenditures to local governments,” but nothing passed (Eaton 2001). Instead, the central government delegated what powers would have been devolved to local governments to central bureaucracies (Eaton 2001). Local governments existed, but held no major power, as opposed to legislatures and other national politicians.

After decentralization it was easy for power to continue to stay consolidated in the framework it existed in before reforms (Eaton 2001). Implementation of policy and enforcement are crucial in changing power dynamics, but the incentive to maintain the status quo can be tempting. Change is difficult for major long-standing institutions and political actors who stand
to benefit from continued consolidation (Eaton 2001). Change often comes from pressure from social groups and the need to “fix a variety of long-term, systemic problems in national political systems” (Eaton 2001).

The land reform policies of the 1990s aimed to reform those numbers and help disperse some of the wealth gap. The Comprehensive Agrarian Reform Program (CARP) was designed by the Aquino government to implement major land reforms to help the distribution of wealth and aid in the process of decentralizing power and building sustainable and widespread growth (Eaton 2001). Its early days were marked by scandal; the corruption in the government and resistance of private landowning families to give up any power caused distress in enforcement (Eaton 2001). There were many loopholes built into the legislation, and the main enforcers were lenient on enforcement.

Despite its scandals, CARP was actually fairly successful in terms of raw data. The number of provinces, cities, and municipalities each grew about five times from 1990 to 1994; even the number of villages almost tripled from 1992 to 1994 (Eaton 2001). The government was decentralizing to smaller branches of local government. Despite the positive numbers, the reality was troubling. In many districts “traditional family clans and political bosses dominate[d] all important elected offices,” creating an oligarchic political system at both the local and national levels (Eaton 2001). CARP was more successful than previous policy, but was still not matching the state’s claims or the needed level of land redistribution (Borras 2001).

In addition to local politicians taking advantage of the decentralized system, the legislature hadn’t let go of its power. The legislature wrote loopholes into many of the decentralization acts (Eaton 2001; Witt and Redding 2014). With the potential for powerful coalitions at the local level, congress ensured its continued power by asserting its authority to
monitor and audit local government officials and recall members (including auditors). This meant that if local government officials posed too much of a threat to power or to a fiscal budget, congress had the ability to remove the official from office through an audit or through close monitoring and scare tactics (Eaton 2001). The policy also went into effect immediately. This gave local governments no time to adjust and build systems to take on the cost and work needed to run efficiently (Eaton 2001). National politicians are not keen on giving up power and if they have the ability to manipulate the system to maintain their standards of power and wealth, they most likely will. In the case of the Philippines, national politicians legislated their power even though they let government become decentralized to a degree.

**Corruption**

The Philippines has a problem with corruption. On a ten-point scale, the Philippines ranks at 2.6, which is the highest in Southeast Asia according to a World Bank report put out in 2001 (Witt and Redding 2014).

Corruption has been institutionalized into the political system. The Philippines has weak political parties, so coalitions and success rely heavily on personal reputation and “pork barrel money” (Easton 2001; Witt and Redding 2014). Many politicians purchase legislators to push personal agendas and guarantee success, which fosters a very individualistic culture in congress (Eaton 2001). Landed gentry and powerful families control the government. Though a term may have ended, policy can be pushed through a family member in another seat of power, or family may immediately replace someone who cannot be elected again; this happens at both the local and national levels of government (Eaton 2001; Witt and Redding 2014).

Marcos is arguably the most famous Filipino president. Under his presidency many of the major institutional flaws came to light. He was able to manipulate the system and stay in power
for over twenty years, which included his rule under martial law from 1972 to 1981. Until the end of his term, Marcos did not face very much harsh international criticism. With the United States standing off against communism in the Cold War, the Philippines was a strategic ally and was treated as such. Even outside international forces recognized his corruption, but he was still funded by major organizations and ended up with a long reign over the Philippines.

Immediately following Aquino, Ramos won the 1996 elections, which were widely heralded as free elections, with a free press and free association (Kleinberg, Bensabat, and Clark 2000). It was also a year that boasted relatively stable competitive political parties, even if the parties were still based on elite patronage (Kleinberg, Bensabat, and Clark 2000). Even when there are still high levels of corruption, very few attempts are made to change the system unless there are major scandals or the situation is dire enough for a majority of the population to rebel.

While corruption is a problem in the Philippines, it is not the only reason the country has been held back. Many other countries have a history of corruption – Indonesia, China, Malaysia – and yet they have still managed to outrank the Philippines in terms of GDP per capita and growth. Similarly, martial law is not the only reason the Philippines did not see accelerated growth during the Marcos regime. Dictators have headed the industrial revolutions all across Asia in China, South Korea, Taiwan, and arguably Singapore. The difference between the Philippines and other countries is the type of dictator. In other countries, the dictators have been outward-looking, aiming for industrial plans that will develop major industry and lead to a thriving and sustainable economy. The Philippines lacked leaders with both the inward and outward looking focus on development. When it did come, it was too little too late.

**Economic Inhibitors**
The Bell Trade Act of 1946 was passed by the US Congress and ratified by the Philippines. The general air surrounding the Bell Trade Act was bitter because the Philippines’ economy was severely limited in diversification and industrialization outside of agricultural goods (Lichuaco 1993). The Bell Trade Act was the first legal step in maintaining a neocolonial relationship with the Philippines. The United States had used the Philippines’ economy as a new market before, but now with limited legal means to set up tariffs and quotas, the economy was flooded with excess goods from the United States (Lichuaco 1993). The United States didn’t have a solid growth strategy for the Philippines, so it floundered under colonial servitude (Lichuaco 1993). The 1949 economic crisis can trace its roots back to the Bell Trade Act. With extremely limited industrialization, the influx of goods made developing local industries difficult. It also cemented the beginning of systematic inequality and industrial inhibition that would later lead to slow patterns of growth.

The Philippines survived the financial crisis and actually grew to be a tiger economy in the 1950s, largely due to FOREX and other protectionist policies (Lichuaco 1993). The Foreign Exchange Control System, or FOREX, was a series of policies created and maintained by the state and banking system designed with economic growth and protection in mind (Lichuaco 1993). FOREX restricted capital flight and conserved foreign currency, as well as scheduling all major transactions with foreign currency (Lichuaco 1993). Manufacturing grew at a steady rate between ten and twelve percent and inflation and debt were both kept fairly low (Toussaint 2008). FOREX gave the government more control over reserves and financing, which led to better investment and a kick-start for local industrialization. The government had better economic planning and was able to control imports through more non-tariff methods (Lichuaco 1993).
With the Macapagal presidency came another economic crisis. His presidency started with the 1961 elections, controlled by money and political pressure, and the rest of his term was marked by neoliberal progress and economic regression (Lichuaco 1993). Under his government, many decontrol policies were instituted to move towards a freer market. He received a lot of support from the IMF and the World Bank and was encouraged by the large loan amounts the IMF was willing to offer the Philippines under their new economic policy (Lichuaco 1993).

By 1962 FOREX was dismantled in the face of IMF and World Bank pressure. It was here that the Philippines’ policies started to diverge from those of many developing Asian nations. Many other countries, like South Korea, kept similar programs they had developed, and the protectionism has been cited in their success. There was a lot of political corruption and support internally and externally from the IMF to move towards a laissez-faire model, despite the fact that the Philippines hadn’t reached a critical level of industrialization. Along with the return to free trade, the IMF also urged a devaluation of the currency, which increased the cost of industrialization. Decontrol devolved into an unsteady currency, capital flight, and struggling industry, leaving the once-thriving economic tiger to starve in the face of capitalism. In 1965, barely three years after the deconstruction of FOREX, there was another economic crisis. The IMF and the World Bank were there to help the Philippines pick up the pieces with increased interest rates and more debt. From there, the Philippines fell into a deep debt trap with the IMF and the World Bank.

The economic situation became dire under the Marcos regime. Marcos removed the debt caps put in place by congress and borrowed considerable amounts from the IMF and the World Bank with little to no thought of the ramifications of his actions on the economy (Danaher 1994). With Marcos in charge, the bank could employ predatory lending techniques, including larger
loan amounts with much higher interest rates, with few ramifications (Danaher 1994). Under the guise of “strengthening ties” for strategic reasons, the World Bank and the IMF continued their lending techniques despite the red flags (Danaher 1994). At the same time as interest rates and loan amounts were rising, there was a change in other forms of aid. Foreign aid composition started to shift from grants to loans. With the increase in loans and decrease in grants there also came an increase in dependence on aid, and aid became a higher percentage of state income (Danaher 1994). During Marco’s regime, the Philippines also joined the General Agreement on Tariffs and Trade (Lichuaco 1993). By joining GATT, the Philippines gave up what little form of protectionism it had retained beforehand. There was a flood of imports and no opportunity to build local industry (Lichuaco 1993).

In an attempt to fix what he broke, Marcos implemented his “11 Projects” in 1979 (Lichuaco 1993). The World Bank deferred the new loan Marcos wanted for actual industrialization and congress rebelled against the idea of supporting heavy industries, saying, “You can’t eat steel” (Danaher 1994). Some change was implemented to attempt to foster growth, but the policies were poorly designed and poorly funded. There was a change in industrial objective without the infrastructure to support it, so the policy did little to change the status quo. The industrial policies that did go into effect were not aimed at export-oriented growth and focused too much on agriculture and agricultural-based industries (Danaher 1994).

As the Marcos regime drew to a close, it faced economic crisis in 1982, growing civil unrest from peasant revolutions, and political violence (Lichuaco 1993). In a flurry of events, Marcos was ousted from office in 1986 and Corazon Aquino was elected as the first female president of the Philippines and the first female president in Asia.
The Aquino presidency had many well-intentioned policies, but was marred by scandal and a similar level of financial incompetence. Following Marcos and GATT, Aquino held up the trend of decreasing any forms of protectionism and increasing privatization of industry (Lichauco 1993). Instead of focusing on mechanized industry, she turned her sights to agriculture so there were no policies that focused on export-oriented growth (Lichuaco 1993). There was an attempt at liberalization and shaking up the Philippines’ crony capitalism. The slow disbanding of “crony capitalism” meant breaking apart oligopolies and monopolies and state-owned industry and privatizing sectors. There were roadblocks under Aquino because of corruption and scandals, but there was also a movement towards decentralization (Kleinberg, Bensabat, and Clark 2000). The World Bank and the IMF supported the Philippines every step of the way, continuing to financially support the beginnings of change in the system and the move towards industrialization. While the policies have aimed at market liberalization, currency devaluation, and export promotion, the result has been lagging industrialization, suffering agriculture, widening wealth gaps, and overall failure to reach most of the goals set by the SAPs (SAPRIN 2004).

Under the next president, Ramos, there were discussions between Japan and the Philippines about “transfer of Japan’s industrial processes to other countries” in 1988 (Magallona 1996). The potential for rapid industrialization supported by Japan and the Unites States was on the horizon. The plan did not work out as well as had been hoped. The industrialization was very localized and privatized so the wealth distribution did not reach a broader audience (CITE). It also did not receive the type of industrialization many other countries received in their path to becoming major economic powerhouses. Japan and South Korea both had times of major industrialization following periods of war, so much of their industrialization was steel-based. The
The Philippines was mostly given manufacturing and assembly jobs, and steel and other heavy industries were not promoted by the state (Lichuaco, 1993).

**Conclusion**

The Philippines has had a history of being caught in an economic and political riptide. Progress has been made. Leaps and bounds have been made between the colonial era, martial law, and the present day. But in comparison to countries around it, the Philippines has not yet reached its full potential. Deformities in major structures and the ease with which the system can be abused are leading inhibitors to development. Persistent inequality leads to unbalanced politics and economic growth. Unless there is a change in the power distribution and helpful support from major international institutions, the Philippines is likely to continue to have stagnant growth.

There is cause for optimism. In the past twenty years more progress has been made than in the fifty years preceding it. In the next twenty years there is potential for unbounded success, especially in an age when free market capitalism is no longer seen as the only viable route to development. The Philippines is still the runt of the tiger cubs, but it has the potential to grow and match pace with the rest of the Southeast Asian economic moguls.

**Reflections**

My paper turned up a lot of information I would never had learned in the classroom at Puget Sound. I think the paper served as a good introduction to the Philippines as a case study for economic growth, democracy, and reform in Southeast Asia. I think it was appropriate for me to stay in the United States for my research and not go to the Philippines as I don’t think I had a good enough grasp on a lot of the fundamental information pertaining to structures in the Philippines, but I do wish I had been able to contact people with better understanding and
personal experience with my topic. I reached out to several professors and graduate students at University of Washington, but I was not able to meet with anyone besides the librarian of Southeast Asian studies.

A majority of my research ended up solidifying the hypothesis I came into the research with. I was a little surprised by land reform being a major theme in the persistence of inequality and imbalanced power structures. I originally only looked at land reform because my advisor brought it up in passing and I realized it pertained to decentralization and political families. It is a topic I was not interested in before writing my paper, but I am now interested in perusing it more of my personal academic work.

In my work I realized I am probably not as much of an academic as I fashioned myself to be. I appreciate learning and I would not give up the opportunity to further my scholastic boundaries, but I think I am a more hands-on learner. My research still feels incomplete, in part because it is, but mostly because I am driven to make changes. I want to see policy in action and explore international and national organizations that have been working towards changing some of the major institutional barriers.
Bibliography

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