Centre for ASEAN Studies

Centre for International Management
and Development Antwerp

Globalisation and social development in the Philippines: socio-economic impact of the East Asian crisis

Fernando T. Aldaba

CAS Discussion paper No 27

February 2000

1. The Philippine economy in a globalised setting: an overview

1.1 Liberalisation strategies in the era of globalisation

The past two decades saw the emergence and later dominance of the neo-liberal paradigm in the pursuit of development especially in the third world. This development model has been institutionalised in the so called 'Washington Consensus'[1] which specified a market-oriented strategy espousing liberalised trade, macroeconomic stability, and 'getting the prices right' i.e. as government minimises its interventions in the operations of the market. Critics bewail this growth-oriented scheme which the alleged as having resulted in the continuing marginalisation of various sectors[2] in developing economies. Even the achievement of growth itself in the developing world[3] through such a strategy has often been questioned. And more recently, the crises that hit Mexico, then East Asia and Russia, manifested the weaknesses of such a purely economic paradigm as relatively free financial and capital markets wreaked havoc on the stability of various countries like Thailand, Korea, Indonesia, Malaysia and even the Philippines.

In 1980 the Philippines embarked on a trade liberalisation programme under a World Bank structural adjustment loan (SAL). The principal elements in the liberalisation programme were the removal of quantitative import restrictions and the reduction and rationalisation of tariff protection. The following year an Omnibus Investments Code was promulgated and further amended in 1983 to promote an export-oriented regime and remove the capital intensive bias within the existing industrial policy. Corazon Aquino came into power in 1986 and strove to complete the trade and import liberalisation programme which was suspended in 1983. Her tariff reform would eventually reduce the effective protection rate for the entire economy from 22 per cent to 18 per cent between 1990 and 1995. In 1991, a Foreign Investment Act was also passed which allowed foreign equity participation up to 100 per cent in certain areas of the economy.[4] To boost exports, attract foreign investments, and help improve the country's external payments position, the Central Bank instituted significant foreign exchange reforms and removed foreign exchange controls in January 1992. In August of the same year exporters were allowed to retain up to 100 per cent of their export earnings and rules on FCDU loans were loosened further (World Bank 1993).

Crony capitalism, which was coined during those years even became a raison d'etre for crafting neo-liberal policies especially after the fall of Marcos. Market and liberalisation strategies were initiated during Corazon Aquino's regime though full blown implementation was accomplished in the next Ramos administration. Ramos accelerated economic reforms by embarking on liberalisation and deregulation in sectors like banking, telecommunications, power and transportation as he claimed these were crucial for the resurgence of growth in the Philippines. It was also during the term of Ramos when the country became more integrated with the world economy as it committed to abide by the

---

[1] John Williamson of the Institute for International Economics in Washington DC coined this term in the early 1990s.
[2] Such strategies have negative effects on industrial labour, peasants, and the urban poor.
[3] Especially in Africa and some Latin American countries.
[4] Those not included in what is called as Foreign Investment Negative list. The law however clearly specifies where foreign investments are restricted and allowed.

objectives of the World Trade Organisation (WTO), the ASEAN Free Trade Area and the Asia Pacific Economic Cooperation (APEC). The current Estrada administration hopes to continue such reforms though pundits already see the reemergence of crony capitalism.

At the same time, the onset of globalisation and the current crisis afflicting Asia have heightened the debate on whether unbridled and free market strategies are still viable for sustainable human development. Over the past eighteen years, while the government has been introducing policy reforms and programmes to tackle the three strategies, poverty incidence has decreased only gradually and inequitable distribution of income has worsened. The main findings in the literature suggest that while structural adjustment policies (e.g. tariff reform, financial deregulation, privatisation, etc.) were able to achieve increased growth rates in the economy, agriculture as an important sector where the majority of the poor can be located, has grown inconsistently and at very low rates. This could be explained by the insufficient infrastructure (e.g. irrigation, farm to market roads, etc.), social and technical services (e.g. new agricultural technologies, education and skills training, rural credit, etc.), and the prevailing inequity in land distribution in the rural areas. In addition, the increasing utilisation of agricultural land for housing and industrial purposes has become another constraint for increasing agriculture value added. Without a comprehensive land use law on hand, the prospects for such an objective remain dim (Reyes 1998).

The impact of globalisation on marginalised groups has also come into the picture as government tries to positively respond to the current East Asian crisis. In addition, the present Estrada administration's campaign promise to lift such groups from the clutches of poverty given the new economic environment of freer trade and movement of capital is being continually monitored by various sectors of society.

1.2 Poverty and human development in the Philippines

Poverty incidence has declined since 1985. Based on official poverty lines, poverty incidence of population has dropped from 44.2 per cent in 1985 to 32.1 per cent in 1997. Table 1 depicts the decrease in poverty incidence.

Table 1: Poverty incidence

Year	Poverty incidence
1985	44.2
1988	40.2
1991	39.9
1994	35.5
1997	32.1

Intal (1994) distinguishes the poverty incidence from a subsistence incidence where the former is the proportion of families whose annual per capita income is below an annual per capital poverty threshold, while the latter is the proportion of families whose annual per capita income falls below the annual per capita food threshold. The following shows the difference between poverty and subsistence thresholds.

Table 2: Poverty and subsistence thresholds (in Phil. pesos per annum), 1985-1997

Year	Poverty threshold			Subsistence threshold
	National	Urban	Rural	National
1985	3,744	4,356	3,353	2,609
1988	4,777	5,893	4,094	3,188
1991	7,302	8,327	6,276	4,928
1994	8,885	9,831	7,946	6,022
1997	11,388	12,642	10,248	7,724

Source: NSCB (1999).

Poverty is still mainly a rural phenomenon, although the contribution of urban poverty to total poverty is increasing. Table 3 provides data on the contribution of urban and rural poverty to total poverty since 1961 to 1997. More than 60 per cent of poor households in the Philippines live in rural areas and thus any poverty alleviation programme should consider the situation of the agricultural and rural sectors. However, the urban sector's share of poverty has decreased slightly from 30 per cent in 1961 to 27 per cent in 1997. This seems to follow the trend of increasing urbanisation of the country as shown in demographic studies.

Table 3: Contribution to total poverty, 1961- 1997, in percentage contribution

Year	Urban	Rural
1961	30	70
1965	26	74
1971	24	77
1985	32	68
1988	31	69
1991	35	65
1994	40	60
1997	27	73

Note: Shares may not add up to 100 per cent due to rounding.
Source: National Statistical Coordination Board

Second, the level of income inequality has stayed constant during the past 30 years. Even with reductions in the poverty incidences during the 1985- 97 period, the Gini indices in the Philippines has hardly changed. From 0.447 in 1985, the level of inequality has hardly changed at 0.455 in 1997. Regional Gini indices have a smaller range than poverty incidences at from 0.3125 to 0.4417 for the present sixteen regions of the country. The World Bank (1988) noted that the Philippines has one of the 'most unequal distribution among middle class countries', a distinction it may still continue to hold due to the lack of any significant change in the Gini incidence.

Table 4: Gini indices, 1985- 1997

Year	Gini index
1985	0.447
1988	0.445
1991	0.474
1994	0.451
1997	0.455

Source: Intal (1994), NSCB (1997).

Third, poverty self-rating surveys indicate that a large majority of the population considers themselves poor. Mangahas (1993) notes that the trend in changes in individuals considering themselves poor may reflect the changes in the level of poverty of Filipinos. From a high of 74 per cent in 1985, survey respondents who rated themselves 'poor' dropped to 66 per cent in 1988, then to 62-71 per cent in 1991, and 68-70 per cent in 1994. Recent surveys by Mangahas (1997) show a drop to 58 per cent in 1997.

In terms of Human Development Index of the United Nations Development Programme (UNDP), the Philippines has improved from 0.419 in 1960 to 0.672 in 1994. In the same years, the country increased its annual GDP per capita from US$418 to US$615. However, looking at Table 5, one notes that the Philippines compared with its neighbours have lagged behind.

Table 5: Comparative HDI and GDP per capita

	Philippines	Indonesia	Malaysia	Singapore	Thailand	China
HDI						
1960	0.419	0.223	0.330	0.519	0.373	0.248
1994	0.672	0.668	0.832	0.900	0.833	0.626
GDP /Capita						
1960	418	190	708	1510	300	75
1994	615	676	2905	12,548	1703	480

Source: UNDP(1997) in Monsod and Monsod (1999)

1.3 The Philippines as a "Late Bloomer"

While the Philippines undertook liberalisation and other structural adjustment policies, the phase of reforms have been slower as compared to other East Asian countries. At the same time, it had been hit by several political and economic crises in 1983, 1986 and 1989 aside from a spate of devastating disasters. Joseph Lim, a noted economist, describes the Philippines as 'an East Asian non-miracle' - a country that did not go into sustained growth to achieve NIC status and manifested a slower and stop-go pace of poverty alleviation and social and human development. Table 6 shows GNP and GDP per capita growth rates of the Philippines vis-à-vis other 'miracle' countries.

Table 6: Comparative GNP and GDP Per capita ( ) Growth Rates

Country	1965-1980	1980-1995	1990-1995
Hongkong	6.2 (6.3)	5.1 (5.3)	4.9 (5.0)
Singapore	8.5 (9.3)	6.5 (6.6)	7.4 (6.8)
Taiwan	7.5 (4.5)	6.3 (4.9)	5.7 (5.2)
Korea, Republic of	6.8 (7.4)	7.5 (7.5)	6.5 (6.6)
Malaysia	3.6 (5.6)	4.2 (4.1)	6.0 (2.1)
Thailand	4.6 (4.4)	6.4 (5.5)	6.8 (6.3)
Indonesia	4.8 (5.1)	4.4 (4.5)	5.4 (4.8)
China	n.a. (3.5)	8.4 (5.1)	10.8 (9.2)
Philippines	2.9 (2.8)	-0.4(-0.4)	0.1 (.01)

Source : Ahuja et al (1997)

In sum, Lim notes that the Philippines missed out on the East Asian take-off because of the following:

- inability to increase foreign exchange earnings
- inability to undertake agricultural and rural development and promote rural-urban linkages and regionally equitable growth
- inability to achieve substantial human capital formation and reduce poverty
- inability to go up the technology ladder and improve productivity
- inability to improve governance and institutions

Fortunately or unfortunately, the Philippines being a late bloomer in East Asia has in a way affected the magnitude of impact of the current crisis on the Philippine economy. Private flows relative to the other countries were less and thus the sudden capital flight was less severe. In addition, growth was still moderate when the crisis struck. Another difference is the relatively democratic governance[5] in the Philippines which has indirectly promoted more transparency and accountability in governance over the years. Regulatory mechanisms with regard to the banking sector were already in place as a response to the past economic crises in the 80s.

[5] Notably a free media and a dynamic civil society sector.

2. The Philippines and the East Asian crisis

2.1 Nature and causes of the East Asian crisis: an overview

De Dios (1999) divides two competing explanations of the East Asian crisis. The first he calls the 'flawed fundamentals view' which traces the crisis to a constellation of elements dealing with structural weaknesses in the affected countries. Lim (undated) even adds that '…the countries badly affected… undertook in various degrees, the same flawed development strategy which heavily relied on unhedged short term foreign loans and short term portfolio flows to finance growing current accounts deficits…' This was also aggravated by the maintenance in these countries of an overvalued and relatively fixed exchange rate which encouraged the government and the private sector to incur a large amount of foreign loans. Another compounding factor was the lack of institutional mechanisms and prudential regulations to appropriately manage short-term loans and portfolio capital flows.

The second perspective which De Dios terms as the 'capital controls view' stresses the crucial difference as being whether financial control mechanisms were in place as in the case of China, Taiwan or even Chile. This alternative view questions the viability of financial liberalisation for developing countries as this is beset with a variety of market failures like asymmetric information and moral hazard. Unlike opening up trade in goods and services, financial liberalisation is more complex as it involves more uncertainties and risks. A policy implication for financial markets is greater state intervention either through exchange controls or stronger prudential regulations. This viewpoint also suggests that the weak fundamentals were mere symptoms or results of 'blanket capital openness' (Lim, undated).

2.2 How it started in the Philippines

2.2.1 The economy

Many economists agree that the Philippines at the onset of the crisis was plagued with an overvalued currency which the Bangko Sentral ng Pilipinas (Central Bank) was consciously maintaining. This has resulted into a decreased competitiveness of the export sector which in turn contributed to a yawning trade balance. In the years before the crisis, foreign exchange and capital account liberalisation which was encouraged by the WTO, the IMF and the World Bank had resulted into large overseas worker remittances and short term portfolio flows which financed the trade deficit. Continued deficits exerted greater pressure on the country's economy to fill the trade gap.

Meanwhile the relatively stable and pegged rate greatly encouraged the private sector to increase its liabilities from US$7251 million in 1995 to US$12 525 million in June 1998 (De Dios 1999). The insufficiency of domestic credit is typically one reason for resorting to foreign borrowings. The Philippines had relatively high interest rates which made dollar denominated loans at very low rates very attractive. At the same time, with a very low savings rate, available local funds for investments remained constrained. Foreign borrowing also financed an asset boom - mostly the financial and real estate sectors (De Dios 1999).

Once the Thai baht was devalued, the Philippine peso became the next target. Herd mentality was one major reason why the contagion effect was facilitated. Portfolio fund managers and even private lenders did not clearly discriminate among East Asian countries. The structural weaknesses of the Thai economy were perceived to be similar to the other countries like the Philippines.

2.2.2 Politics

The Philippines was in a run up to the 1998 elections by mid-1997. Political parties and politicians were all gearing up for the general elections the following year. However, a certain clique in the Ramos administration feared discontinuity in the reforms if a new president were to be elected. Thus, they got involved in trying to amend the constitution to extend Ramos' term but failed in the latter part of the year. Former President Aquino and Cardinal Sin, archbishop of Manila mobilised millions in the capital to oppose the planned charter change. Political issues were substantially dominant at the outbreak of the crisis. Thus the government's early response was quite limited.

The government's initial reaction was to defend the peso. The Bango Sentral ng Pilipinas (BSP) used up around US$2 billion to maintain the exchange rate at the PHP26 to 27/dollar level.[6] Seeing that intervention was not effective, the BSP allowed the rate to follow the dictates of the market though it continued to utilise a high interest rate policy to cushion the depreciation of the peso. This response was due to the prevailing analysis that the crisis will only be short-term as many economists mistakenly diagnosed during that time. This may also be the reason why the government seemed to pay little attention to the implementation of safety-nets to cushion the social impact of the crisis. President Ramos ordered a mandatory 25 per cent cut in spending in all areas. Critics however were sceptical as expenses for the Centennial celebration[7] and other budget lines continued to rise as the election approached. The budget surplus in 1997 and the fiscal restraint was more in theory than reality. It was only after six months that the government called for a summit to discuss what appropriate safety-nets can be implemented. This was the time when the crisis had deepened.

3. The economic impact of the crisis

3.1 Currency adjustments

The most direct economic impact is the increase in the exchange rate from PHP26/dollar to around PHP35/dollar in the first month of the crisis. It hit a high of PHP45/dollar in January 1998 during the start of the Korean debacle and as the Indonesian case worsened. Speculation of both local and foreign holders exacerbated the currency adjustment. By the first quarter of 1999 as the economy recovered, the exchange rate stabilised at PHP38/dollar. It is projected however that by the end of this year the rate will be at the PHP40 level.

---

[6] As compared to Thailand's US$30 billion.
[7] 100 year celebration of the Independence from Spain.

3.2 Interest rate changes

As the BSP tried to mitigate the currency depreciation, it tried a variety of strategies to increase the interest rates (increased reserve requirements and overnight lending rates) so that people will be attracted to hold the local currency, the peso. Interest rates charged by banks peaked at more than 30 per cent (treasury bills rates at more than 20 per cent) leading to a credit crunch. At the same time, to avoid increasing the portfolio of bad loans, banks became more selective and stringent in lending and thus, contributing to a much tighter credit. Currently, interest rates are decreasing to levels below the crisis at less than 10 per cent as the economy is on the road to recovery. However, credit has remained relatively difficult as banks continue their conservative ways in lending.

3.3 Product and output effects

The exchange rate devaluation coupled with a credit squeeze eventually decreased the economy's output. Eventually, actual production measured by the gross domestic product decreased to 5.1 per cent in 1997 from 5.7 per cent in 1996. This plunged to -0.5 per cent in 1998 as the economy went into recession. The effect of the crisis though cannot be segregated from an equally deleterious effect of the El Nino phenomenon which greatly affected agricultural harvests in 1998. Construction was also badly hit as well as industry and manufacturing. The service sectors also declined mainly because of the financial and real estate sectors. Recovery is in sight as GDP increased by 1.0 per cent in the first quarter of 1999 with agriculture registering high growth with bumper harvests in palay, corn and other products. Projected GDP rates for 1999 is a respectable 3.0 per cent as the economy rebounds.

3.4 Price changes

The sharp decrease in output started to affect prices in 1998. In 1997, average inflation rate still was single digit at 5.7 per cent as inventories were still being drawn down. By 1998, however, inflation reached 9.7 per cent as the full effect of the crisis became felt (inflation reaching double digit levels at year end in 1998). As the CPI is based on a basket with 60 per cent food items, inflation started to peak at the height of the El Nino and the crisis as agriculture was doubly hit. In August 1999 inflation has decelerated to 5.5 per cent as the economy recovers with a bumper crop harvest in the early months of this year, contributing to this downward trend. Oil price increases in the months of September and October 1999 however may increase inflation to six to 7 per cent at the year's end.

3.5 Fiscal adjustments

The slowdown of the economy also affected revenues as tax, particularly customs duties sharply decreased. Tax revenues for 1998 dipped to PHP459.73 billion from PHP471.84 billion in 1998. Even with a mandated 25 per cent decrease in expenditures, the fiscal deficit rose to PHP15 billion by the second quarter of 1998 reaching PHP40 billion at the end of the year. As the government and the IMF agreed to pump priming in 1999, the expected deficit will reach a whopping PHP80 billion in 1999.

3.6 Dampened business environment

With relatively unstable prices and exchange rates, spiraling interest rates and tightening of credit, the business environment was dampened. Many firms especially small and medium enterprises were not able to meet loan obligations. Estimates exist that around 50 per cent of SME borrowers were not able to meet loan obligations on time. Meanwhile total non-performing loans of banks have risen to 12 per cent of the total loan portfolio in the first quarter of 1999. Big firms with dollar denominated loans were confronted with liquidity problems and incurred heavy losses.[8] Several banks went under and these include Orient Bank, Unisave and very recently, Prime Savings Bank. 1998 saw business confidence at its lowest level but in 1999 the economic growth rate may even reach a maximum of 3.5 per cent.

4. The impact on social development

4.1 Labor market and employment

The bleak economic environment affected the labour market directly through lay-offs and retrenchments. Table 7 shows the comparative figures from 1997 to 1998. The latter year saw total worker lay-offs almost trebled from 59 861 to 155 198. Establishments closing down increased from 1103 to 3776.

Table 7: Establishments resorting to closure/retrenchment due to economic reasons and workers affected, 1997-1998

	Number of establishments				Number of workers affected			
Year	Total	Closure	Retrench	Rotation	Total	Perm'nt	Temp'ry	Rotation
1997	1,103	320	790	46	59,861	37,914	18,501	3,446
1Q	309	106	215	14	15,848	12,201	2,596	1,051
2Q	271	78	201	12	17,265	9,260	7,177	828
3Q	289	63	255	9	11,740	7,168	3,802	770
4Q	337	84	268	14	15,008	9,285	4,926	797
1998	3,776	657	2,798	321	155,198	76,726	50,744	27,728
1Q	1,172	265	829	88	52,191	22,844	20,739	8,608
2Q	823	148	591	84	31,661	17,079	8,703	5,879
3Q	968	134	751	83	45,218	22,332	14,345	8,541
4Q	813	120	627	66	26,128	14,471	6,957	4,700

Source: Reyes and Mandap (1999) from Bureau of Labor Statistics (BLS)

For the first three months of 1999, some 615 establishments resorted to permanent closure which is 26.3 per cent lower for the same period in 1998. A total of 13 228 workers lost their jobs permanently which is about half of the number 22 284 reported in 1998.

In terms of labour force participation rates, there was an increase for those aged 15-19 for both males and females and for urban and rural areas. These increased youth labour participation rates correspond to a decrease in high school enrolment for 1998 to 1999 especially for girls. With regard to unemployment and underemployment, Table 8 shows that around 1.16 million people were added to underutilised labour in the country from 1997 to 1998. According to Lim (undated), the crisis seems to have increased labour participation rates among the very young (15-19) for both sexes and for fe-

[8] Examples include Philippine Airlines, Mondragon Group of Companies and the Triple V chain of restaurants.

males aged 20 to 24. Females are also moving out of unpaid family work into paid ones as a coping mechanism.

Table 8: Unemployment and underemployment in October 1998

	Number	% of Labour force	Increase over a year
Unemployed	3.01 million	9.6	639,000
Visibly Underemployed	3.56 million	10.0	629,000
Invisibly Underemployed	3.14 million	11.3	267,000
Total	9.71 million	30.9	1.16 million

Source: Bureau of Labor Statistics

4.2 Effects on labour relations

1998 saw less confrontations in the labour front in terms of strike notices filed[9], number of workers involved (down by 34 per cent) and actual man days lost (decrease of 15 per cent). In most crisis situations as in 1983 and 1986, the number of strikes usually accelerate because of greater uncertainties. However, in this recent crisis, while the number of strikes remained almost the same, the magnitude and depth of the strikes decreased. Maybe this was due to a decreased bargaining leverage of the unions as unemployment increased and because of the obvious bankruptcies of a number of firms. Another reason was the increasing use of the private sector of flexible labour (i.e. subcontracting) which in turn diluted union strength at the factory level. Talks between some employers and national unions ended into no-strike no lay-off deals among member companies and unions. The first quarter of 1999 even saw a bigger decrease in strike activity.

4.3 Inflation effects on the social sector

Price increases affect fixed income earners as wage increases do not usually match inflation rates. Lim (1998) argues that regional wage hikes[10] in 1998 ranging from 3.7 to 14.5 per cent may not be able to cover increases in food and commodity prices. In addition, compliance to wage orders was less than 60 per cent of all firms. He added that a year after a crisis occurs, real wages sharply decline as what happened in 1984 and 1991. The same was true for labour's share in total GNP which declined in 1984 and 1991. And this actually happened in 1998, the worst stage of the crisis.

In terms of income distribution, Reyes and Mandap (1999) using a financial computable general equilibrium model, simulated the effects of the crisis on the incomes of households.[11] The results show that the lower income deciles experienced larger percentage declines in incomes as compared to higher income deciles. Thus, it is expected this year that poverty incidence will be higher than the 32.7 registered in 1997. Lim (1998) also noted that in periods of growth, income inequality improves while in crisis (1991), income distribution deteriorates. The reason he explains is because lower income groups are fixed wage earners, unemployed or self-employed in the informal and rural sectors, while the richer groups are propertied individuals whose asset returns go up with inflation and high interest rates.

---

[9] November 1998 figure for notices is 726 compared to 851 the year before.
[10] Wage increases in the Philippines are mandated by regional wage boards.
[11] Their CGE model does not separate the effects of the Asian crisis and the El Nino phenomenon.

4.4 Effects on social indicators

With regard to consumption for social and human development, the CGE model of Reyes and Mandap (1999) shows that while the crisis affected the nutrition intake of all households, it was the lower income group which experienced the highest decline. The demand for health care services was also altered especially for public and charity clinics during the crisis. In terms of education, the bottom 30 per cent of families were the most vulnerable in terms of reduced student enrolees.

Lim (1998) ran some annual regressions showing the links between some human and social development indicators and economic factors. From the results, he concluded that the health index of the population will deteriorate and will unduly affect the children and mothers. In terms of education, he predicts that if expenditure cutbacks are effected, elementary school enrolment will suffer and the impact on human capital will generally be negative. Fortunately the crisis has reached its bottom since a prolonged crisis will have long-term harmful effects on human capital formation and labour productivity.

4.5 Effects of the mandated cuts on social services

Lim (1998) reported a survey of the National Economic and Development Authority and the Budget Department on how a 25 per cent cut mandated by the Ramos government in mid-1997 to mid-1998 will affect social services. The following are interesting assertions:

- In terms of housing, 18,226 housing starts and 2,794 completions will be affected
- In education, new classrooms will be reduced by 2,567 units and new desks by 59,353 affecting 118,706 students.
- In terms of health, reduction in case findings and treatments in the Malaria Control program may lead to 29,000 deaths; under the TB program around 90,000 patients may not be treated and will lead to 1.8 million being infected; immunisation targets will be reduced by 23.3%
- In terms of nutrition program, a substantial reduction in beneficiaries composed of 436,090 children aged 12-59 months, 749,893 women aged 15-40 years for iodine and 166,667 pregnant women for iron

Aside from these, 10 per cent of the Internal Revenue Allotment (IRA) of local government units (LGUs) were withheld. These translates into LGUs having reduced capacities to perform devolved functions like health and social welfare services. The current administration reversed this policy and has been in a spending strategy to revive the economy.

4.6 Effects on credit/microcredit

Jimenez (1999) reports that the crisis also affected microfinance institutions (MFIs) in terms of available funds they can lend to microentrepreneurs. According to him, commercial banks through the Bankers Association of the Philippines Credit Guarantee Corporation either terminated or reduced credit lines available to microfinance institutions. These were in response to the increasing non-

performing loans portfolio of the banks which reached double digit levels in December 1998. The Central Bank (BSP) required banks to lessen their exposure to non-collateralised loans which consist of the bulk of microfinance portfolios. Because of this situation, the People's Finance and Credit Corporation, the apex organisation for microfinance in the country was swamped with requests from MFIs for higher credit lines. At the grassroot levels, the demand for loans increased as the total amount of loans also went up. Urban based MFIs reported that their repayment rates were relatively stable unlike the rural based ones which were subject to increased default rates mainly because of the dry spell spawned by the El Nino phenomenon.

4.7 Effects on international migration

In terms of deployed overseas Filipino workers (OFWs), the total number even increased from 747 696 in 1997 to 756 684 in 1998. The trend in deployment for the first quarter of 1999 (around 230 000) is also upward. Going abroad has always been a response to previous economic crises in 1983 and 1990. The decline in migration may be found only in the destination countries in Asia. From 235 129 deployed in 1997, a total of 221 257 was recorded in 1998. Bohning (1998) estimated the effects of the crisis on OFW deployment by computing individual country 'employment elasticity of growth'. He comes out with an estimated decrease of 45 600 Filipino OFW. Relatively large cumulative losses in employment were found for Korea, Malaysia, Thailand and Singapore. Lim (1998) and De Dios (1999) also note the heightened pressure on OFWs to increase remittance to relatives as these funds transfer help people in the Philippines to cope with the crisis.

4.8 Environmental impacts

While there were no concrete data to assess the environmental impact of the crisis, Lim (1998) considered the following:

- the 25% cut in the Department of the Environment and Natural resources Budget will affect reforestation and conservation programs both local and foreign funded
- high interest rates will discourage private investments in natural resource conservation, pollution control and more environmental friendly equipment
- uncertainty will encourage over-extraction and over-utilisation of natural resources and over-production of pollutants
- currency depreciation would give economic incentives to the mining industry and forestry

5. Responses to the crisis

5.1 Government response

In February 1998, the Ramos government convened a multi-sectoral summit to address the ongoing economic crisis. Four key issues were tackled by the meeting - currency exchange rate problem and interest rates, fiscal discipline and savings, protecting jobs and enhancing productivity, and protecting the vulnerable groups. The key responses proposed by the summit included:

- activation of the Public Employment Service Offices (PESO) which are to provide job placements and implement training and credit programs for the unemployed
- the provision of a PHP200 million emergency loan from the Social Security System for displaced workers for setting up small businesses
- monitoring of prices of prime commodities by the Department of Trade and Industry to check unscrupulous food dealers and suppliers
- provision of an increased supply of rice to assist drought affected areas especially in Mindanao
- setting up of a PHP4 billion Enterprise Stabilisation Guarantee Fund to help small and medium distressed enterprises in their liquidity problem.

However, the main constraint for all these proposals was funding as the government also mandated a 25 per cent cut in all government expenditures without exempting even the agencies delivering social services. After a year from July 1997, most of the proposals have not been implemented (Tuano 1999). Implementation constraints still plague the government bureaucracy at both the local and national levels until the present time.

The Estrada administration, once it came to power, exempted the social services from the mandatory savings strategy. It started to borrow from abroad to cover the ballooning fiscal deficit. It also successfully negotiated with the IMF the 'license' to pump prime the economy in late 1998 and in 1999. A PHP70-80 billion deficit was agreed upon by parties as crucial for economic growth to ensue. The Estrada administration was also successful in bringing down interest and inflation rates in early 1999 though this may increase again at year end.

5.2 Private sector responses

Esguerra (1997) analysed the emerging labour flexibility in the Philippines as companies gear up for greater competition brought about by globalisation in general and liberalisation policies in particular. He added that the private sector in the Philippines is shifting to subcontracting and casualisation of labour not because they want to bust unions but basically due to the prevailing economic environment. Because of the current crisis, more firms are resorting to subcontracting and strategies for greater labour flexibility. Lim (1998) reports a Personnel Management Association of the Philippines (PMAP) survey of firms on how they are coping with the crisis - by freezing hiring, cuts in training activities, retrenchments and downsizing, minimal salary increases and again, subcontracting. Many local firms try to make their workers do other functions to save on costs. The banking sector has responded to the crisis by becoming more selective in their lending and thus tightening credit.[12] Foreign portfolio and direct investments have dramatically decreased especially in 1998 because of the bleak business environment during that time. The stock market was recovering in the second quarter of 1999 but went downward again in the fourth quarter. Foreign direct investments still need to expand and this has catalysed the President in trying to initiate changes in the economic provisions of the Philippine Constitution.

[12] Although Lim(1998) mentions that the banks have an implicit agreement to keep spreads low from two to 7 per cent.

5.3 Labor responses

Antonio Asper, Vice President for International Relations of the Federation of Free Workers, a big national union, summarised the adverse effects of the crisis on individual workers:[13]

- job insecurity and separation leading to income loss
- threat of subcontracting and other forms of labor flexibility
- fatigue and stress from multi-job functions
- weakened job control functions
- increased hazards due to job consolidation
- less bargaining leverage due to high unemployment and underemployment levels

The last effect mentioned had in a way weakened unions in terms of bargaining for wage increases and other benefits as they focused on the objective of job preservation. This could also be the reason for the relatively less industrial conflicts which many wrongly predicted to rise. De Dios (1999) explained that the crisis had made workers realise the 'true financial picture' for most firms and that 'organised labour had demonstrated astonishing flexibility and maturity in agreeing to various cost-cutting measures of the private sector to save jobs'. Specific unions had also devised livelihood and training programmes to cater to dismissed or retrenched members. Others ventured into job placements for such members and a few engaged in actual labour contracting for members.

5.4 The social accord for industrial harmony

On February 6, 1998, major labour groups and employers confederations signed a social accord witnessed by the Trade and Labour Departments. The agreement committed the employers to 'exercise utmost restraint in the lay-off, termination or rotation of their employees' and the workers to 'exercise utmost restraint in declaring strikes, engaging in slowdowns and other forms of concerted action which should be availed of only at the last resort'.

5.5 NGO responses

Many Philippine non-government organisations (NGOs) are foreign donor funded and some were able to earn windfall income from the peso devaluation as their grants were dollar denominated. This had given them opportunities to expand their programmes and extend these geographically. One foreign donor NGO which is UK based even opened a small grants window for community based responses to the crisis. Unfortunately not so many NGOs responded to such call. Some NGOs contended that their current programmes addressing the marginalised sectors were already responding to the effects of the crisis (e.g. microcredit programmes, health and livelihood programmes). Some argued that the provision for safety-nets during a crisis was solely a government responsibility. Mainstream development NGO networks did not have specific programmes to respond to the crisis except for some groups that initiated a campaign on the Mindanao drought.

---

13. Presented at the National Tripartite Conference on the Social Response to the Financial Crisis, April 1998.

6. Lessons and insights learned from the crisis

Globalisation has indeed arrived. Its social impact has been hightened by the current East Asian crisis. Economists and policy makers from various streams are calling for a new financial architecture which will respond to the volatility of financial and capital markets. These new models or paradigms should accept the need for greater controls (capital and exchange rate) which are internationally coordinated (e.g. the Tobin tax) and for prudential regulations from the state. In a more general sense, prominent economists like Joseph Stiglitz and recent Nobel Prize winner Amartya Sen have called for a rethinking of the so-called Washington Consensus towards a more equitable, sustainable and participatory development.

At the country level, governments must be able to refine short-term responses to crisis situations since such may again occur in the future. Time and again, governments both local and national enter a crisis situation unprepared. A more systematic and integrated response should be designed to weather various types of crises. At the same time other sectors of society must also be willing to assist government in the implementation of such measures. Governments in partnership with these sectors (i.e. business and civil society) should also pay attention to long term social and human development programmes which eventually will improve the living standards of the majority of the people. In such a situation, individually they may be able to withstand any type of economic crisis that may occur in the future.

References

- Ahuja, V. et al (1997), *Everyone's Miracle? Revisiting Poverty Reduction and Inequality in East Asia*, Washingthon DC: The World Bank, unpublished manuscript.
- Bohning , W. (1998) 'Conceptualizing and Simulating the Impact of the Crisis,' *Asia Pacific Migration Journal*, Scalibrini Migration Center, **5** (2-3).
- De Dios, E. (1999), *The Economic Crisis and Its Impact on Labour*, Manila: Philippine Center for Policy Studies and OXFAM.
- Esguerra, E. (1997), 'Labor Flexibility in the Philippines' in *Emerging Labor Market Issues in the Philippines,* Manila: Institute for Developing Economies.
- Intal, P. (1994), 'State of Poverty in the Philippines: An Overview', in P. Intal and M. C. S. Bantilan (eds), *Understanding Poverty and Inequity in the Philippines*, Makati, Philippines: National Economic and Development Authority and United Nations Development Programme.
- Jiminez, E. (1999), *The Impact of the Crisis on Microfinance*, APPEND, unpublished manuscript.
- Lim, J. (1998), 'Social Impact of and Responses to the Current East and Financial Asian Crisis', in *Social Impact of the Asian Financial Crisis*, Seoul: Korea Development Institute and UNDP.
- Lim, J. (undated), *Learning From the East Asian Crisis: The Case of the Philippines*, manuscript.
- Mangahas, M. (1997), *Public Opinion Survey, Social Weather Station*, 1997.
- Mercado-Aldaba, R. (1995), 'Foreign Direct Investments in the Philippines: A Reassessment' in Medalla, E. et al. (eds), *Catching Up with the Tigers,* Manila: PIDS.
- Monsod, S. and T. Monsod (1999), 'International and Intranational Comparisons of Philippine Poverty' in Balisacan, A. (ed), *Causes of Poverty: Myths, Facts and Policies: A Philippine Study*, Quezon City: UP Press.
- National Statistical Coordinating Board (1996), *Philippine Poverty Statistics*, Manila: NSCB, mimeograph.
- Reyes, C. and A. Mandap (1999), 'An Analysis of the Social Impact of the Financial Crisis in the Philippines', *MIMAP Project Updates*, **VI** (1), March.
- Reyes, R. (1998) 'Whither Agrarian Reform?', in Sta. Ana, F.(ed), *The State and Market*, Manila: Ateneo Press.
- Tuano P. (1999), *Labor Market Effects of the East Asian Crisis: the Philippine Case*, Singapore-Manila: Institute of Southeast Asian Studies (ISEAS) and Ateneo Center for Social Policy and Public Affairs.
- World Bank (1988), 'The Philippines: The Challenge of Poverty'. *Report No. 7144-PH*. Washington DC: East Asia and the Pacific Country Operations Division.
- World Bank (1993), *The East Asian Miracle: Economic Growth and Public Policy*, New York: Oxford University Press.