STATE OF THE NATION REPORTS

IMPERATIVES FOR SUSTAINABLE INDUSTRIALIZATION

V. Bruce J. Tolentino

Number 9

University of the Philippines Press
and the
Center for Integrative and
Development Studies

About the UP Assessments on the State of the Nation

The UP Assessments on the State of the Nation: A Multi-Disciplinary Research and Outreach Program was launched by UP President Jose V. Abueva in 1989 to inquire into eight vital areas of Philippine society: Population, Resources, Environment and Sustainable Development; Values, Culture and Communication in Relation to Nation-Building and Development; Education, Learning and Development; Science, Technology and Development; Basic Human Needs; The National Economy, Public Welfare and Global Interdependence; Governance, Public Welfare and Social Justice; and The Well-Being, Welfare and Development of People. Administered by the University of the Philippines-Center for Integrative and Development Studies, the project seeks to identify weaknesses and strengths in policies, programs and other measures that are currently being applied to the solution of our national problems. It hopes to generate reasoned criticisms and sound policy options concerning the State of the Nation.

About the UP Center for Integrative and Development Studies

The UP Center for Integrative and Development Studies (UP-CIDS) was established in September 1985 to promote interdisciplinary studies on critical topics that influence development policies and issues.

The UP-CIDS initiates and supports research involving innovative methodological approaches and multi-disciplinary collaboration. While public policy questions are the primary concern of UP-CIDS, it also encourages basic research that is needed for informed formulation of policy.

The UP-CIDS functions under the Office of the UP President. The UP-CIDS has four major programs, the UP State of the Nation Assessment Program; the Peace, Conflict Resolution, and Human Rights Program; the Educational Research Program; and Special Programs. For further information, contact: The Executive Director, UP-CIDS, UP Diliman, Quezon City. Tel. Nos. 97-35-40, 99-96-91 (fax) and 98-24-71/79 local 5518.

IMPERATIVES FOR SUSTAINABLE INDUSTRIALIZATION

V. Bruce J. Tolentino
Visiting Associate Professor
University of the Philippines at Los Baños

UP CENTER FOR INTEGRATIVE AND DEVELOPMENT STUDIES
in cooperation with the
UNIVERSITY OF THE PHILIPPINES PRESS

COPYRIGHT 1993
UP-CIDS
ISBN No. 971-8797-07-6
August 1993

TABLE OF CONTENTS

Page

Foreword 5

Imperatives for Sustainable Industrialization

Introduction 7

What Gains? 8

1. Participatory Effort and Advocacy 8

2. Holding the Line on Poverty 9

3. Improved Foundation for Competitiveness of the Economy, Particularly in Agriculture 10

4. Support for Agriculture and Agri-Based Development 10

5. Increased Resources for Agriculture and Rural Development 11

The Lessons of the 1986-1992 Experience 11

1. The Correctness of the Agriculture-Based Strategy 12

2. Agriculture: The Key to Sustained Growth 13

3. The Execution of Economic Policy Reforms 15

4. The Politics of Economic Reform 17

5. Wielding the Bureaucracy 18

6. Political Will Plus Political Skill? 19

The Imperatives for Sustainable Industrialization 20

A Final Word 25

End Notes 27

References 28

FOREWORD

One year and two State-of-the-Nation addresses since President Fidel V. Ramos took over the reins of government, the promise of economic development continues to elude us. Yet, in the President's own assessment, the tide of underdevelopment will have to be reversed. Failure to do so will result in grave consequences for the Philippines.

Written by an insider, the ninth issue of the *UP State of the Nation Report* Series shares some of the difficulties of policy making in the Aquino administration and draws lessons the Ramos government can learn from. In particular, the report stresses the importance of formulating development strategies which consider the realities of democratic space and the inequitable balance of influence and resources among interest groups. The government's ability to focus and make hard choices from alternative strategies while forging popular support can spell a difference in the country's future development trajectory.

Taking off from some initiatives towards economic recovery and growth during the Aquino administration, Dr. V. Bruce Tolentino, former Undersecretary for Policy and Planning of the Department of Agriculture, argues for an agro-based development strategy and discusses several imperatives for sustainable industrialization. These are: attention to agricultural productivity; liberal economic environment which promotes competetiveness, a fiscal program supportive of rural and agricultural growth; strict priority focus on agro-based industrialization; and sustained advocacy and communication for the development agenda.

Dr. Tolentino is currently a Research Fellow of the Philippine Institute for Development Studies and a Visiting Associate Professor of the Department of Agricultural Economics, College of Development Economics and Management, University of the Philippines, Los Banos. His report is based on a paper he originally presented at the Fourth International Philippine Studies Conference held in Australia on July 1-3, 1992.

A grant from the Ford Foundation to condense and popularize scholarly studies under the UP Assessments on the State of the Nation Program enabled the University of the Philippines-Center for Integrative and Development Studies (UP-CIDS) to publish this report in cooperation with the U.P. Press. Dr. Emmanuel de Dios and Professor Sylvia Ventura provided editorial suggestions while Joy Aparis and Bella Lucas saw the report through the different stages of publication with the help of Ellen Cometa, Nanie Domingo and Stretch Payawal. As in all our publications, the assessments and recommendations are those of the author whose academic freedom is upheld by the University.

Maria Cynthia Rose Banzon-Bautista, Ph.D.
General Editor

IMPERATIVES FOR SUSTAINABLE INDUSTRIALIZATION

Introduction

On May 11, 1992, Filipinos went to the polls in the first nationwide election under a Constitution framed in the fervor that followed the 1986 revolution which toppled Ferdinand Marcos and catapulted Corazon Aquino into leadership. In the last few months before the election, it had become clear that many Filipinos were looking to the polls as a new beginning. Given the sense of unfulfilled expectations which pervaded the last two years of the Aquino presidency, the election promised a catharsis, a rebirth toward development and national pride.

Fidel V. Ramos is now the new President of the Philippines. It behooves Mr. Ramos to make a careful assessment of the Aquino administration as he launches his own bid in history. A careful examination of the Aquino period reveals lessons and insights which, if heeded, may be of significant value to the Ramos government in the unending pursuit of development.

This paper delineates a number of key accomplishments of the Aquino period and points to some lessons learned from the experience of governance from 1986 to mid-1992. It details the imperatives needed to sustain and accelerate the initiatives toward growth and development which have already been accomplished.

What Gains?

If there is a single area where the Aquino administration achieved unqualified advances, it is in the restoration of democratic institutions. The three branches of government – the legislative, executive and the judicial – are once more fully active, exploring their rediscovered powers and testing the limits of their mutual influence and independence. The media has blossomed. There are six nationwide television networks, at least two dozen national dailies of every political persuasion, and several radio stations freely filling the airwaves with information and opinion. Freedom of assembly and expression has been fully restored, and the Philippine policy-making scene often appears to be a raucous, riotous cacophony.

1. *Participatory Effort and Advocacy*

The climate of freedom nurtured since 1986 has allowed the full flowering of development-oriented private voluntary organizations/non-government organizations (PVOs/NGOs). In the Marcos era NGOs served more as semi-underground mechanisms of resource mobilization, organization and sometimes politicalization and dissent. Under the Aquino administration PVOs/NGOs have achieved the status of mainstream institutions, involved in a very varied range of activities, but in general tending toward livelihood support and advocacy.

The Aquino administration created unprecedented opportunities and avenues for PVO/NGO participation in government – from policy-making to implementation. Public resources are now also shared with PVOs. In many instances PVOs are seen as a preferred mechanism for the distribution of resources. Aquino even organized a movement – the *Kabisig* – which, among other purposes, sought to establish the role of PVOs/NGOs as the key agents for participative governance. This was seen as a natural outgrowth of the "people power" movement that brought Aquino into office.

In agriculture, there are mechanisms for participatory policy-making, development planning and budgeting. These include:

a. the institutionalization of the sectoral, national, regional, provincial and municipal agricultural and fisheries councils (AFCs) chaired and dominated by representatives of the private sector;

b. the intensification of work and partnership with peasants' groups, the joint work on the National Agricultural Development Plan; support for the Peasant Forum, the National Farmers' Advisory Council and the establishment of the National Peasant Council;

c. participatory, multi-sectoral, problem-solving or consultative task forces on critical programs and issues: the Comprehensive Agrarian Reform Program, land use policy, food security, development strategy, barriers to trade, deregulation, pesticides, credit, etc.;

d. scrutiny and review of the annual operating budget of the Department of Agriculture (DA) by the AFCs prior to submission to Congress; and

e. aggressive support for and early implementation of decentralization of functions and devolution of authority. For example, while the Local Government Code was enacted only in 1991 and took effect in 1992, the DA as early as 1988 had already arranged for: the direct release of budgets to provinces without need for central office clearance; local AFC control over the funds of the Livelihood Enhancement for Agricultural Development (LEAD) program; and the critical, local-level management of the rice and corn programs by task forces headed by the Provincial Governors.

2. *Holding the Line on Poverty*

The 1985 Family Income and Expenditures Survey (FIES) counted the number of families earning incomes below the poverty line at 59%. The 1988 FIES shows some marginal improvement, with the level of poverty declining to 56%. The gain is slight, but this must be viewed against the history of a *continuous* increase in headcount poverty in the decade *prior* to 1986.

There was impressive growth in Gross National Product from 1986 to 1988. However, 1989 to 1991 were troubled, suffering the consequences of the failed coup attempt of December 1989, the earthquake in 1990, the eruption of Mount Pinatubo in 1991 and intermittent drought and flood in various parts of the country.

Due principally to a steady, reliable performance by the agricultural sector, the acute level of poverty has at least not deteriorated further. Industry, particularly manufacturing, has performed erratically, being very

sensitive to the instability of both the economy and the politics of the country. Through the entire experience, the agriculture sector has maintained stable growth, cushioning the volatility of the other sectors of the economy.

The greatest concentrations of the poor in the Philippines are in the rural agricultural sector. Rice, corn and coconut farmers make up the bulk of the rural population. The country was able to regain self-sufficiency in rice in 1990. Corn was also exported in 1990 the first time since the 1950s. The increase in cereal production undoubtedly helped the farming sector hold the line on poverty in a situation of overall disadvantage.

3. *Improved Foundations for Competitiveness of the Economy, Particularly in Agriculture*

One of the first and most important acts of the Aquino government was to dismantle the monopolies in the trading of copra, coconut oil, wheat, sugar, meat and fertilizer. The rural credit system was drastically overhauled. Most direct lending and subsidized interest programs were consolidated into the Comprehensive Agricultural Loan Fund (CALF). These bold strokes have resulted in much greater and broader private participation, ownership and control of the enterprises in these sectors. Greater equity in the sharing of gains from the operation of these sectors, not only in the chain of producers and processors but also for consumers was achieved. An ambitious privatization program was also launched and capped in March 1992 by the disposition of Philippine Airlines. The government continued the tariff reform program initiated in the early 1980s. Thus the tariff structure became more conducive to world-competitiveness: average rates were much lower, and tariffs across sectors (particularly between agriculture and non-agriculture) more uniform.

These actions came none too soon, and even needed to be accelerated. In fact, the price competitiveness of the Philippines relative to Indonesia, China, Thailand and Sri Lanka has deteriorated in recent years.

4. *Support for Agriculture and Agri-Based Development*

The perception of agriculture as being limited to farm-level production is increasingly giving way to an understanding of agriculture's critical,

dominant role in the overall economy. There is a greater empathy for the plight of farmers; and recent surveys indicate that consumers in general would be willing to pay more for the rice that they buy.[1]

This suggests a greater acceptance of a rural-based, agro-industrial strategy for development. The constitutional mandate reflects this understanding. The formulation and launching by the government of a series of rural development strategies, the latest of which are: (a) the Countryside Agro-Industrial Development Strategy (CAIDS); and (b) the Agro-Industrial Development Areas (AIDA) program support the trend. The platforms of all political parties and their so-called "Presidentiables" in the 1992 electoral campaigns invariably emphasized the eminence of agriculture in the development process.

5. *Increased Resources for Agriculture and Rural Development*

The Philippine economy grew fastest between 1973 to 1979, when public spending for rural infrastructure peaked. Such investment dropped by about 14% per year between 1980 and 1986, the period of greatest greed among Marcos and his cronies and the decline in their political preeminence.

In 1990, the proportion of the public budget allocated to agriculture and rural development has reversed from its downslide since 1978. While the current level is still far from ideal, the positive growth reflects greater concern with rural and agricultural growth as an area of significant returns to the entire economy of the investment of public resources.

The Lessons of the 1986 – 1992 Experience

Not all the expectations and aspirations expressed and promised in the heady days of early 1986 were fulfilled. The fundamental lesson learned by those who naively entered government with President Aquino is that governance is not easy. The closing months of Aquino's term brought home the sobering realization that much more remains to be done. Poverty has yet to be turned back, particularly in the rural areas. The Philippines' record of growth does not reflect the pattern observed in the experience of many of the newly-industrializing countries – the neighbors of the Philippines and the "laggards" of twenty years ago. While Philippine agricultural growth has been

quite respectable by general standards, it has not served as the base for non-agricultural expansion. It was the off-farm, small, agro-based enterprise that provided the foundation of industrialization in the Asian Newly-Industrializing Countries (NICs), but this process seems to have been stymied in the Philippine case. The Ramos administration must heed these lessons to minimize, if not avoid, the wandering and the mistakes made in the Aquino presidency.

1. *The Correctness of the Agriculture-Based Strategy*

Only recently has it been widely realized in Philippine policy-making that the agriculture-based strategy is the key to the country's economic recovery and development. Indeed, painful experience has now unequivocally demonstrated that an agriculture and rural-based development strategy is *socially, politically and economically correct.*

a. It is *socially correct* because:

   1) the majority of Filipinos live in the rural, agricultural areas;

   2) about 60% of Filipinos derive their incomes directly or indirectly from agricultural and agriculture-based employment;

   3) Filipinos in general, because of their relatively low incomes, spend about half their incomes on food. Any reductions in food prices thus benefit the majority of Filipinos;

   4) rural/agricultural incomes per capita are only about half of urban incomes; and

   5) two-thirds of the poor, and most of the malnourished, are found in the rural/agricultural sector.

b. An agriculture-based strategy is also *politically correct* because:

   1) the majority of voters are in the rural areas and derive their incomes from agriculture;

   2) food security is a critical condition for political stability; and

   3) the institutionalization of democracy and the deconcentration of power make the adoption of a broad-based development strategy imperative.

c. Finally, and most critically, an agriculture-based development strategy is *economically correct* because:

1) most Filipinos' economic activities are agricultural – 45% of direct employment – over 10 million workers in 1990;

2) the Philippine economy's greatest comparative advantage is in semi-skilled, labor-intensive industries and agriculture – which will in turn generate the surpluses which will finance industrial development;

3) the rural and agricultural sector is the principal market for domestic industry;

4) increases in the incomes of the majority of rural and agricultural Filipinos are spent on domestically produced goods;

5) agricultural commodities generate the majority of the net export income of the Philippines;

6) agriculture provides most of the raw materials for industry, and the foreign exchange to finance necessary imports;

7) agriculture provides most of the savings of the economy – most of which are lent to the industrial sector; and

8) agribusiness accounts for about two-thirds of all output of the economy. Many of the largest and most profitable corporations of the Philippines are agriculture-based enterprises.

2. *Agriculture: The Key to Sustained Growth*

Along with the realization that an agriculture-based strategy is the correct path to industrialization, there is also the fundamental reminder that the various sectors of the economy are intimately linked. Policies and programs enacted in one part of the economy affect the other sectors. The costs and benefits of sectoral programs cannot be assessed within the particular sector alone. Taxes on one sector are subsidies to others. More specifically, many Philippine policy-makers have learned, albeit the hard way, that decades of assistance and protection for industry have succeeded only in penalizing the non-industrial sectors, particularly agriculture and the rural areas.[2]

Macroeconomic policy in the Philippines – particularly monetary policy – has been overly conservative. Interest rates are among the highest in the region, held up by the government's prioritization of debt service in the context of a continuing fiscal deficit. The high lending rates have dampened investment, particularly in rural enterprises. The Central Bank's reluctance to liberalize bank organization and branching has contributed to the inadequacy of banking services, exacerbating the lack of access to loans in the rural areas. The dominant features of the government's macroeconomic policy has been the extreme defense of an overvalued peso via a combination of excessive attention to the needs of import-dependent industries, protective tariffs, foreign exchange controls and the Central Bank's strong participation in the trading of foreign exchange.

Fiscal policy has been strongly influenced by the imperatives of monetary policy. Public investment has been held to extremely low real levels by the priority placed on debt service. There has been more flexibility in spending rather than on revenues, given the constraints on the institutional changes required to increase the elasticity of the tax system, particularly in the already-dampened economy.

Given the generally low levels of public investment, it has been all the more difficult to prioritize the allocations for critical public infrastructure. Rural transport infrastructure, in particular, facilitates commerce, communication, trade, productivity and profitability among Philippine enterprises, most of which are rural or agriculture-based. Irrigation investments are also critical, since these increase the incomes of the farming sector and lead to lower food prices – twin effects which simultaneously contribute substantially to the alleviation of poverty.

Finally, the neglect of a rural and agriculture-based development strategy has meant the country failed to maximize employment opportunities. Labor intensity and employment-absorption among rural enterprises are greater compared to industry and manufacturing. It is the linkages engendered by agricultural growth that lead to the rapid expansion of the off-farm and service sectors, providing the base of raw materials, savings and market required for industry to prosper.

3. *The Execution of Economic Policy Reforms*

Soon after they came into office, President Aquino and her economic managers discovered that despite their best intentions and enthusiasm, the reforms and programs necessary for sustained growth were not easily identified nor accomplished. The reform process was increasingly difficult and complex, particularly since the task involved the dismantling of the results of over two decades of rent-seeking behavior by Marcos and his cronies. Furthermore, President Aquino chose to enact the reforms by constitutional, democratic procedures. This choice allowed the exercise of influence by all interest groups, including those who had already benefitted under the *status quo* and were thus better placed to make maximum use of the new opportunities. A number of lessons have emerged from this process. As in the Aquino period, reforms will be a central feature of Philippine governance. Attention to these lessons, with the benefit of 20-20 hindsight, is thus critical.

a. *Timing and Sequencing*

For economic as well as political reasons the timing and sequencing of reforms must be fully considered. This paper dwells only on the former. The basic lesson is that *reforms must be executed quickly, in simple yet significant packages*. The bold reforms dismantling the coconut, sugar, meat and wheat trading monopolies, as well as the purging of the portfolios of the Philippine National Bank and the Development Bank of the Philippines, are clear examples of reforms executed successfully. The Comprehensive Agrarian Reform Program (CARP) exemplifies how *not* to execute reform. In particular, CARP is now seen as too large, too ambitious, too complex, too expensive and too time-consuming.

It is easy to say that the most significant reforms must be pursued first. Should the "biggest first" reforms be feasible, then all is well. However, the most economically-significant reforms also pose danger to the biggest and/or most influential interest groups and thus arouse the greatest resistance. Thus the realities of reform may demand an incremental process. The large task may then need to be broken down into segments, phases, or steps which may be quickly completed and the advances preserved as the foundation for continuing adjustment. The reform of the price policy on grains and of the

National Food Authority is now proceeding in this fashion, carried out through three interrelated approaches: (1) corporate performance monitoring in collaboration with the Department of Finance, (2) "Project Self-Reliance" in cooperation with financing institutions, farmers' cooperatives, grains businessmen and local governments, and (3) the "Targeted Rice Subsidy" Project, in cooperation with the Department of Social Welfare and Development.

b. *Doing the Homework for Reforms*

Many of the reforms in 1986 were identified and executed under the guidance of the so-called "*Yellow*" [3] and "*Green*" [4] books on the Philippine economy in general and the rural/agricultural sector in particular. These were fairly comprehensive agendas for reform, prepared by knowledgeable observers of the economy, involving the best analysts from the Philippine academic community. The Department of Agriculture (DA) made full use of the "Green Book", adopting it as the initial development plan for the agriculture and rural sector. Many of the authors of the "Green Book" were also asked to join the DA and later the Department of Environment and Natural Resources (DENR), providing the initial core of implementing capacity for policy reform in the agriculture and natural resources bureaucracies.

Homework is particularly critical, since as the reforms progress, the targets become less obvious. It was fairly easy to identify and slay the dragons which were the coconut levy, the trading monopolies, the crony loans and non-performing assets. The objects of continuing reform are more difficult to clearly delineate and paint as evil. The real exchange rate, food subsidies, electricity and energy policy, the fiscal deficit, the debt and its ramifications were more complex, and difficult to reduce to straightforward, easily discernible, politically palatable options.

It is clear that continuing analysis is required to design, explain and successfully execute reforms, given the complexity and at times the subtlety of the process, its benefits and costs. To enable such analysis, continuing communication and collaboration must be maintained with the academic and policy analysis community.

4. *The Politics of Economic Reform*

The major agricultural reforms executed from 1986 to mid-1987 succeeded in large measure since the combination of President Aquino, Agriculture Minister Ramon Mitra and the lone Deputy Agriculture Minister Carlos Dominguez seemed ideal. At that time Aquino benefitted from the honeymoon between her and the population at large. The technocrat Dominguez executed the reforms, deciding and acting only on the basis of pure efficiency. Seasoned politician Mitra, then concurrently the Government's principal negotiator for peace with the communist rebels, handled the political consequences of the reform actions, brokering between interest groups and maintaining the momentum of the process.

Of course it helped that Congress still had to be created. Furthermore, particularly due to the speed of the reform process, many of the groups affected adversely (at least in the short-term) by the reforms were unable to mount any serious opposition.

The reform process became much more difficult after the elections and the convening of the Constitutional Commission in 1987, which witnessed the full opening of democratic space. Congress (220 members) and the Senate (24 members) were in session. Special interest groups and non-government organizations organized into lobbies had sprouted and multiplied. Media was unmuzzled. These institutions marvelled at their influence and attempted to exercise this to the hilt. The Aquino cabinet, most of whom were new to government, had to learn how to deal with these influences while the executive branch as a whole had to re-learn how to work with different forces, after having exercised legislative powers and untrammeled administrative authority for close to fifteen years.

In the last two years of the Aquino presidency, the various components of government bodies became much more comfortable with each other as well as special interest groups outside government. The many sides had largely completed the explorations of their respective powers and influences, and in the process had been able to deal with their initial over-expectations. This resulted in much more cordial, accommodating and pragmatic relationships, more conducive for constructive, problem-solving collaboration. Such

collaboration in the government is particularly critical for the major battle ahead against the existing interest groups that currently control most of the economy's resources.

5. *Wielding the Bureaucracy*

Many of the economic managers working with President Aquino were new to government. Most originated from the private sector and assumed their tasks with a great deal of enthusiasm, full of ideas and plans on how they would do things better than the deposed government. Thus one of the first acts undertaken by the new government was to reorganize, mounting a general effort to replace many of the key officers across the bureaucracy.

Soon after assuming office, many of Aquino's managers came to realize that governance is not as easy or as straightforward as it looks from the outside. Contrary to preconceptions, most people in the bureaucracy are honest, hardworking individuals. The critical task is to provide leadership and motivation to the organization, particularly via the focusing of incentives, energies and limited resources.

Aquino's managers also eventually realized, albeit grudgingly, that a substantial proportion of the reorganizations executed during the past six years were unnecessary, or even disruptive. These wholesale acts often needlessly discarded or wasted much of the experience and skills already embedded in the organization. At the minimum, the reorganizations unnecessarily disrupted the operations of the agencies. The ensuing dislocation often caused the loss of institutional memory which included information vital to the understanding of the current state of the organization and its management.

It was also later realized that the reorganization bludgeon was used much too often to reshape the bureaucracy, when there were other tools which could have been employed with more precision and less damage. At times reorganization was resorted to in dealing with the poor performance not of the organization as a whole but of only a few managers. Such clumsiness clearly hurt many more people than was desired, and at the very least caused much anxiety which only disrupted the whole work.

Finally, the bureaucratic skill most overlooked or underestimated was the capacity to *work* the bureaucracy: the ability to identify, capture and

move resources and logistics quickly and flexibly through the bureaucratic maze. This skill could be developed only via the experience of managing scarce resources in an *unavoidably* large, complex structure with multiple layers and levels of allocation, approval, control and accountability.

Of course many improvements needed to be made in the civil service. However, these must start with the recognition that the basic problems of the bureaucracy are structural in nature. As such, the solutions must be for the long-term and require the careful, programmed strengthening of the civil service, based on an improved fiscal budget and supported by a recovering economy. Over the long haul, civil service reform must result in a leaner, but much better compensated work force, a merit system, and a separate career ladder for scientists and technical specialists.

6. *Political Will Plus Political Skill?*

Implementation has undoubtedly been the most difficult aspect of the Aquino government's performance. The government did not lack in bright ideas, and in plans and programs on paper. In most cases their intentions have been laudable and clear. The bottlenecks and inadequacies have been in the *operationalization* of ideas and concepts: in logistics, organization and follow-through.

Inadequacies in implementation may be dealt with by attempting to increase the capacity of the bureaucracy to handle the load, to provide more resources and logistics, or to reorganize. Another approach, given the realities of severe resource constraints, is to *focus*. [5] It was only relatively late in the Aquino administration that its strategy in implementation shifted from one dominated by the former to that characterized by the latter. The lesson is thus: to carefully draw up a short, simple list of goals to be achieved and activities to be undertaken by the entire organization within a definite time frame, considering the potential benefits and the resources that must be invested in the venture. *Then,* concentrate on completing the short list, resisting the impossible task of attempting to attend to all needs simultaneously.

The record of implementation in the Aquino regime reflects the fact that the task was made more complicated, and the already formidable obstacles

exacerbated, by the attention which the government gave to transparency. Such attention, in the context of a resurgent democracy marked by a freely participating, opinionated public, required true stamina and persistence to continue on the job. It also necessitated well-developed skills, time and resources invested in extensive and exhaustive consultation and communication with opinion makers and the public at large. A drawback of the "open participation" policy is that the better-organized, more connected interest groups are able to exert more influence on policy. Thus the government needs to take a pro-active stance to create a "level playing field."

Many commentators have often attributed, rather casually, the mediocre implementing record of the Aquino era to a lack of "political will." They allege that the government, in carrying out the policy reform program, should have continued with the process "no matter what," even in the face of opposition from those hurt or losing privileges as a result of the reforms. These comments may be shortsighted, failing to realize that *political will has to be based on political support.*

Given a vision of governance, the administration has to translate the vision into a mandate for development. Thus, what was short in the Aquino leadership might not have been only political will, but also the political *skill* required to build and maintain the popular support necessary to generate consensus on the necessity of the reforms.

The Imperatives for Sustainable Industrialization

Given the experience of 1986-1992, what are the critical features of an economic program that will channel the limited resources of the government into those areas which will provide the greatest return? We have learned that the government's agenda ought to be short and focused. Therefore, given a commitment to equitable and sustainable development, the economic program must include the following: (1) attention to agricultural productivity and growth, (2) a liberal economic environment which promotes competitiveness, (3) a fiscal program that supports rural and agricultural growth, (4) strict priority focused on agro-based industrialization, and (5) continuing, extensive advocacy and communication supportive of the development agenda.

1. The Revitalization of Agricultural Productivity

The Philippines' land frontier was reached in the mid-1960s. Land available for agriculture has shrunk since, and will continue to shrink due to the pressure of rapid population growth and urbanization. Thus any gains in production must come from increases in yields, reductions in the cost of production and the more efficient and intensive use of available land.

Increases in yields are made possible only through the application of improved technology, in terms of higher-yielding varieties, better management, land-multiplying irrigation infrastructure, or more intensive use of fertilizer and other yield-increasing inputs. Such technology can be accessed only through investments in research and infrastructure, or in the purchase of technology from technology centers. In the case of rice, the Philippines is host to the International Rice Research Institute (IRRI) and is thus fortunate that its costs of sourcing innovations from the world center on rice research is relatively lower than that incurred by other nations. Yet the technology developed by the IRRI is targeted internationally. Countries still have to invest in national research to translate IRRI's work into their local growing conditions.

The Philippines was somewhat lulled into complacency by the presence of IRRI. Thus it failed to develop its national rice research system. While Thailand, Indonesia and India established their national rice research systems in the 1970s, the Philippine Rice Research Institute started operations only in 1986. On the whole, the Philippines failed to invest in productivity-enhancing research. A comparison across countries indicates that the Philippines' average level of public investment in agricultural research is only about 1/5 of one percent of agricultural gross value added – a level among the very lowest in Asia!

2. A Liberal Economic Environment Which Promotes Competitiveness

More than three decades of expensive yet unrewarding experience in the Philippines and many other countries has clearly shown that a development strategy characterized by protection for import-substituting industries has failed. The primary goal, *as well as fundamental performance standard,* of economic management must be *export competitiveness.*

A key determinant of competitiveness is the exchange rate. The over-valued peso of the past three decades has taxed exports and subsidized imports. Coupled with the protectionist tariff structure, the Central Bank's defense of the peso has rendered the Philippines' exports more expensive and less competitive in the world market. At the same time imports, including luxuries, have become cheaper. Thus the effective devaluation of the peso and the full decontrol of the trading of foreign exchange must be promoted. The recent moves of the Monetary Board to increase the proportion retained by exporters of dollars earned, and the other foreign-exchange decontrol measures are steps in the correct direction. These moves must be accelerated. [6]

The bill creating the Central Monetary Authority (CMA) must be passed into law, to make the Central Bank more independent of vested interests and the demands and constraints of the fiscal health of government. The current Monetary Board, the policy-making body of the Central Bank, is heavily influenced by industrial interests (the Department of Trade and Industry and the Board of Investments) and the government's fiscal authorities (the National Economic and Development Authority, the Department of Finance and the Department of Budget and Management). This composition has supported monetary policy which is dominated by: (a) the need to make up the government's budget deficit, and (b) the protectionist attitudes of import-substituting industry.*

The tariff reform program must be accelerated toward the installation of a low, uniform tariff structure which is aimed more at revenue generation than at promotion (effected by tariff protection). The government has taken some steps toward this ideal, particularly through the issuance in late 1991 of Executive Order 470. Yet EO 470 will take effect in full only in 1995. More aggressive steps need to be taken immediately.

---

*This paper was written in the closing weeks of the Aquino government. As of June 1993 the Ramos government has in fact acted on the Central Bank. The executive and the legislative branches worked on and passed the law creating the "Banko Sentral ng Pilipinas," which now has a full-time Monetary Board with only a minority presence of government.

The promotion and protection of industries should be founded on the industries' basic export-competitiveness. Such competitiveness can be strengthened by promotion and subsidies, rather than tariff protection and tax incentives which are borne by competing producers and all consumers in the domestic market. Subsidies can be simply in the form of the adequate provision of public goods – infrastructure, a working legal system, peace and order, and non-appropriable research and development. Furthermore, subsidies can be provided via focused, limited-duration and transparent appropriations.

One of the principal instruments of protectionist economic policy over the past two decades has been the Board of Investments (BOI). The distortions which the BOI helped create have become so embedded in the economy that efforts to reverse the damage have gone quite slowly. The BOI has naturally resisted the reform, becoming the ally of the interests which have benefitted from the protectionist policy regime.

The BOI must be transformed from an agency *resistant* to the reforms into one which enhances the reforms, by becoming the agency which helps firms *adjust* to the reforms. The BOI can shift from its role of granting tax incentives and holidays – instruments which are non-transparent and exact opportunity losses from the economy at large. The preferred instrument of promotion is a subsidy, sourced from the government budget decided upon by Congress. The BOI can serve to assess the firm's individual applications for subsidies and to allocate the total amount approved by Congress for subsidies among the deserving firms.

3. A Fiscal Program Supportive of Rural and Agricultural Growth

The focus services for agriculture and rural sector are critical for the creation of a nurturing, growth-positive environment for the economy *as a whole*. These support services are often "public goods" which only the government has the incentive to provide. The fiscal program of the government must therefore focus on:

a. sharply increased investment in rural infrastructure, particularly in small-scale irrigation and rural transport, and

b. sharply increased investment in productivity-enhancing support services, particularly research and innovation, for competitive export commodities: sugar, coconut, feeds, prawn and other seafood, fruits, meat, cutflowers and other ornamentals, processed and prepared food.

The focus suggested for government expenditure and investment is deliberately narrow. In the first place, the fiscal constraint is clearly very tight. Secondly, many targets imply no targets at all.

4. Strict Program and Policy Priority for Agro-Industrialization

There are obviously many distractions which continually erode the focus required for agro-based development. The government's severely limited resources demand that the bulk of the budget must be focused on the identified priorities. Also, the government, as a whole and across all agencies, must maintain a cohesive, consistent stance which supports the agro-based industrialization thrust. Given the necessary consensus-building prerequisites, the executive leadership must decree the thrust, exact compliance, and deal with the politics needed to maintain direction.

The requisite priority for rural infrastructure and agricultural productivity has already been stated above. The focus on rice, corn and coconut will help alleviate poverty, since the majority of Filipino farmers and the rural poor are directly or indirectly dependent on these crops. Furthermore, growth in these sectors will build upon the farming sector's enormous capacity for employment linkages. In the context of liberal trade, growth in agricultural production encourages ancillary off-farm enterprises which create employment for excess rural labor, particularly those spilling from the municipal fisheries and upland areas where conservation, not unrestricted exploitation, is paramount.

Finally, over-arching priority and attention must be accorded to the full implementation of a policy and program which will decelerate the rapid growth in the Philippines' population. Over the past decade, population growth has consistently exceeded the growth of food production and per capita income. Since malnutrition and poverty is already rife, uncontrolled population growth has only made the situation worse.

5. **Advocacy, Communication and Consensus-Building**

It is imperative that the government must serve as the advocate for development and equity. Earlier it was made clear that political support is a necessary complement for political will. A critical determinant of the extent to which the government's program can be implemented is the political support which is built and shaped around the program. Communication and advocacy are fundamental to consensus-building, and thus the government must invest significant amounts of its resources in the process. *Policy must be made popular, since popularity is the key political incentive.*

The advocacy process also requires *networking,* or the organization and nurturing of constituencies supportive of the intended reforms. The Aquino government made an impressive start in creating an environment conducive to the growth and participation of PVOs/NGOs. This achievement ought to be maintained.

Finally, there will be those who will suffer, at least in the short run, from the reforms. The poor in particular will be genuinely hurt, since they often bear the brunt of the adjustment process. Others, specially the import-substituting firms dependent on protectionist policy, will only lose the privileges that have accorded them with rents thus far. If only to ensure that groups adversely affected do not mount resistance severe enough to derail the process, adjustment mechanisms must be established. Firms who lose privileges and sinecures should be granted transition assistance. The poor, in particular, must be provided with "safety nets." Such measures will include food subsidies, primary health care, basic education and emergency employment.

A Final Word

The two basic lessons of this brief review of governance toward sustainable industrialization in the 1986-1992 period are that: (1) *the foundations for the takeoff have been laid,* and these have to be completed and strengthened, not wasted, and, (2) *single-minded purpose, implemented through focus* is critical. Resources are scarce, and the needs are great. Hard choices among strategies, targets and instruments must be made, with full attention focused only on those investments which will yield the greatest

returns for development. We have learned the hard way that the analysis of both the Philippine and worldwide experience of development is indubitable. The road to industrialization and development is through agricultural growth. The Philippines, united as one nation, must decisively make this journey if it desires development. There is no other choice.

End Notes

1 Social Weather Stations, Quezon City, Philippines, December 1991.

2 The fundamental impetus for the adoption of the stance for policy and strategy anchored on agriculture can be credited to Carlos G. Dominguez, Secretary of Agriculture from 1987 to 1989.

3 Alburo, Florian *et al.* "Towards Recovery and Sustainable Growth," University of the Philippines School of Economics, 1985.

4 Agricultural Policy and Strategy Team, "Agenda for Action for the Philippine Rural Sector," University of the Philippines Institute for Development Studies, 1986.

5 The deliberate effort to focus was most specifically demonstrated to me by Senen C. Bacani, Secretary of Agriculture from 1990 to 1992.

6 Since then the Central Bank has allowed full retention of export proceeds by exporters and liberalized foreign exchange transactions.

References

Agriculture Policy and Strategy Team, "Agenda for Action for the Philippine Rural Sector," University of the Philippines at Los Banos - Agricultural Policy Research Program and the Philippine Institute for Development Studies, 1986.

Alburo, Florian, *et al.* "Towards Recovery and Sustainable Growth," University of the Philippines School of Economics, 1985.

Bacani, Senen C., "Our War on Poverty: A Progress Report and Strategy for Sustainability," University of the Philippines Public Lectures on the Record and Legacy of the Aquino Government, January 24, 1992, Quezon City, Philippines.

Department of Agriculture, "The 1991-1996 National Agricultural Development Plan," Quezon City, Philippines, 1991.

_____, "A Strategy for Rural Development," Quezon City, Philippines, 1989.

Dominguez, Carlos G., "Our War on Rural Poverty: Status and Agenda for Action," Department of Agriculture, Quezon City, Philippines, December 1990.

Social Weather Stations, "Report on the Survey of December, 1991," Quezon City, Philippines, January 1992.

Tolentino, V. Bruce J., "Making Policy Popular: The Dynamics of Policy Reform in the Philippines," Career Executive Service Development Program, Development Academy of the Philippines, January 30, 1992.

_____, "Building Upon the Hard-Won Gains: The Imperatives for Sustainable Industrialization in the Post-Aquino Government," Agricultural Trade and Development Task force, Pacific Economic Cooperation Conference, East-West Center, Honolulu, May 14-16, 1992.

U.P. ASSESSMENTS ON THE STATE OF THE NATION

Monograph Series

Presidential Leadership and Cory Aquino
Edited by Belinda A. Aquino, 1990

The Failed December Coup
Edited by Belinda A. Aquino, March 1990

A Distant Peace: Human Rights and People's Participation in Conflict Resolution
Ed Garcia, 1991 (co-published with National Book Store)

Philippine Education: Promise and Performance
Josefina R. Cortes and Nestor R. Balmores, January 1992

National Identity and Social Change
Maria Luisa Canieso-Doronila, May 1992

Where Food and Population Meet: The Filipino Household Among Other Households
Gelia T. Castillo, April 1993

U.P. Public Lectures on the Aquino Administration and the Post-EDSA Government (1986-1992)

Vol. I *The Aquino Administration: Record and Legacy (1986-1992)* June 1992

Vol. II *The Aquino Presidency and Administration (1986-1992): Contemporary Assessments and "The Judgment of History?"* (forthcoming)

Vol. III *The Post-EDSA Vice-Presidency, the Senate and House of Representatives, the Judiciary, and Ombudsman (1986-1992): Self-Assessments and External Views and Assessments* (forthcoming)

Vol. IV *The Post-EDSA Civil Service Commission, Commission on Elections, Commission on Audit, Commission on Human Rights, and the Presidential Commission on Good Government (1986-1992): Self-Assessments and External Views and Assessments* (forthcoming)

Int'l. Ed. *Corazon C. Aquino: Early Assessments of Her Presidential Leadership and Administration and Her Place in History*

The Senate That Said No: A Four-Year Record of the First Post-EDSA Senate (forthcoming)
By Dr. Jovito R. Salonga

U.P. ASSESSMENTS ON THE STATE OF THE NATION

State of the Nation Reports

No. 1 *Saving the Present for the Future*
Percy Sajise, et al., May 1992

No. 2 *The Politicization of the Military*
Felipe B. Miranda, May 1992

No. 3 *Primary Health Care in the Philippines*
Arturo Pesigan, Ruben Caragay,
Marilyn Lorenzo, May 1992

No. 4 *The Record of a Non-Confrontational Debt Management Approach*
A.M. Mendoza, Jr., May 1992

No. 5 *Ending the Armed Conflict: Peace Negotiations in the Philippines*
Jose V. Abueva, et al., August 1992

No. 6 *State of Philippine Education: The Tension between Equity and Quality*
Josefina R. Cortes and Nestor R. Balmores, Sept. 1992

No. 7 *Devolution and Empowerment: The Local Government Code of 1991 and Local Autonomy in the Philippines*
Proserpina D. Tapales, April 1993

No. 8 *The Philippine Congress: Executive-Legislative Relations and the Restoration of Democracy*
Olivia C. Caoili, June 1993

Occasional Paper Series

93-001 *Reconceptualizing Giftedness in the Philippines*
Erlinda F. Camara, 1993

STATE OF THE NATION REPORTS
Handog sa BAYAN ng UNIBERSIDAD ng PILIPINAS