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TO : All DAR Officials and Employees

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SUBJECT : President Aquino's Speech During the Magtanong sa Pangulo Program on 20 October 1990

During the Magtanong sa Pangulo Program on 20 October 1990, President Aquino's speech centered on the root causes of our present economic adversities among which are the high cost of crude oil, the energy crisis, the killer quake of July 16, 1990, the trade deficit, etc. However, the President mentioned that there are a number of concrete opportunities which everyone can exploit to intensify economic recovery. Among these are the strengthening in the next 12-18 months of the domestic market for all types of consumer goods and services; the multi-billion pesos infrastructure projects in Southern Luzon under the Calabarzon Project that will be accelerated thus providing employment to thousands of workers; the further growth of dynamic small and medium-scale enterprises like those in Cebu; etc.

In this regard, all DAR officials and employees are hereby directed to take note of the President's speech and are encouraged to disseminate this to our clientele, for information and proper guidance.

BENJAMIN T. LEONG
Secretary

From the President's
Magtanong sa Pangulo Program
20 October 1990

During this final quarter of 1990, we face a serious economic crisis that should galvanize all of us to a concerted effort to convert this adversity into advantage. I have no doubt that I can count on you, my fellow Filipinos, to make use of your time-tested resilience to meet this challenge.

Together, let us try to understand the roots of our present economic adversities. The most immediate cause is the high cost of crude oil, the price of which has more than doubled since trouble erupted in the Middle East last August. There is a distinct possibility that the price may go even higher than the approximately US $33 dollars-a-barrel prevailing at present. At those exorbitant levels, we will not have the foreign exchange necessary to purchase all the oil that we are at present consuming. That is why, I have been working out with my Cabinet members contingency plans on how to reduce our consumption of petroleum products should the international price go much beyond its present levels.

This external shock to our country, over which we have no control, has come at a time when our national economy was already considerably weakened by a protracted drought during the first months of this year. This dry spell caused huge declines in the production of such staple crops as rice and corn. The drought also caused a shortage of hydroelectric power during the first semester, which helped bring about the earlier energy crisis during the summer months. With very frequent brownouts, industrial production slowed down, thus causing a deceleration in the growth of our Gross National Product from 5.7 per cent in the whole of 1989 to only 3.4 during the first semester of this year.

Another natural disaster that caused serious damage to our economy was the killer quake of July 16, 1990. Not only did the calamity reduce both industrial and agricultural production in Northern and Central Luzon. It forced the government to expand its already bloated budget, thus inducing larger deficits in our public spending.

To make matters even worse, the enemies of the State were not satisfied with the damage they inflicted on our international image, especially among foreign investors, by their treasonous attempt to overthrow the government last December. Some of them intensified their terrorist acts during the third quarter of the year, scaring even further the already dwindling numbers of foreign investors who still find the Philippines attractive. If these extremists did not create such a negative image of our county, we could still have experienced a significant inflow of foreign investments this year, which could have helped to shore up our international reserves, enabling us to face the present oil crisis with a stronger position.

You may ask why we continue paying our huge foreign debt when we can use the foreign exchange to purchase oil or channel the savings in our budget to social services that can directly help the large number of very poor Filipinos. Why do we insist on religiously paying our foreign obligations when in the process we are taking away resources from the poor? The answer is that if we unilaterally repudiate our debt, the poor will suffer even more.

Any decision of ours to stop payments of the annual amounts due to our creditors will lead to our being cut off from the international financial community. The little exports we have will dry up because our exporters will not be able to obtain trade credit to finance their operations. Also, since our major export markets, the US and Japan, are also our major creditors, we will have extreme difficulties in continuing to sell our goods to these same markets. Furthermore, we would stop receiving official development assistance which, in turn, would significantly deplete our already meager international reserves.

With our inability to export and the paralysis of our import-dependent industries that would be starved of dollars, hundreds of thousands would be laid off as happened in 1984-1985. The government may be forced to resort to just printing money which would result in hyperinflation. That was exactly what happened to Peru after the former President Alan Garcia repudiated foreign debt in 1985. After a short-lived burst of economic growth, Peru was forced to print money to finance its social services for the poor. Inflation reached mind-boggling proportions. Last year, the rate of inflation was 13,000 percent.

Who suffered most in Peru? Obviously, the poor. The rich actually benefit from hyperinflation because their profits can swell with higher prices. I do not want to inflict the same fate on the Philippine poor. By following the route of negotiation instead of unilateral action, we maintain our good standing in the international economic community whose cooperation we need to weather the on-going economic crisis.

Talking about foreign debt, you must know that the more serious problem we are facing is the burgeoning domestic debt, the debt owed by our government to local creditors, whether individuals or institutions. This domestic debt accounts for more than 60 per cent of all the amount we have to pay annually to amortize the total debt of the country. As you can see, it is not the foreign debt that strains most our limited budget. It is the domestic debt.

How did local borrowings become so large? I am sure you have heard of what used to be called Jobo bills. These were certificates of indebtedness issued by our government in the last years of the previous administration in order to mop up excess liquidity. The excess liquidity was, of course, due to the irresponsibility and corruption of some key persons in that administration. In order to sell large amounts of government papers, the interest offered was jacked up to levels over 50 percent or more. This started the regime of very high rates of interest paid by our government on very short-term debt. Although interest rates have gone down from those very high levels of 1984-1985, the present government had to continue borrowing short-term money to finance our own large deficits owing to a continuous shortfall of tax revenues as well as greater demands on public funds made by much higher wages of government employees and by the need to deliver more social and education services to the poor.

I must remind you that since 1986, salaries of teachers, soldiers, and government employees have increased. Also, we have been mandated by the new Constitution to make available free secondary education. Larger deficits meant more domestic borrowings, which in turn led to even larger deficits.

We must reduce our public deficit, which can be truly considered public enemy number one in the realm of economics. Our spending more than we earn in government revenues is indeed the root of many of our economic problems. Because the government has to borrow from local sources, it competes for the scarce domestic funds available, driving interest rates to high levels. The government crowds out private business and makes capital very expensive for them. Thus, local businessmen are deterred from investing. This timid investment behavior leads to an economic slowdown which in turn may significantly reduce government revenues, compounding the government deficit problem.

How do we break these vicious cycles? One obvious answer is that we must not relent in our efforts to improve tax collections based on the present tax rates. I must commend Commissioner Jose Ong for a good track record in increasing tax collections. But the government has to collect even more to narrow the yawning gap between revenues and expenses. I know that the members of Congress are reluctant to implement the suggestions to increase the tax rates. We may arrive at a compromise if we concentrate on increasing the taxes only on affluent or conspicuous consumption. The rich can afford to pay high taxes on the goods that they alone can afford to spend for, like expensive cars and frequent travels. If they cannot be effectively discouraged from purchasing these luxury items, let the government at least raise more revenues in the process.

There is another deficit problem that we must solve. It's called the trade deficit. Simply put, we are currently importing about US $3 billion more than we export. That is why, we do not have enough dollars to pay for our even more expensive imports of petroleum. Our energy crisis is not a supply crisis. There is enough, in fact more than enough oil in the world. Our problem is that we do not have the dollars to buy more expensive oil. That is because we are not earning enough dollars.

Until we can have enough foreign exchange to meet a much larger oil import bill, we must reduce our consumption of oil-based products. Some are talking about rationing petroleum products. If worse comes to worst, we will have to resort to actual rationing. That means we have to determine priority uses of oil such as public transportation for the masses or in cooking.

But rationing is always an extreme measure, a measure of last resort. It is much more efficient to allow prices to seek market-determined levels so that consumers would automatically adjust their purchases to the amounts they can afford. We are subsidizing from public funds the consumers of petroleum products, further compounding our huge deficit problem. Especially as the world price of petroleum products continues its upward trend as a result of the Gulf crisis. Let it be known that, except for industrial fuels which are very high-cost in the Philippines, our domestic prices for all types of petroleum products are still among the lowest in Asia Pacific, even after the last hike.

It seems I have been talking to you only of problems. We do have serious problems but we also are facing some very concrete opportunities for everyone to exploit. Although there are varying forecasts for 1991, there is enough evidence to show that the domestic market for all types of consumer goods and services will be strengthening in the next 12-18 months. Agriculture is recovering from the almost zero growth rate in the first semester. We have initial reports of bumper crops of rice, corn, sugar, and coconut. Since it is our policy to allow domestic prices of rice, corn, and sugar to keep rising so as to benefit millions of farmers with improved incomes, the bigger volumes coupled with higher prices will mean billions of pesos in the hands of farmers who can then be good markets for industrial products.

You may have heard that I just inaugurated the Calabarzon projects. These are multi-billion-peso infrastructure in Southern Luzon that will be accelerated in the coming months, thus providing also billions of pesos of purchasing power to the construction workers who will be employed.

Together with equally large projects in Southern Mindanao, Northern Mindanao, Western Visayas, and Northern Samar, these infrastructure expenditures in Southern Luzon will strengthen further the domestic market. Businessmen can sell more of their goods.

I want you also to focus on the billions of pesos coming from the dollar earnings of our over a million Filipino workers abroad. These remittances have not been significantly affected by the trouble in Iraq and Kuwait. In fact, there has been an acceleration of remittances from places like Saudi Arabia because of the feelings of insecurity of the Filipino depositors there. Even if less than half of these remittances end up in international reserves because they enter through private couriers, the important consideration is that they are actually converted into pesos to help the relatives of the workers. These pesos are going to be spent on goods sold in the domestic market.

I see the very dynamic small and medium-scale enterprises sector -- like those in booming Cebu -- taking full advantage of a stronger domestic market. I am told by businessmen that their sales are much better in the regions outside Metro Manila. Cebu's dynamism has already become legendary. But also strong are markets in General Santos, Davao, Cagayan de Oro, Iloilo, Bacolod, just to mention a few.

In these and other places, there are exporters who will be encouraged to expand because of the higher peso earnings per dollar of good exported. I understand that financial institutions like the Development Bank of the Philippines are extending special assistance to these exporters. The Bankers Association of the Philippines unanimously agreed to give exporters top priority in the allocation of scarce foreign exchange to enable them to import vital raw materials.

This reminds me of a misplaced criticism of exporters like those in garments or semi-conductor components. It is said that they do not really benefit the economy because only 10-20 percent of their total export values can be considered net foreign exchange earnings because they have to import the bulk of their materials which they merely process before reexporting. This criticism does not hold water. First, these exporters contribute to generating employment much more than our traditional inward-looking industries. Secondly, even the 1--20 percent of their net dollar earnings can significantly exceed the revenues from such traditional export product as sugar and logs and lumber. For example, the 20 percent of the over US $2 billion of garments exports is US $400 million. That is much more than the US $100 million or so we are now making from our sugar exports, formerly the queen of exports. And I do not even have to mention what is happening to our coconut and log exports. These traditional exports are in the sunset stages. That is why, we cannot belittle the non-traditional exports which were the very ones that first made economic tigers out of South Korea, Taiwan, Hong Kong and Singapore.

With the depreciated peso, of course, there will be stronger incentives for local exporters to make use of indigenous materials to replace some of the imported components. For example, the Cebuanos are very ingenious in converting their stones into very valuable decorative materials. I am sure entrepreneurs in other regions can follow the example of the Cebuanos.

To help you convert these opportunities into gainful activities, we in government will assign the highest priority to policies and programs that will intensify the recovery of the agricultural sector. We shall continue to respect market prices of agricultural products. Especially through the Land Bank, we shall continue to assist and strengthen farmers' cooperatives.

The Department of Public Works and Highways will continue to fast-track the infrastructure projects that will bring more economic opportunities to the countryside, with emphasis on farm-to-market roads. We shall be unrelenting in our efforts to unclog the pipeline in the absorption of all the official aid being offered to us by our foreign friends, especially through the Philippine Assistance Program.

We shall continue to deregulate industries and stay out of the way of businessmen, especially the small-scale entrepreneurs. This deregulation will also extend to foreign investors who will be subject to less restrictions.

These are the few areas on which government will concentrate its efforts for the remaining months of our administration.

In their turn, we would like to ask different sectors to help convert the present crisis into an opportunity to lay the foundations of another economic recovery.

To the large firms, we ask you to focus on the opportunities of an expanding domestic market. You can continue to increase your revenues, despite the slowing down of the economy. We will not tell you how to protect your bottom line. You know how to be more cost-competitive. That is your expertise.

To the workers, we ask you to consider the long-term viability of the firms you are working for. For short-term gains, please do not endanger the very existence of your employers' firms by asking for unrealistic wage increases. We do not dissuade you from bargaining for higher pay. That is your prerogative. But please make sure that as you obtain your higher pay you are responding with higher productivity. That's the only way we can prevent hyperinflation in the long run.

To the bankers, I do not say that you are doing anything wrong by enjoying windfall profits from foreign exchange movements or from the very high rates of interest. You are being benefited by the turn of events. That is part of the ups and downs of business. There is nothing wrong with that. But please make use of your profits to go into more developmental loans. You have to be more active in lending to projects in the countryside, to farmers' cooperatives, to small and medium-scale entrepreneurs who may not have adequate collateral, export-oriented ventures, and to families from low-income households desiring to construct their homes.

To farmers, I ask you to take full advantages of all the incentives being offered by Land Bank and other similar organizations to join farmers' cooperatives, which will improve your access to technology, inputs and markets. You can do much to strengthen the foundations of the ongoing recovery in agriculture.

To the foreign investment community, I request you to fully inform your colleagues from your home country about the strengths and weaknesses of the Philippines. Demonstrate to them that, despite the turbulent political environment of the past months, you continue to enjoy reasonable rates of return on your investments. Show them that even the bombings do not negate the advantages of educated manpower and a large domestic market of the Philippines.

To the Manila-based firms, I ask you to travel more to the provinces to look for markets and investments opportunities. Follow the lead of the Manila investors who have put in money on real estate and industrial ventures in Cebu, General Santos City, and other key areas in Visayas and Mindanao. You can help reverse the unhealthy process of the past in which the savings of the regions were invested only in Metro Manila.

To all my fellow Filipinos, I ask you to do what you have always done in moments of crisis. You have always acted with courage, perseverance and resourcefulness. I am convinced that through the private initiatives of millions of Filipinos, we shall survive this crisis and come out firmer in our resolve to build a stronger economy and a more just and humane society.