# Sharp economic downturn in the Philippines

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Three months after the eruption of the global financial crisis, the Philippines is confronting a deteriorating economic outlook. Key indicators are falling, with growth for 2008 now forecast at between 4.1 and 4.8 percent, down from an earlier estimate of 5.5 to 6.4 percent. The Development Budget Coordination Committee's projected growth rate for 2009 is even lower, at 3.7 to 4.7 percent.

Citigroup's forecasts are worse. According to the *Philippine Daily Inquirer*, the bank estimated that the economy would grow by 4.1 percent this year and just 2.7 percent in 2009. Like other so-called emerging and developing economies, the Philippines has been hit by a slowdown in its major export markets and a withdrawal of foreign capital.

The Philippines is now more integrated than ever before in the world economy. A succession of regimes—led by Ferdinand Marcos, Corazon Aquino, Fidel Ramos, Joseph Estrada and now Gloria Macapagal Arroyo—have opened the door to foreign investors and increasingly transformed the country into a cheap labour platform. Privatisation, financial liberalisation and cutbacks to jobs, wages, conditions and social services have been implemented in the teeth of stiff resistance by working people.

While importing industrial machinery, fuel and even basic staples, the Philippines now exports electronic components, apparel and cash crops as well as hundreds of thousands of domestic servants, skilled workers and professionals who provide cheap labour in countries around the world. However, all the country's major markets are either in recession or are slowing rapidly. The United States, which accounts for 17 percent of Philippine exports, is now in recession, as are Japan, Germany, Hong Kong and Singapore—all among the top 10 Philippine markets.

Philippine exports were falling before the world economy began to sharply turn down. They sank to a year-on-year growth rate of 1.2 percent in September—down from 6.6 percent in August. Electronics, which comprise 58 percent of all exports, fell by 2.7 percent in September on top of a contraction of 2.8 percent in August. The second-ranked export industry—apparel and clothing accessories—declined 11.6 percent in the first half of this year.

The Philippine Exporters Confederation (PhilExport) has halved its projection for export growth for 2009 from 8 percent to 4 percent. According to an ABS-CBN TV news report, PhilExport stated that "due to the problematic US economy, many of their buyers have already backed out" or cancelled their orders.

Imports in the first half of the year rose by 15.8 percent, driven largely by the surge in food and fuel prices. While oil prices have dropped over the past three months, food prices remain high. Significantly, inputs for production were already falling—electronic imports were down 5.8 percent and textile, yarn and related products by 27.6 percent. These falls are the harbinger of a sharp decline in industrial production and exports in the second half of the year.

The impact on the working class will be severe. The export sector is expected to lose 250,000 jobs next year. In Cebu Island and the province of Cavite, firms within the export processing zones and industrial estates are already suffering.

Three firms in Cebu Island have closed or are in "temporary shutdown," with over 700 employees thrown out of work. Two other firms have reduced working hours, effectively cutting wages of 700 workers. In the Cavite export processing zones, 1,500 workers have been retrenched and another 5,000 are on reduced hours.

The effect of job losses and wage cuts is being compounded by surging prices. According to the Asian Development Bank, a 10 percent increase in food and non-food prices results in an "additional 2.3 million and 1.7 million poor people, respectively". Using this rough guide, the 12.2 percent annualised inflation rate recorded in September added another 2 million people to the more than 30 percent of the population living precariously below the poverty line.

The polling group Social Weather Station reported: "The proportion of families experiencing involuntary hunger at least once in the past three months (July-September 2008) rose to

18.4 percent, or an estimated 3.3 million households." Severe hunger, defined as experiencing hunger "often" or "always," affected 3.2 percent or an estimated 580,000 families. At an average of six to a family, this translates to more than 3.3 million people.

**Response of Arroyo**

The Arroyo administration has signalled a rejection of any mandated wage increase to offset inflation. The nominal minimum wage rate in Manila is (at 50 pesos to the US dollar) just $US7.64 per day or 43 percent of the poverty line wage. According to the Ecumenical Institute for Labor Education and Research (EILER), real wages have sunk since 2000 by 7 percent. Nevertheless, in a speech to businessmen in October, Arroyo reassured her audience that she knew "a salary increase adds to companies' cost of production".

The business sector is demanding the means for cutting wages. The Joint Foreign Chambers (JFC) has called for "administrative changes in labour rules to allow companies to exercise flexibilities in working schedule and work contracts". Overtime without overtime pay, in particular, has been proposed.

At the same time, the government is seeking to shore up the wealth of the country's financial elite. More than $800 million is to be injected into the Philippine Deposit Insurance Corporation (PDIC) to insure bank deposits up to a maximum of $20,000—four times the current figure of $5,000. The move will extend the number of bank accounts under PDIC's coverage by 5 percent—mainly wealthier layers of the middle class. But the real aim is to try to insure the banks themselves against global financial turmoil.

Investors are fleeing in droves, putting pressure on the country's fragile financial system. In the period of January to October, the net outflow of funds totalled $911.68 million. Over the same period, foreign direct investment in the Philippines declined 43 percent—sliding from $13.4 billion last year to just $7.578 billion so far this year.

The Philippine ruling elites have shamelessly used the state and its resources to assist their economic fortunes. In the past, bitter factional disputes have broken out over economic policy, usually in the guise of corruption scandals. The national budget for 2009, however, is set to pass Congress before its Christmas break with remarkably little acrimony. Nervous about the potential for protests and opposition, all factions have come together to impose the brunt of the economic downturn onto the backs of the working class.

Social spending is to be wound back by slashing increases to an average of 14 percent for 2009, which means a virtual nil rise after inflation is taken into account. The allocation for public education will rise by 9.81 percent, down from the 11.5 percent increase for this year. For social welfare, the increase was down by a third. The increase for health services was just under half of the rise this year. As the Senate Economic Planning Office commented, the budget for health was just half of the 5 percent of GDP recommended by the World Health Organisation.

The cutbacks in services will be used to underwrite other areas of the economy. The proportion of the budget allocated to debt servicing will be a huge 21.4 percent for 2009. The annual increase in the cost of debt servicing has risen sharply from 0.75 percent in 2008, to 12.2 percent for 2009—an indication not only of the growing indebtedness of the Philippines, but the increased costs of borrowing amid the current international credit crunch. The *Economist* estimated the government debt-to-GDP ratio to be 55.8 percent in 2008, well above the 50 percent internationally considered manageable.

Infrastructure spending will be increased by as much as 15 percent next year while agriculture will receive a 24.3 percent increase. Much of this money will pass through congressional representatives and local politicians and end up in the pockets of the provincial and local elites. Additional discretionary spending estimated at $1.8 billion will be funded through another loan of $1.5 billion. While labelled as help for the poor, these funds are also used by congressional representatives for pork barrelling in their constituencies.

All of this will inevitably lead to growing discontent and anger among working people as their living standards continue to decline.