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The Political Economy of Neoliberalism in the Philippines: The Aquino Regime

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Introduction

In 2011, the Philippine population has increased to 94.85 Million people. The number of people is increasing by annual rate of 1.9 percent. The economy has grown to 224.8 Billion terms of Gross Domestic Product. (source: World Bank figures)

The present government policies are not much different from the previous government so we will base our presentation on 2010 data with occasional latest data to present our argument.

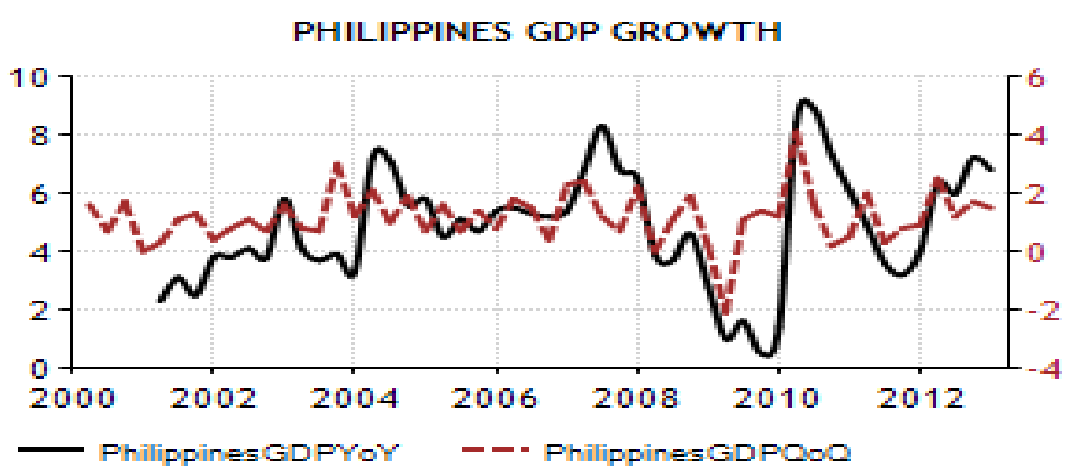
Our contention is that neoliberalism as the political and economic philosophy of the reigning Liberal Party of the Philippines under President Benigno Aquino III does not deviate much from its predecessor under the former President Gloria M. Arroyo, with its political party, LAKAS, and that neoliberalism is a "free market" ideology that does not provide a substantial framework to resolve the problems of poverty.

This contention is based on promotion of the same economic policies of its predecessor with only finer refinements under the concept of "good governance" or the philosophy of "Sa daang matuwid, asensong walang patid", or in English, "a straight road, progress is unimpeded".

Indeed, anti-corruption drive is the major pillar of the governments' efforts to curb poverty, streamline government services and increase domestic and foreign investments, including even the judiciary by forcing the resignation of the former Chief Justice Renato Corona last year. The overall effect is the increased domestic economic activity on the economy, and the entry of many foreign investments, mostly from business process outsourcing, real estate, and mining.

What is the state of the Philippine economy?

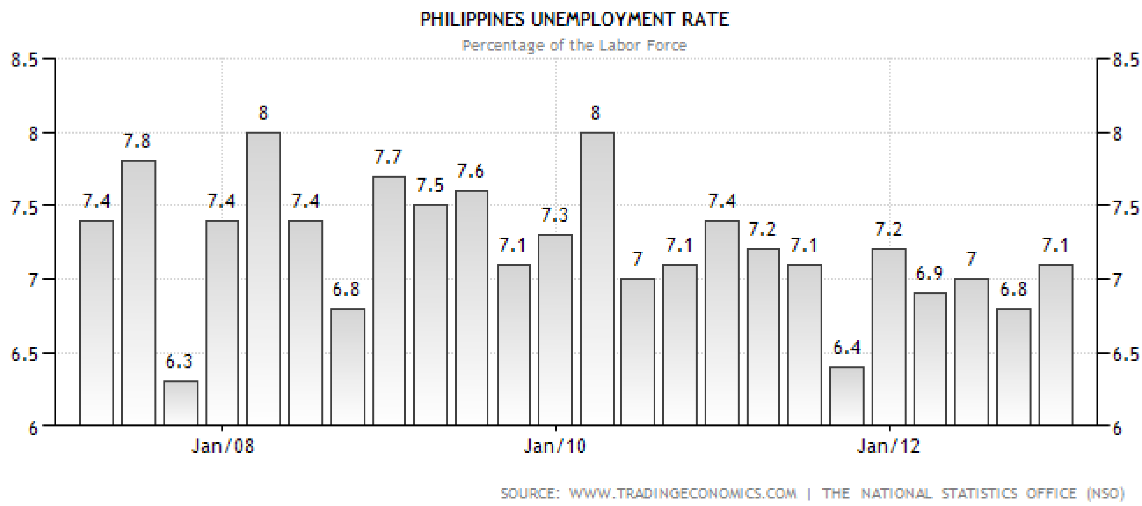
High economic growth driven by investors in the business process outsourcing, creating demands for office space in urban areas, increasing rental rates, and escalating land prices in highly-urbanized areas. But at the same time, massive back log of housing for the middle class families, and poor families, and rising unemployment.



In the fourth quarter of 2012, the GDP grew by 6.8 percent year-over-year and 1.5 percent quarter-over-quarter. The increase was fuelled by the robust performance of the Services sector led by Trade and Real Estate, Renting & Business Activities as well as the substantial improvements of Manufacturing and Construction

Source: www.TradingEconomics.com/Philippines

The unemployment rate rose to 7.1 percent in January of 2013, from 6.8 percent in October of 2012. The employment rate is estimated at 92.9 percent, from 93.2 percent recorded last quarter.



Who controls the Philippine economy?

Control of the economy by the same elite people under principles of free market, changing old hands to new hands, and back again, by way of insider dealing. The privatization program was controlled by moneyed elite people, instead of giving it to the public by way of issuing stock shares to be sold to the public, as alternative financial investments. The entire scheme entrenched the rule of the economic elite.

This is related to the financial structure of the Philippine economy. Most financial industries have interlocking directorates that has managed to survived the previous regime of President Marcos. 1 http://business.inquirer.net/110413/philippines-elite-swallow-countrys-new-wealth.

Below are top 10 Philippine corporation in terms of revenues:

1. Petron Corporation (now owned by San Miguel Corporation)
2. Pilipinas Shell Petroleum Corporation
3. Manila Electric Company (Lopez Family)
4. San Miguel Corporation and Subsidiaries (Eduardo Cojuangco)
5. Philippine Long Distance Telephone Company
6. TI (Philippines), Incorporated
7. Chevron Holdings Incorporated
8. Nestle Philippines Incorporated
9. Philippine Associated Smelting and Refining Corporation (owned by GlenCore)
10. Mercury Drug Corporation

Banking and Financial Sector:

The following top banks are controlled by top Filipino Chinese-Spanish families as follows:

1. United Coconut Planters Bank- controlled by Eduardo Cojuangco
2. Bank of the Philippine Islands- controlled by Ayala family
3. Banco de Oro- controlled by Henry Sy
4. Metrobank Corporation- controlled by George Ty
5. Philippine National Bank and Allied Bank- controlled by Lucio Tan
6. Union Bank- controlled by Aboitiz family and partners

These top banks in the Philippines control the financial and insurance industries of the Philippines, mostly based in the National Capital Region, or Metro Manila, with branches in major cities such as Cebu, and Davao.

Banking sector: Bank's total assets of 10.23 Trillion pesos for year 2012, or in USD terms, Around 249.5 Billion at Php 41 to 1 USD,

In general, spreads between savings deposit and lending interest rates are high. The central bank's indicative interests are low, but the spread is still high. The Cost of banking operations are low, given the state of wages of banking employees, and deployment of capital.

Below are figures that show these contentions:

PHILIPPINES INTERBANK RATE

Interbank Rate in Philippines decreased to 2.60 percent in April of 2013 from 2.80 percent in March of 2013. Interbank Rate in Philippines is reported by the Bangko Sentral Ng Pilipinas.

Historically, from 1982 until 2013, Philippines Interbank Rate averaged 11.31 Percent reaching an all time high of 41.30 Percent in June of 1984 and a record low of 2.60 Percent in April of 2013. In Philippines, the interbank rate is the rate of interest charged on short-term loans made between banks. This page includes a chart with historical data for Philippines Interbank Rate.

Source: http://www.tradingeconomics.com/philippines/interbank-rate

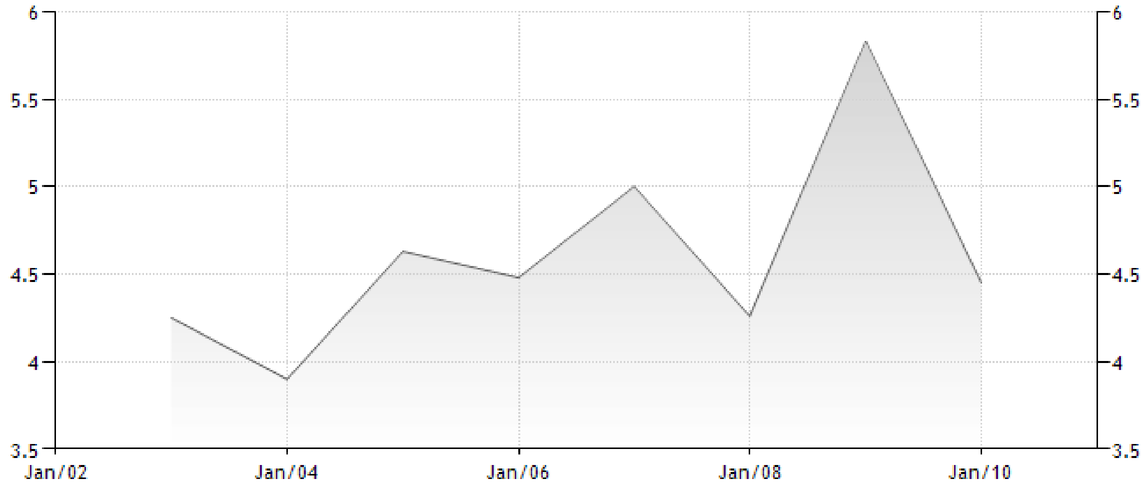
Lending Rates:

The Lending interest rate (%) in Philippines was last reported at 6.66 in 2011, according to a World Bank report published in 2012. Lending interest rate is the rate charged by banks on loans to prime customers. This page includes a historical data chart, news and forecasts for Lending interest rate (%) in Philippines.

Savings rate

INTEREST RATE SPREAD (LENDING RATE MINUS DEPOSIT RATE; %) IN PHILIPPINES

The Interest rate spread (lending rate minus deposit rate; %) in Philippines was last reported at 4.45 in 2010, according to a World Bank report published in 2012. Interest rate spread is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. This page includes a historical data chart, news and forecasts for Interest rate spread (lending rate minus deposit rate; %) in Philippines



Source: http://www.tradingeconomics.com/philippines/interest-rate-spread-lending-rate-minus-deposit-rate-percent-wb-data.html

In addition to above, loans to small and medium enterprises are practically very low, with full collateralization. The standard practice of one bank is to use your dollar savings as a collateral for a peso loan with 90% Loan-to-value. But with so many added costs, the rates are very high amounting to even 9% on a fluctuating basis. This author had the experience of defaulting a loan on the basis that I have to raise pesos instead of liquidating my USD time deposit in pesos, and then pay up the loan. Instead, they treated the transaction as entirely separate using 2 institutions of the same bank. This is the standard practice of most banks I was told.

Insurance Industry:

Most of the people in the Philippines are still relatively uninsured. Approximately 23 percent have life insurance according to the latest 2012 figures of the Insurance Commission, but almost all of the poor are uninsured. Even these figures are questionable, as the Insurance Commission "expects 20 percent of the population of the Philippines to be insured by the end of 2011 as a result of more insurance companies offering micro insurance to people with low incomes".

The problems in the insurance industry are the following:

1. runaway insurance scams and fly-by-night operators, with regulators conniving with the insurance companies giving way to collapse of insurance companies such as CAP, Legacy group, Family First, as pre-need insurance companies, not entirely classified as insurance company, thereby giving a loophole in a regulatory environment.
2. Liquidity problems of insurance companies like Pacific Plans, and Grepalife, which ownership is connected with one of the biggest banking group, Rizal Commercial Banking Corporation.
3. Barrier entry for many foreign-owned insurance companies such bureaucratic red tape that delays licensing of these foreign companies.

Stock Exchange Industry:

PHILIPPINES STOCK MARKET (PSEI)

Stocks in Philippines had a positive performance during the last month. Philippines Stock Market (PSEi), rallied 342 points or 4.90 percent during the last 30 days. Historically, from 1986 until 2013, Philippines Stock Market (PSEi) averaged 2125 Index points reaching an all time high of 7392 Index points in May of 2013 and a record low of 130 Index points in February of 1986. The Philippine Stock Exchange Composite Index (PSEi) is a major stock market index which tracks the performance of the most representative companies listed on The Philippine Stock Exchange. It is a free-float, capitalization-weighted index. The PSEi has a base value of 2922.21 as of September 30, 1994. This page includes a chart with historical data for Philippines Stock Market (PSEi).

There are currently 292 listed companies at the Philippine Stock Exchange, from different industries, such as Financials, Industrial, Holding Companies, Property, Oil and Mining, and Services, with the following market capitalization as of May 2013:

Financials- 15.84%

Industrial-16.67%

Holding Companies-31.84%

Property-16.12%

Oil and Mining- 1.74%

Services-18.21%

TOP ACTIVE STOCKS

No.	Security Name	Symbol	Last Price	Change	%Change		Volume (x1000)	Value(P) (x1000)
1	AYALA LAND, INC.	ALI	34.800	-0.200	-0.57%	▼	11,382	396,045
2	UNIVERSAL ROBINA CORPORATION	URC	122.500	-2.500	-2.00%	▼	3,221	393,775
3	ALLIANCE GLOBAL GROUP, INC.	AGI	26.550	0.050	0.19%	▲	13,811	366,945
4	BANK OF THE PHILIPPINE ISLANDS	BPI	101.600	-2.100	-2.03%	▼	3,551	361,707
5	METROPOLITAN BANK & TRUST COMPANY	MBT	133.700	-0.800	-0.59%	▼	2,329	311,070
6	MEGAWORLD CORPORATION	MEG	4.040	0.060	1.51%	▲	71,818	289,758
7	PHILIPPINE LONG DISTANCE TELEPHONE COMPANY "Common"	TEL	3,178.000	-12.000	-0.38%	▼	91	288,211
8	AYALA CORPORATION	AC	664.500	-5.500	-0.82%	▼	406	269,395
9	BDO UNIBANK, INC.	BDO	94.000	-0.900	-0.95%	▼	2,825	265,476
10	SM INVESTMENTS CORPORATION	SM	1,192.000	-6.000	-0.50%	▼	205	243,935
11	LT Group, Inc.	LTG	25.850	0.300	1.17%	▲	9,352	241,389
12	METRO PACIFIC INVESTMENTSCORPORATION	MPI	5.950	-0.090	-1.49%	▼	32,035	191,169
13	ENERGY DEVELOPMENT (EDC) CORPORATION	EDC	6.060	-0.140	-2.26%	▼	29,885	181,796
14	SM PRIME HOLDINGS, INC.	SMPH	21.250	-0.050	-0.23%	▼	8,348	176,999
15	PUREGOLD PRICE CLUB, INC.	PGOLD	39.850	-0.450	-1.12%	▼	4,168	166,473
16	INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.	ICT	92.350	-2.150	-2.28%	▼	1,534	141,772
17	SEMIRARA MINING CORPORATION	SCC	283.000	3.000	1.07%	▲	496	139,050
18	VISTA LAND & LIFESCAPES, INC.	VLL	6.600	0.030	0.46%	▲	20,217	133,401
19	GLOBE TELECOM, INC.	GLO	1,556.000	-14.000	-0.89%	▼	64	100,225
20	BLOOMBERRY RESORTS CORPORATION	BLOOM	13.060	0.260	2.03%	▲	7,702	99,463

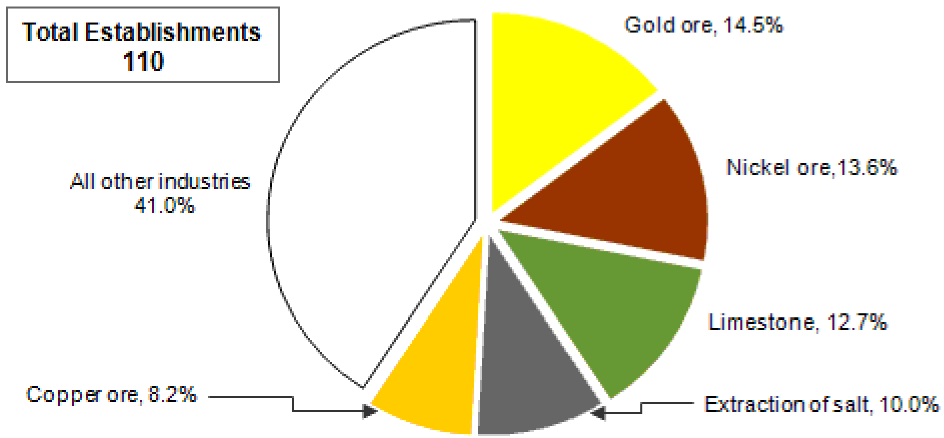
The electronic exchange system is still not accessible to most small investors, or the public, and has to pass through securities firms who have seats at the Exchange. Today, it now has Philippine Dealing Systems and Exchange Corp with 3 subsidiaries. There is also a monopoly of securities depository system organized under it. Philippine Stock Exchange also caters to big corporations. Small and medium-size companies have difficulty getting enlisted even in the OTC market. Furthermore, open trading for commodities specially in major commodities such as metals, oil and petroleum products, agriculture and food products, etc., has not been established yet.

The overall effect of the control of the economy results to proliferation of financial investments geared to victimize an unknowing public to financial scams such as pyramiding, or Ponzi scheme, lately perpetrated by Amana company in Southern Mindanao, which have largely not been penetrated by financial services companies.

The lack of financial mechanisms to support tribal lands has also been the perennial problem between the state and the tribal communities. Mining and logging companies are given licenses to exploit tribal lands with impunity resulting to environmental degradation, and economic deprivation for tribal communities, and ultimately, migration to urban areas. Another case is the possible displacement of more than 30,000 Dumagat community in Aurora where a planned 12, 000 hectare, economic and free trade zone has started construction since 2006, and the government corporation, Aurora Pacific Economic Zone and Freeport Authority (APECO) has served notices of eviction.

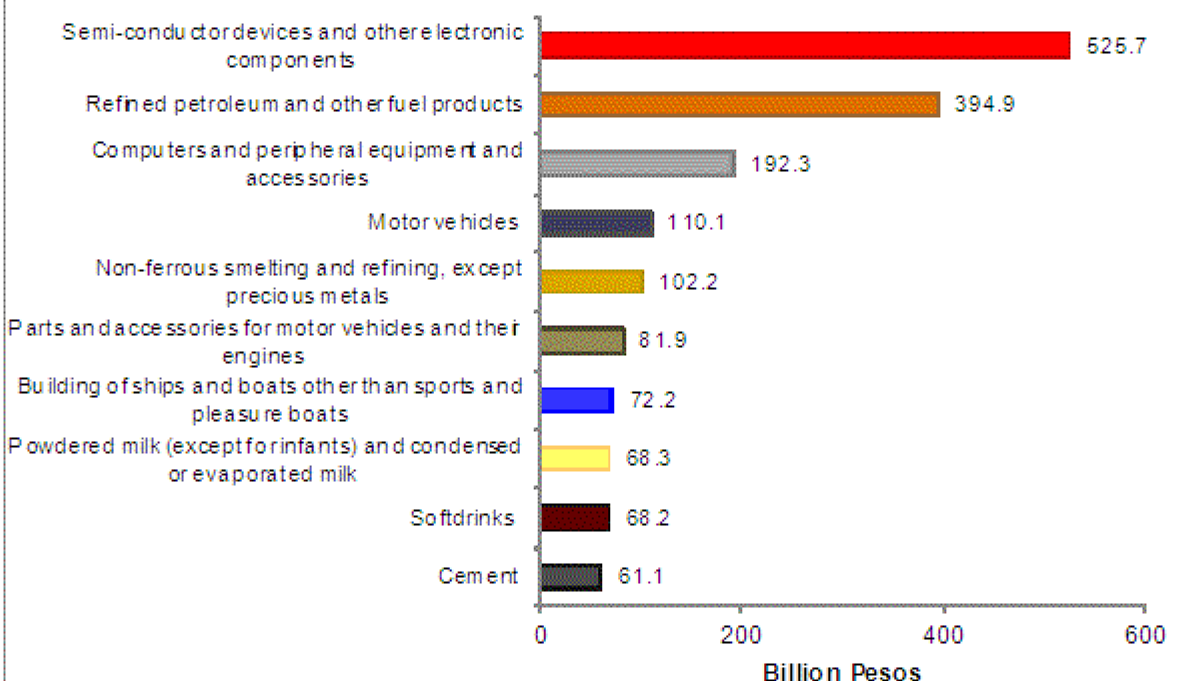
Manufacturing and Mining sector: A cross-comparison

FIGURE 1 Percentage Distribution of All Mining and Quarrying Establishments by Industry Sub-Class: 2010



Source: National Statistics Office, Republic of the Philippines, webportal: 2010 Annual Survey of Philippine Business and Industry - Mining and Quarrying Sector : Final Results

FIGURE 3 Top Grossers in Value of Output for All Manufacturing Establishments by Industry Sub-Class: Philippines, 2010



Source: National Statistics Office, Republic of the Philippines, webportal: 2010 Annual Survey of Philippine Business and Industry – Manufacturing Sector

Above figures show that that the increase in mining does not correspond to increase in manufacturing or processing of minerals, but mainly for exports. The glaring lack of processing of mineral resources stem from the absence of a manufacturing sector for metals that will transform these minerals and ores into intermediate products such as bars and metal forms, and into finished products. The absence of the manufacturing sector contributes to the lack of employment opportunities for this industry. In fact, many initiatives have been forwarded by business people, but for lack of a credit facility estimated to be around 10B USD, based on a figure that Philippines is no.5 richest in minerals such gold, and other precious metals, and manganese, chromite, aluminium, etc.

Political Economy of political dynasties:

The concentration of funds and resources among old families controlling the economy goes down as far as the regional or local economies are concerned.

Majority of politicians are coming from Political Dynasties which provides the framework for protection of landed and financial based economic interests in the House of Representatives, and the Senate, numbering more than half of them as members of political dynasties.

Promoting political dynasties in the regions is controlling local economies in such areas as rice, coconut, meat and poultry products. Commodities has been left to the control of big companies, dictating basic prices such as refined petroleum products, despite its liberalization. Of the 80 provinces in the Philippines, 73 are ruled by political dynasties. A total of 178 political dynasties control the political and economic system of the Philippines.

In a book "Landlord and Capitalists, political scientists Temario Rivera revealed that about 87 families controlled the top 120 manufacturing companies from 1964-1986. Sixteen of these families- about 20 percent- were involved in politics. Most of them were members of the landowning elite that emerged during the 19th century, including the Aranetas, the Cojuangcos, the Jacintos, the Madrigals, and the Yulos. Through government influence, writes Rivera, "landed capitalists caused the diversion of state resources to traditional elite economic activities like sugar and coconut milling, limiting further industrial diversification."

"CenPEG study in 2011 showed that the May 2010 elections—during which the automated election system was used nationwide for the first time—increased even more the number of political dynasties both at the national and local levels. Political dynasties have been thriving with memberships increasing through horizontal and vertical expansion. For instance, in the 15th Congress, vertical and horizontal expansion included local and national positions, covering legislative districts, provinces, and regions, and even penetrating the party-list system."

Major bills to democratise access to financial resources and information such as "The National Petroleum Exchange Act" and "The Freedom of Information Act" has not been passed, giving access to the matters of public interests.

What is the effect of the high growth rate in the rural areas? Most of the rural areas are neglected since rapid urbanization are taking place within the regime of neoliberalism, which provide emphasis on rural-urban migration as factories are encouraged to locate in the periphery of the cities.

How about policies that is geared to assist the poorest of the poor:

The Conditional cash transfer program – largely a dole out to help the poorest among the poor, and yet the program has not helped the poorest of the poor.

Concentration of economic leverage controls creates lopsided alternative cash mechanisms for the poor such as localized gambling, and investment scams perpetrated by unregulated small financial economies operating outside the normal financial marketing schemes.

Alternative Economic Policies:

Efficient distribution of financial and economic resources of the country is the main goal in order to create and stimulate effective demand, and spread wealth across the population, and mitigate poverty .

If savings ultimately becomes the basis for investment (S=I), clearly this does not show in the economic data. Investments has been largely coming from foreign investments in the hotel and tourism sector, business process outsourcing (BPOs), and a handful for light manufacturing industries in the electronics sector, and stock market from fund managers. No investments has been made on heavy industries, such as steel production, oil and gas production and refining, that should support the basic industries for the downstream economy.

Portfolio managers has been buying peso as it has appreciated considerably, and the buoyant stock market fed by foreign portfolio managers wanting to diversify, and catch on to the 2nd fastest growing economy in the Asia-Pacific, second only to China.

Alternative Financial Solutions to the present system:

1. **The establishment of small and medium enterprise exchange**

With the creation of a Magna Carta for Small Enterprises (R.A. No. 6977) in January 1991, and amended by R.A. No.9510- Magna Carta for Micro, Small and Medium Enterprises (MSME) on May 24, 2008, the government finally has recognized the important role of these sectors of the economy in the promotion of economic growth as well as equal opportunity and access to the facilities for its development. The amended law has increased the capitalization of a medium enterprise into a 15-100 Million peso category, and whereas, the micro and small enterprises are classified in the category of 3 million, and 3.001 million to 15m respectively.

This amended law tries to strengthen government assistance to these industries, without making concomittant responsibilites in creating a viable system wherein the MSMEs can thrive, and develop into viable industries. It has created another layer of bureaucracy, the Council, the Bureau and the Small Business Corporation with a capital of 10 Billion pesos, in order to help and promote the growth of these industries.

Furthermore, the target beneficiaries of this corporation has still to be threshed out in a detailed budgetary plan from the Department of Industry to be submitted in the annual budget yet to be deliberated by both Congress and Senate.

For the credit facilities to be developed, the financial institutions involved shall set aside a loan portfolio for this sector within a period of ten years from the effectivity of the amended law.

Lastly, the main focus for the Magna Carta is to assist enterprises engaged in "new technologies". Clearly, the new law does not help much in the development of SMEs, which is supposed to be one of the major source of employment.

In the Philippines, the stock exchange is dominated by big capital in the domestic market scene, as well as incoming foreign fund managers from abroad looking for better returns on their managed funds and, who have come to appreciate the local capital markets due to the strength of the peso.

The current state of the Philippine Stock Exchange (PSE) does not assist in the development of Small and Medium Enterprises. Although it has a Small Cap section for Over The Counter (OTC) transactions, it has very small volume, and most likely, very nil and has no positive impact on the development of SMEs. Initial Public Offerings (IPOs) for SMEs are seldom. Securities brokers prefer blue chip stocks and highly capitalized firms.

Given these conditions, it is therefore necessary to create a new Exchange whereby Small and Medium Enterprises, and Small and Medium Investors will meet, in buying and selling of shares (common and preferred) with Class A (local) and B (foreign) in forms of association, that is anonymously structured through a computerized system utilizing the latest electronic book-entry settlement system.

This new Exchange shall provide financing for small and medium enterprises in growth areas from small-medium scale mining, new technologies, to agriculture and fisheries, to food production, encouraging clusters of small-medium size industries, cooperatives and entrepreneurs. It shall also have geographic span from Luzon to Mindanao and shall encourage spatial dispersion to rural areas in order to counter act the growing urban congestion in the metropolitan cities.

The rules set by the Exchange shall be determined by the Founding Members and can be amended from time to time depending on market complexity and needs. But the basic rules for settlement and performance shall not be changed so as to ensure the strict compliance of each members of the stock exchange.

The same rules shall apply for issuances of Corporate Bonds whereby the Small and Medium Enterprises who have gained substantially in the Listing, and are in need of bigger financing, and shall then incorporate a bigger expansion plan utilizing the financing mechanism as applicable to placement of Corporate Bonds or Debentures

2. The establishment of commodities exchange

The practice of commodities exchange worldwide is to ensure the efficient delivery of the products sold on spot or futures basis, and its payment.

In the Philippines, there is no Commodities Exchange to speak of, which is structured on the basis of physical delivery of products on "spot market", except for daily quotations of local commodities such as copra oil, sugar, corn, etc.

This is because the market is currently disorganized and controlled by 'cartel -like' operations by big businessmen and groups of companies who profit in this trade.

Having a Commodities Exchange basically opens up the market for small and big players with the same level at the playing field. Each are given the chances to submit bids for prices of products being sold in the Exchange. At the same time, the Sellers are given the chances to submit their offers at the best price possible.

The innovation of the Commodities Exchange is that the 'spot market', only products controlled and delivered at the registered and bonded warehouses nationwide shall be approved for sale at the Exchange. The buyers are also checked for their cash position and liquidity.

Speculations shall be discouraged in the Exchange. This is the reason that the 'futures market' will have to be structured in such a way defaults are minimized or totally avoided.

Overall, the Commodities Exchange will have to be structured in such a way that a transparent pricing and delivery system will be applied involving a secured warehousing system or depots for physical stocks, be it in the form of metals, mineral ores, agricultural products, fisheries and meat products.

The Commodities Exchange shall guarantee the performance of the Sellers and the Buyers.

3. The establishment of an Insurance exchange

Currently there is no working model of an Insurance Exchange anywhere in the world. This is perhaps due to the regulatory framework and historical development of the insurance industry specific to each country.

In the Philippines, there is an overwhelming need to overhaul the insurance industry specially in the pre-needs industry and non-Life insurance. This is due to the fact that pre-need insurers have abused the system wherein the funds derived from the collected premiums are diverted into risky investments and in conflict of interests among the insurance companies. The Insurance Commission has also failed in its role as watchdogs in the insurance industry leaving the consumers at the mercy of the insurance companies.

Due to systemic failures and defaults of the insurance companies, it is therefore necessary to create an Insurance Exchange in order that the performance and obligation of the insurance companies are met. Insurance companies become the Sellers of the policies, and the Insured become the Buyers of the insurance products. A transparent pricing sytem for the insurance policies are generated with the Buyers knowing exactly every details of the issued policy. No hidden cost. No overrides. No fine lines.

Settlement can also be done over the electronic system, and orders transmitted via bank online services. In this way, remote orders from Overseas Foreign Workers to their local dependents are processed via Secured Internet Settlement Protocol System.

The Insurance Exchange shall also have its own rules similar to the Stock Exchange. It shall ensure the delivery and settlement of obligations of each insurers listed as members of the Insurance Exchange. A sinking fund shall be structured whereby an insurance policy is secured by a marginal deposit, comparable to the system established by the Basel II Bank for International Settlements Rules on Capital Adequacy, that in the event of the default of one member, the Exchange shall guarantee its commitment and obligations stipulated in the policy. The advantage of this system is that the beneficiaries of the pre-needs insurance policy are secured by its concomittant obligations of the issuer to fulfill the obligation when the policy matures.

4. **Support training of financial agents by establishing free and basic courses in accounting, and financial products.**

If free market will truly be effective, there should be free market structures that will harness the financial resources of the market, and thereby effectively create an efficient distribution of resources, increasing income distribution, and high productivity rates for financial products to the public, with built-in social safety nets, and mechanisms that will safeguard the integrity and liquidity of the market.

For the next paper, I will focus on developing these financial exchanges for the broader market in the Philippines.

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About the author

Mr Urbano Paul C. Alli, Jr, is the founder of NeoFinance Group Philippines, an organization promoting "free market" ideas for a broader market in the Philippines. He envisions the free flow of capital, commodities, and industrialization with built-in social safety net for the Filipinos.

He is also the President of Alyc Industries and Trading, a company that is involved in rural industrialization by promoting new technologies in the coconut industries, and financial system for the cooperatives in Samar island.

He recently run at the May 13 polls as board member of the Province of Samar, 2nd district, under the banner of the Liberal Party but lost to money politics, and rampant vote buying by the leading political dynasty in the province.

He is a Political Science graduate at the University of the Philippines Diliman, Quezon City, Philippines in 1984, and took Master's courses at the same university, and pursued further Master's studies leading to Ph.D. at the New School University, New York City, in 1991.

He wrote numerous articles on urban studies, rural economy, and financial exchanges in the Philippines as well as business studies in the airline industry, cooperative banking, metal and petroleum industries in the Philippines.

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