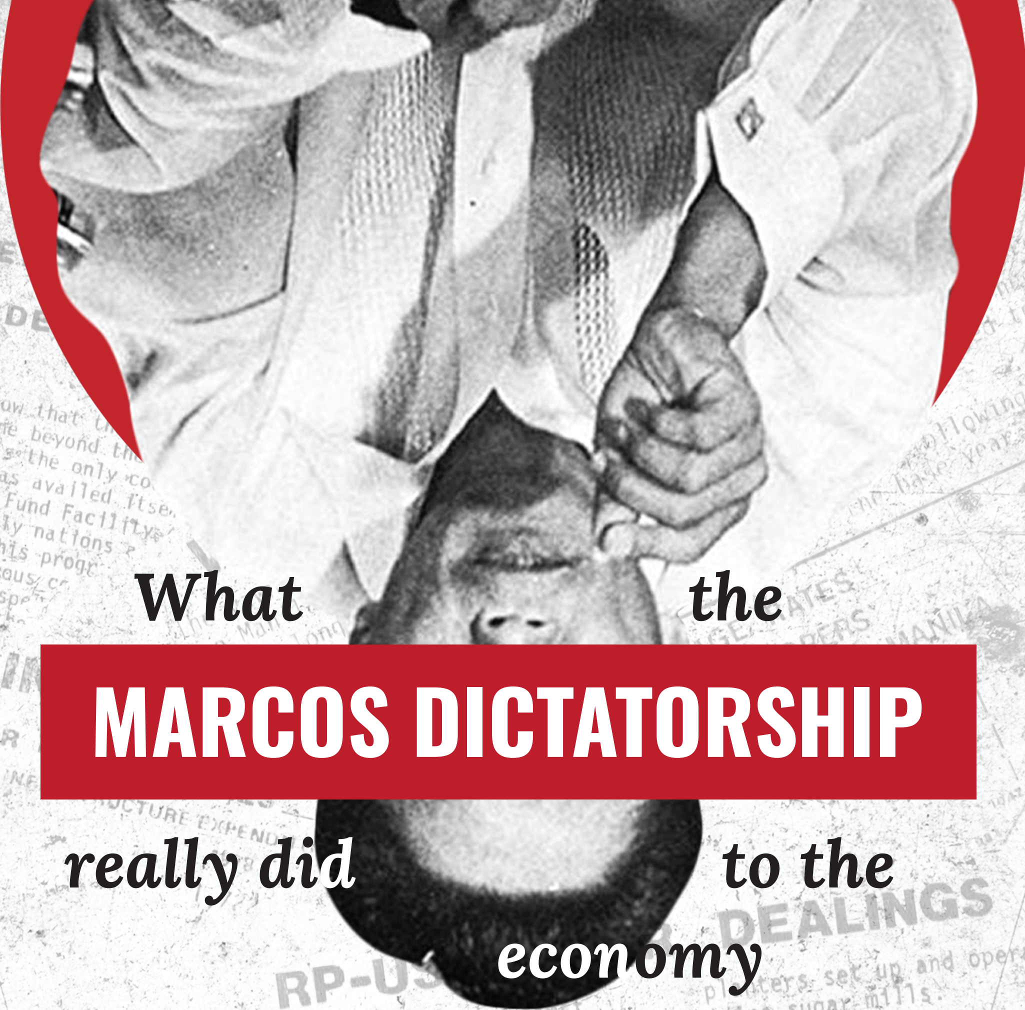


What the MARCOS DICTATORSHIP really did to the economy

The Marcos regime left a legacy not just of systematic corruption and institutionalized authoritarianism but also of neoliberalism. It embedded corruption at the highest levels of the country's elite-dominated power structures and wove this ever deeper into the legal and political system. It also resulted in subsequent administrations consistently using violent repression against radical alternatives behind the institutional facades of nominally representative democracy. But it is arguably the neoliberal path of economic decline the regime started that has had the most far-reaching impact on the greatest number of people until today.

The regime's unprecedented corruption and cronyism is commonly blamed for causing the country's economic ruin in the early 1980s. This narrative is important for highlighting the evils of dictatorship and abuse of power. However, it does not fully explain the depth of economic collapse or why it took so long to restore economic output. It also does not give insight into why almost four decades since the end of the Marcos regime, the economy remains so underdeveloped in the things that matter — job creation, poverty reduction, agricultural and industrial development, and policy sovereignty. The environment meanwhile has only continued to degrade and deteriorate.

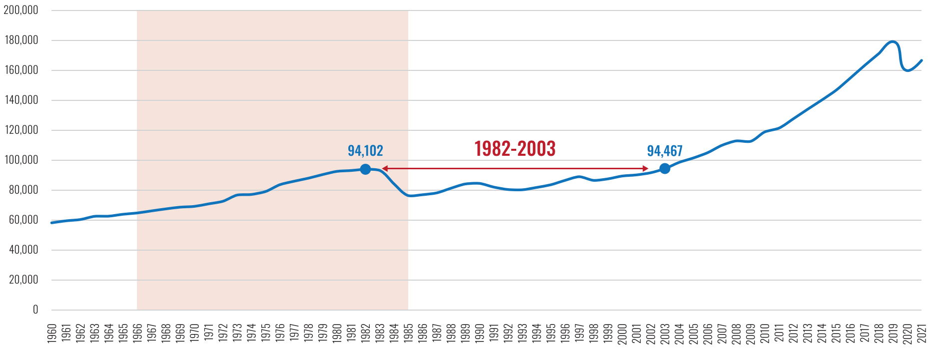
The deeper reason for the country's economic troubles is the neoliberal 'free market' policy regime ushered in by consummate bureaucrat capitalism using the vast powers of the dictatorship. These were implemented in incipient form in the 1960s, then increasingly methodically in the 1970s, and then comprehensively since the 1980s. The market-oriented reforms the Marcos regime started eventually resulted in the economic crisis in the last years of the dictatorship and, as they continued to be implemented, also caused the subsequent two decades of 'lost development' until the early 2000s.

Neoliberalism's *trajectory*

The presidency of Ferdinand E. Marcos Sr. started with his inauguration in December 1965 and ended with his ouster by 'People Power' uprising in February 1986. His 20-year regime had an authoritarian character from the very beginning; for instance, he assumed the position of secretary of national defense at the start of his first term and immediately expanded the budget of the armed forces. The regime's dictatorial character was most explicit after the declaration of martial law in September 1972 but remained even after its formal lifting in January 1981 and the presidential elections in June 1981.

Chart 1. **GDP per capita, 1960-2021 (Php, constant 2018)**

SOURCE: IBON computations on data from Philippine Statistics Authority



The economy's historical performance can be summarized in many ways such as by the level of gross domestic product (GDP) per capita measured in constant terms to take away the effect of inflation. This estimate of total economic output divided by the population gives an indication of the general trend of the economy (without saying that the benefits from the increased economic output are divided equally among the population) (**See Chart 1**). GDP per capita can be used to give a periodization of the historical record although also considering indicators such as employment, household incomes, the sectoral distribution of output and others will give a more complete view of economic performance.

Continuing pre-Marcos trends, GDP per capita was increasing from 1965 to 1982 including an acceleration, indicated by a slightly steeper slope, in the 1973-1980 period. This sub-period is plausibly what comes closest to being any kind of 'golden age' for the economy, at least in aggregate terms. It covers the debt-driven infrastructure spree starting around 1975.

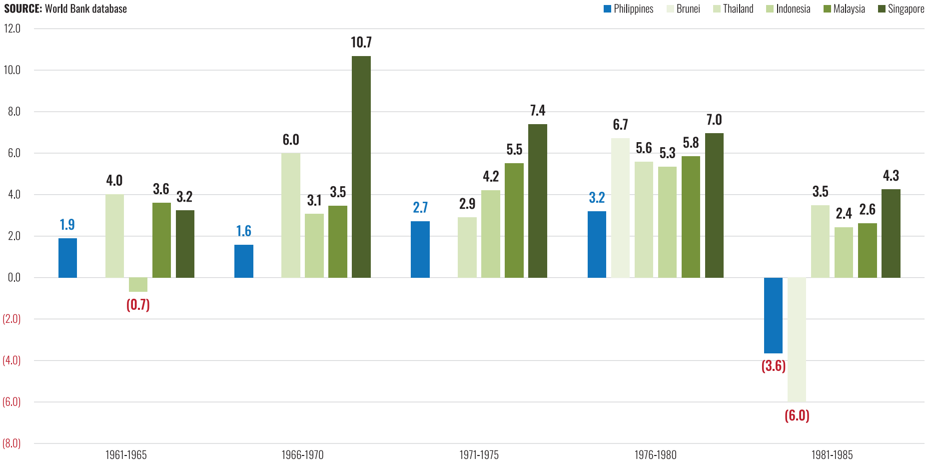
GDP per capita plateaued in 1981-1982 then dropped substantially in 1983 to 1985 which was a time of severe political and economic crisis. There were recessions and stagnation in 1983-1985, 1991-1993, and 1998-1999. The so-called lost decades of development refers to the time it took GDP per capita to recover to its 1982 level which was two decades later in 2003.

The relatively rapid economic growth since the 2000s is reflected in GDP per capita notably rising. There should however be caution in treating the trend in this single metric as development because this has also been a period of jobless growth and declining shares of agriculture and manufacturing in GDP. In any case, this trend was interrupted by the pandemic lockdowns since 2020 where the level in 2021 is still below that reached in 2018.

The country's performance during the Marcos era is usefully seen in the context of the rest of the region. With all countries subject to the same global economic situation, individual performance is presumably a function of domestic policies adopted. For the countries for which data is available, the Philippines was generally the poorest performer in the 1966-1985 period of Marcos' rule (**See Chart 2**). It had the slowest average annual GDP per capita growth in 1966-1970, 1971-1975, and 1976-1980. In 1981-1985 it had the second worst performance after oil-export dependent Brunei that suffered from sharply falling oil prices in the early 1980s.

Chart 2. **Average annual GDP per capita growth, 1961-1985 (%)**

SOURCE: World Bank database



The biggest reason for the Philippines' poor economic performance compared to the rest of the region is its early adoption of anti-nationalist economic policies. This had its roots even from when the country was supposely (but only nominally) granted independence from the United States (US) in 1946. Before leaving, the US colonizers made sure that treaties were in place giving American capitalists the same economic rights as Filipinos (i.e. parity). Unlike so many countries in Asia, Latin America and Africa whose post-World War II post-colonial governments were bold enough to implement nationalist and even Socialist policies, post-1946 Philippines remained a political and economic neocolony of US imperialism.

This meant that the Philippine economy was by no means strong, self-reliant or independent by the start of the Marcos regime in 1965. It is often said that the country was second to Japan in the 1960s at the beginning of the Marcos regime. This notion came from a time when comparative economic data for the region was still not available. However, as economic historians put together more complete data, it emerged that the Philippines ranked just sixth in Asia when Marcos took power in 1965 after Japan, Hong Kong, Singapore, Taiwan, and Malaysia (**See Table 1**).[1] The country fell even further behind during the Marcos regime and was overtaken by South Korea in 1968, North Korea in 1969, Thailand in 1977, and Sri Lanka and Indonesia in 1985 – ranking just 11th by 1986.

The lack of progressive and independent economic policies in the Philippines was by design. For instance, the Bell Trade Act of 1946 amended the Philippine Constitution to give American capital

Table 1. **GDP per capita (1990 Int. GK$)**

SOURCE: Maddison Historical GDP database
*Indonesia and Timor until 1999

	1965		1986		2008	
1	Japan	5,934	Japan	15,679	Hong Kong	31,704
2	Hong Kong	4,825	Hong Kong	13,960	**Singapore**	**28,107**
3	**Singapore**	**2,667**	**Singapore**	**10,900**	Japan	22,816
4	Taiwan	1,810	Taiwan	7,477	Taiwan	20,926
5	**Malaysia**	**1,804**	South Korea	6,263	South Korea	19,614
6	**Philippines**	**1,633**	**Malaysia**	**4,105**	**Malaysia**	**10,292**
7	South Korea	1,436	**Thailand**	**3,170**	**Thailand**	**8,725**
8	Sri Lanka	1,329	North Korea	2,841	China	6,725
9	**Thailand**	**1,308**	Sri Lanka	2,263	Sri Lanka	4,895
10	North Korea	1,295	**Indonesia***	**2,051**	**Indonesia***	**4,428**
11	**Indonesia***	**983**	**Philippines**	**1,983**	Myanmar	3,104
12	**Vietnam**	**877**	China	1,597	India	2,975
13	India	771	Pakistan	1,444	**Vietnam**	**2,970**
14	Pakistan	771	Mongolia	1,364	**Philippines**	**2,926**
15	Afghanistan	720	India	1,101	**Cambodia**	**2,482**
16	**Laos**	**712**	**Cambodia**	**990**	Pakistan	2,239
17	China	702	Vietnam	929	**Laos**	**1,669**
18	**Cambodia**	**687**	**Laos**	**921**	Bangladesh	1,146
19	Mongolia	679	**Myanmar**	**919**	Nepal	1,134
20	Nepal	631	Afghanistan	878	North Korea	1,122
21	**Myanmar**	**617**	Nepal	745	Mongolia	1,001
22	Bangladesh	608	Bangladesh	592	Afghanistan	869

the same rights as Filipinos to exploit the country's natural resources and operate public utilities. The Laurel-Langley Agreement of 1955 basically extended these parity rights until 1974, among other provisions on tariffs and the exchange rate. The Philippines had the protectionist policies common for the time, but these particularly benefited its former colonial power.

The Philippines moreover had the most loans, programs and projects from the International Monetary Fund (IMF) and the World Bank in Southeast Asia. It is the only country in the region to have been continuously under IMF programs or World Bank loans for 38 years from 1962 to 1999 (Hutchison 2001, 48-50; World Bank 1998, 43; Johnson et al 1993, 14-15; Marr 1996, 45-46). Over that same period, Indonesia had only 12 years under the IMF-World Bank (with IMF programs in 1963 and 1968-1973, and World Bank adjustment loans in 1987-1991) and Thailand had only nine (9) years (IMF programs in 1978, 1981-1983, and 1985-1987, and World Bank adjustment loans in 1982-1984) while Malaysia had none. The IMF's formal policy advice to the government that started in the 1960s notably included foreign exchange decontrol in 1962.

In particular, from 1966 to 1985, the Marcos regime entered into 13 Stand-By Arrangements, an Extended Fund Facility (EFF), and a Compensatory Financing Facility (CFF) with the IMF and had 91 loans to the World Bank with a value of US$4.3 billion, including three sectoral and sectoral adjustment loans with a value of US$652.3 million.

Marcos and his Nacionalista Party were strong on nationalist and patriotic rhetoric upon taking power in 1965. Yet Marcos was by no means a nationalist if "nation" is understood as the majority of Filipinos and "nationalism" as upholding their interests and asserting Filipino sovereignty over foreign powers. With preferential treatment for the US behind the country's pseudo-protectionism expiring in 1974, the US needed to ensure that the Philippine economy would remain open to foreign trade and investment particularly from the US. With global anti-colonial and independence movements and Filipino nationalist sentiment rising, the extension of overtly preferential treatment for the US in any form was untenable.

The Marcos regime's neoliberal measures are familiar today but were novel for their time. The Philippines was among the earliest in the region to systematically give foreign capital profitable opportunities in the domestic economy. It enacted laws on investment and export incentives for foreign investors and created the country's first special economic zones, then called export processing zones. The Investment Incentives Act of 1967, Foreign Business Regulation Act of

1968, and Export Incentives Act of 1970 were passed, and the Board of Investments (BOI) was established in 1970. These were initially ostensibly to support domestic capital and increase exports but were eventually oriented towards attracting foreign investment. The first export processing zone (EPZ) was built in Bataan in 1969 and the Export Processing Zone Authority (EPZA) was established in 1972.

The regime institutionalized cheap labor export, starting with various measures to get Filipino seamen employed and workers hired in the Middle East. It also devised the service contract scheme that creatively bypassed Constitutional restrictions on foreign exploitation of Filipino petroleum and gas resources, resulting in the virtually complete turnover of Malampaya resources to foreign oil and gas giants.

The declaration of martial law in 1972 is plausibly seen as not just motivated by personal political survival but also to use the coercive powers of the state to more systematically open up and restructure the Philippine economy according to the needs of foreign monopoly capital, especially the US whose post-colonial treaties were coming to an end. Such coercion became all the more necessary to confront certain resistance from the resurgent nationalist and armed revolutionary movements.

Having clearly established the free market direction of the economy, Marcos' martial law regime was quickly and easily embraced by foreign capital. The American Chamber of Commerce in the Philippines telegrammed Marcos to wish him success, assure him of their confidence, and pledge their cooperation within a week of the declaration on martial law.[2] Also, according to a foreign business magazine in 1974: "*The overwhelming consensus of the foreign business community in the Philippines was that martial rule under President Marcos was the best thing that ever happened to the country.*"[3]

Foreign direct equity investment that averaged only US$2.9 million annually in 1970-1972 suddenly grew and reached US$82.7 million in 1973, US$64 million in 1974, and US$116 million in 1975 (**See Chart 3**). Foreign investment actually continued to increase even up to the middle of the early 1980s economic crisis to reach US$247 million in 1983. Among the first locators in the country were Intel and Temic Telefunken in 1974 later joined by Motorola and Texas Instruments in 1979 then Philips in 1981.

Chart 3. Foreign direct equity investment, 1970-1985 (US$ million)

SOURCE: Bangko Sentral ng Pilipinas

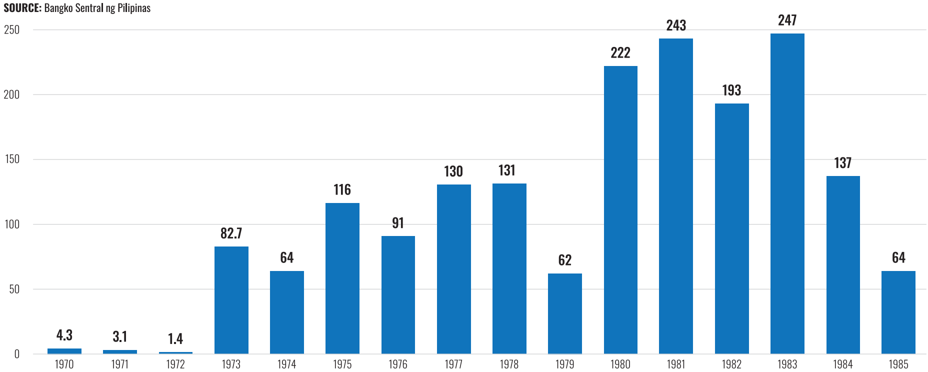
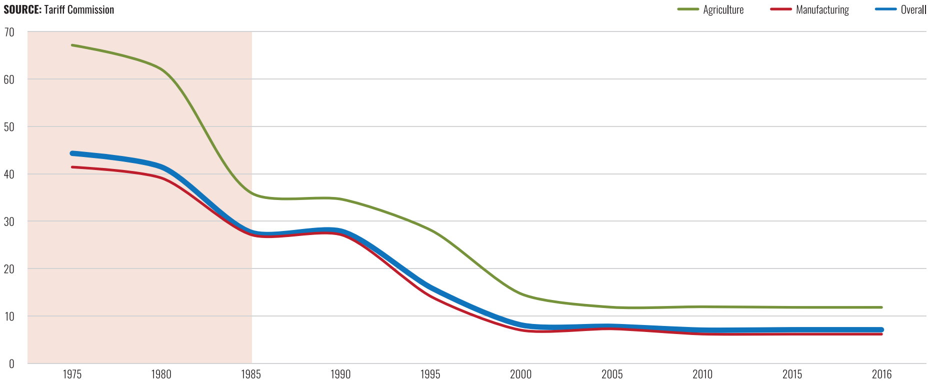


Chart 4. **Average nominal tariffs by sector, 1975-2016 (%)**

SOURCE: Tariff Commission



The opening up to foreign investment was happening astride the lowering of agricultural and manufacturing tariffs (**See Chart 4**). Cheaper imports from other countries made it more difficult for domestic producers to compete.

In September 1980, the Philippines was the first country in Asia and only the third country in the world (just months after Turkey and Kenya) to be at the receiving end of a World Bank structural adjustment loan (SAL). The US$200 million SAL I's conditionalities included tariff cuts, removal of import licenses and quantitative restrictions, lowering protections, export-promotion, and a flexible exchange rate policy; this was followed by the US$302 million SAL II in 1984 which aimed to eliminate the protective effects of the tax system, reform industrial incentives, further eliminate import restrictions, and liberalize import licensing (Montes 1988). SAL I and SAL II were the historic spearheads of thoroughgoing neoliberalism in the country.

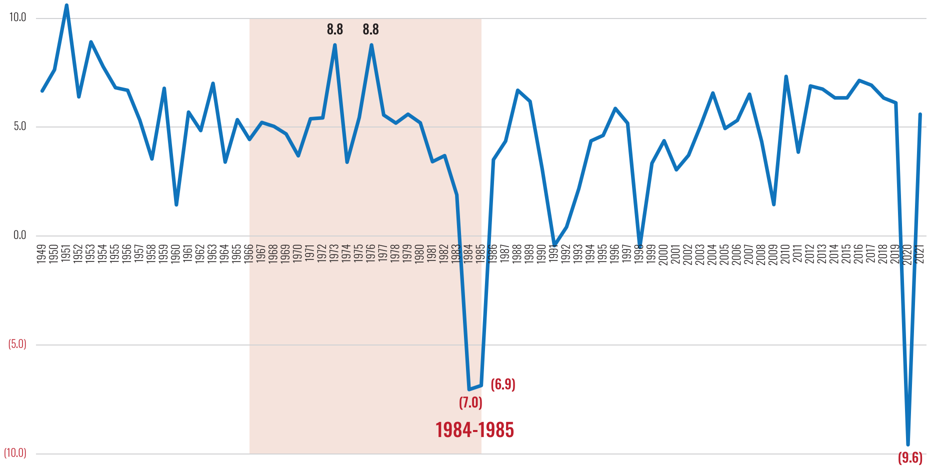
There were also four continuous IMF stabilization programs in the 1980-1986 period. The IMF's 1980, 1983 and 1984 stand-by arrangements and 1983 CFF required drastic devaluations, fiscal austerity and tight monetary policy. The financial stranglehold of foreign monopoly capital on the Philippine economy was by that time complete and all public and private flows (i.e., official development assistance, negotiations on new/old debt, investments) were contingent on the IMF's so-called seal of good housekeeping.

The stabilization measures choked the economy and, combined with the SALs, the severe neoliberal policy shock caused the worst economic collapse in the country's history (1984-1985) (**See Chart 5**). The economy contracted 7% in 1984 and by another 6.9% in 1985. The 9.6% GDP contraction in 2020 due to the pandemic lockdown was larger but lasted for only a year with an immediate rebound in 2021.

The subsequent decades of protracted crises were also due to neoliberalism as the economy was restructured along market-oriented lines (1986-2003). The immediate post-Marcos decades were an intense period of trade and investment liberalization, privatization and deregulation. There were five (5) more IMF stabilization programs: 1986, 1991 and 1998 stand-by arrangements; 1989 EFF; and 1994 EFF. There were also three (3) more World Bank SALs cumulatively worth US$700 million – in 1987/88, 1992, and 1998 – aside from 84 other loans

Chart 5. **GDP growth, 1949-2021 (%, constant 2018)**

SOURCE: Philippine Statistics Authority



worth US$6.5 billion. This period also saw the country joining the Association of Southeast Asian Nations (ASEAN) Free Trade Area in 1992 and the World Trade Organization (WTO) in 1994. This intense period of neoliberal policies caused the so-called lost decades of development.

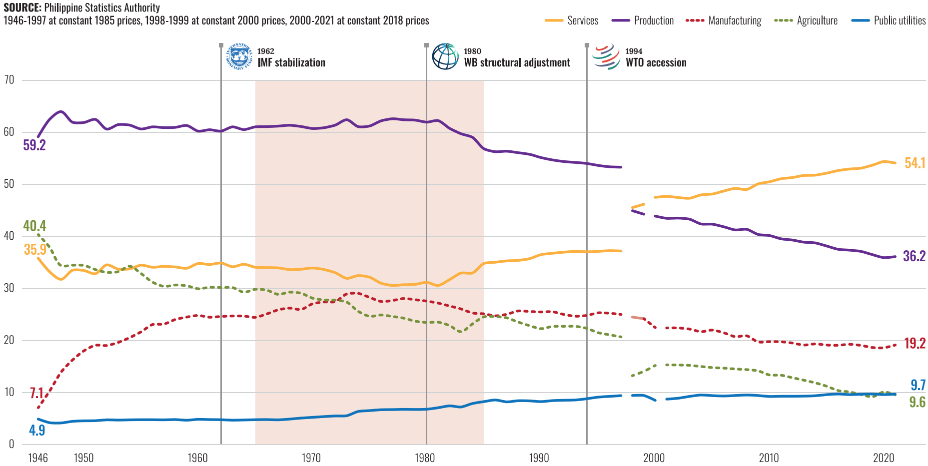
The neoliberal policies started by the Marcos regime and which were continued and deepened by subsequent administrations are the reasons for the country's unresolved and worsening underdevelopment. The early persisting elements of state intervention did not detract from the general market-oriented trajectory of policymaking towards openness to foreign trade and investment. Those elements were never dominant and, much less, did not constitute any sort of strategic plan for agricultural development and national industrialization. The allegedly nationalist policy measures were largely directed to favoring crony enterprises and enriching cronies.

Economic decline

The adverse effect of neoliberal economic policies since the 1970s is evident when looking at historical trends in the country's economic structure (**See Chart 6**). The production sectors are composed of agriculture, manufacturing, mining and quarrying, and construction. These were cumulatively more or less stable at an average of 61.4% of GDP over the long 1946-1981 period. The decline since around 1982 is however stark especially because of a rapid drop in manufacturing and construction, and against the pre-existing continuously downward trend in agriculture; mining has consistently been a marginal share of the economy at just around one percent.

Chart 6. **Industry share of GDP, 1946-2021 (%, at constant prices)**

SOURCE: Philippine Statistics Authority
1946-1997 at constant 1985 prices, 1998-1999 at constant 2000 prices, 2000-2021 at constant 2018 prices



The Philippines was the only country in the region which saw both agriculture and manufacturing decline as a share of GDP (Montes 2019, 510). The debt-driven infrastructure boom in the last half of the 1970s and early 1980s momentarily masked this decline. The regime's grandiose public infrastructure program is reflected in gross capital formation, which includes construction, whose equivalent share in GDP spiked in the 1974-1984 period, to an even higher degree than during the Duterte administration's hyped Build, Build, Build infrastructure program (**See Chart 7**). This was short-lived though, and spending on infrastructure, construction and gross capital formation dropped steeply in 1984 and 1985 before slowly recovering thereafter.

The weakness in domestic production is also the most important reason for chronic trade deficits that started to become much worse during the latter years of the Marcos regime (**See Chart 8**). The import-dependence of the economy worsened in the second half of the 1970s as foreign manufacturing enclaves and construction projects expanded. Much of these deficits were financed by external debt in the late 1970s and early 1980s. The need for foreign exchange to finance trade deficits and profit repatriation is among the reasons why foreign monopoly capital was so keen on constantly lending to the Marcos regime. Overseas Filipino remittances became a major source of foreign exchange since the 1990s.

The weak explanatory power of even Marcosian corruption and cronyism should also be evident when looking at the long-term trends in the economy's structure. In the mid-1980s,

Chart 7. **Gross capital formation, 1960-2020 (% of GDP)**

SOURCE: World Bank World Development Indicators

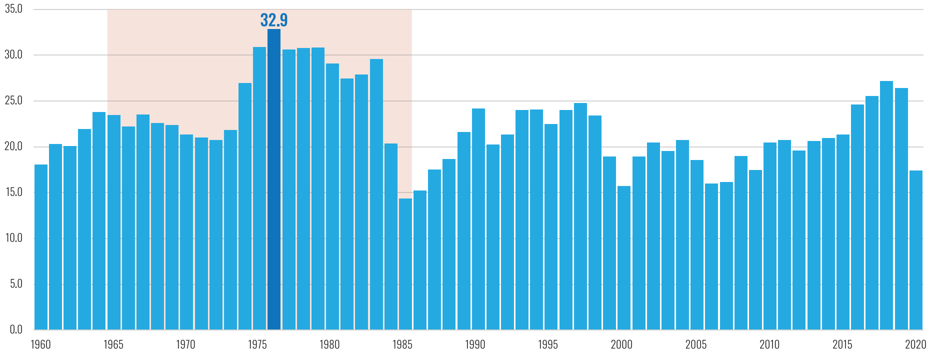
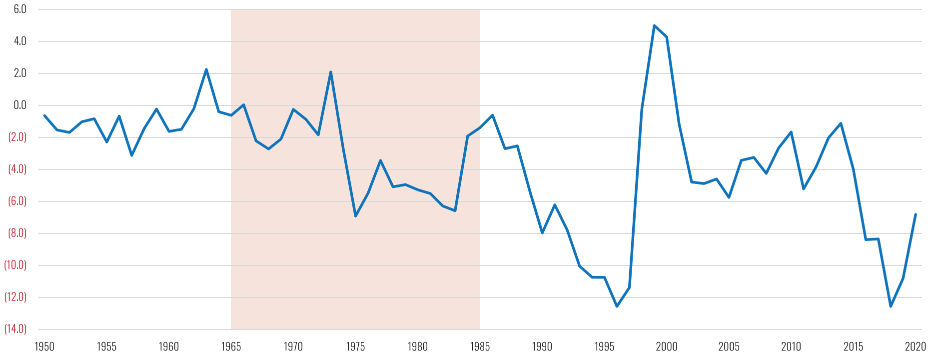


Chart 8. **Trade deficit, 1960-2020 (% of GDP)**

SOURCE: Bangko Sentral ng Pilipinas



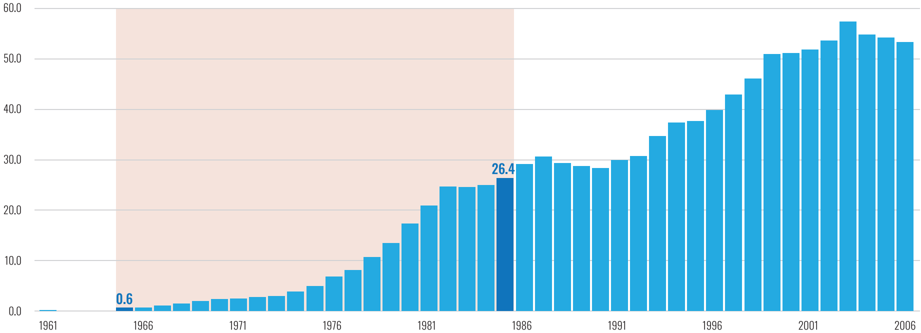
the economic crisis that included a significant foreign debt element was easily attributed to the Marcos regime's admittedly unrivalled excesses. This is however insufficient to explain the declining share of agriculture and manufacturing in GDP long after the dictatorship and until the present.

The economy's structural problems also expressed themselves in a severe deterioration in the conditions of the people – which is most of all what belies claims that the Marcos era was some kind of golden age. The dictatorship neither modernized the Philippine economy nor delivered prosperity – the exact opposite happened.

Market-oriented policies saw the share of agriculture in GDP falling since the start of the Marcos regime and of manufacturing since around 1973 (**See Chart 6**). This erosion of the economy's domestic foundations increased its vulnerability to external shocks. Another considerable vulnerability was added in the 1974-1982 period by the accumulation of external debt (public and private) pushed by self-serving foreign creditors and welcomed by the corrupt dictatorship. The country's foreign debt only increased from US$599 million to US$2.9 billion between 1965 and 1973, but then increased rapidly from US$4.9 billion to US$24.7 billion between 1974 and 1982; it grew further to US$26.4 billion by 1985 (**See Chart 9**).

Chart 9. **Total external debt, 1961-2006 (US$ billion)**

SOURCE: Bangko Sentral ng Pilipinas



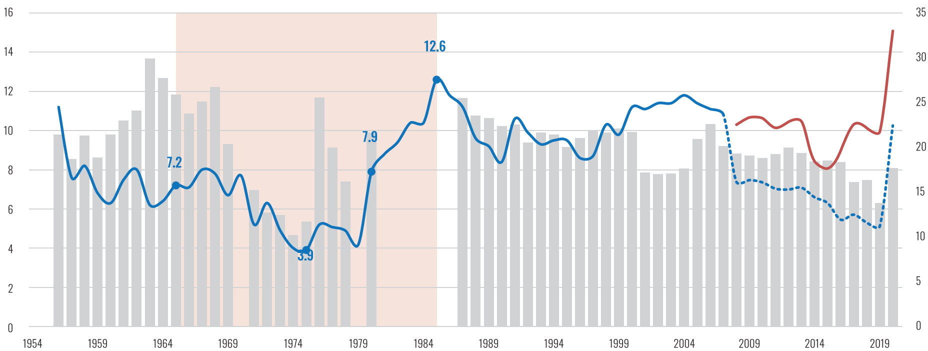
The regime's neoliberal policy choices and massive external debt made the economy fragile and susceptible to global economic turmoil and domestic political crises. The US interest rate hikes (to 11.2% in 1979 with a peak of 20% in June 1981) combined with two oil price shocks to usher in the 1981-1982 global recession and 1982-1983 global debt crisis. In the Philippines, the 1983 Aquino assassination triggered a period of growing protests and political instability.

The first nine years of the Marcos regime saw GDP growth more or less stable around a yearly average of 5.1%, which is around the historical average, albeit with a notable spike to 8.8% in 1973 (**See Chart 5**). After another notable spike to 8.8% in 1976, GDP growth went into virtually constant decline up to the 6.9% contraction in 1985. Annual GDP growth averaged just 2.5% in the decade 1976-1985 which was less than half the 5.2% in the previous decade 1966-1975.

The period 1976-1985 was a time of intense social crisis and economic difficulty for most Filipinos especially its latter years. The unemployment rate was generally falling in the first half of the Marcos regime from 7.2% in 1965 to 3.9% in 1975 (**See Chart 10**). This however reversed in the mid-1970s to rapidly rise to 7.9% in 1980. This continued to increase to a peak unemployment rate of 12.6% in 1985 which is the highest on record and which marked the start of sustained high unemployment fluctuating around a yearly average of 9% in the long 1986-2019 period (not including the pandemic lockdown-driven spike in 2020).[4]

Chart 10. **Unemployment and underemployment, 1956-2020 (%)**

SOURCE: Philippine Statistics Authority, IBON computations on Philippine Statistics Authority data

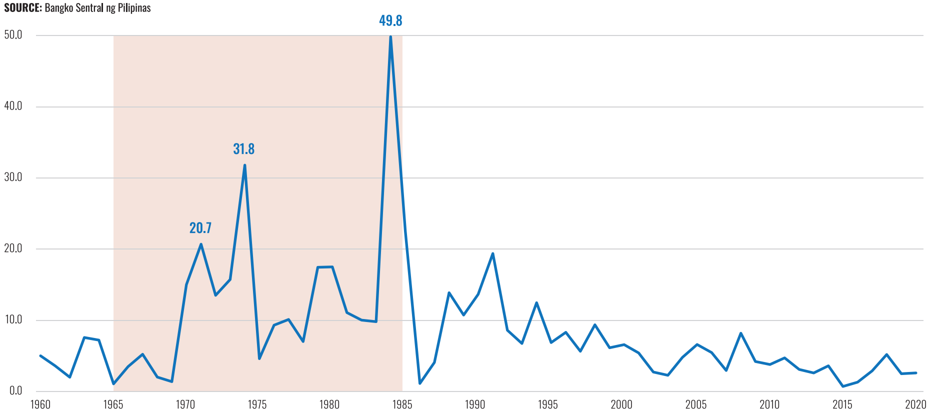


The persistently high domestic unemployment – masked by and driving record numbers of Filipinos overseas for work – is a key indicator of a deep structural problem in the economy.

The country also experienced its worst reported inflation during the Marcos regime. Inflation reached 20.7% in 1971 (after the peso devalued 34% in 1970), 31.8% in 1974 (after the 1973-1974 global oil price shock), and a staggering 49.8% in 1984 (after the peso devalued 34% in 1984). Inflation averaging 20.7% in the last five years of the regime (1981-1985) was almost double the 12.3% in the five years before this (1976-1980), and almost four times the 5.4% in its first five years (1966-1970) (**See Chart 11**).

Chart 11. Inflation, 1960-2020 (%, 2012=100)

SOURCE: Bangko Sentral ng Pilipinas



The accountability of the IMF in the economic crisis of the early 1980s cannot be underestimated. Their stabilization programs enforced fiscal austerity so that foreign debt would continue to be paid, choked liquidity to stem capital outflows, and devalued the currency which only drove prices ever higher.

The rapid increase in the prices of goods and services aggravated already strong downward pressure on working class wages. Martial law and its attendant trade union repression greatly weakened the bargaining power of wage-earners. Between 1965 and 1985, the daily wages of urban skilled workers fell by 68.5% and of urban unskilled workers by 72.4 percent (**See Chart 12**). For wage earners in agriculture, there was a 21.4% drop over the same period (**See Chart 13**).

The situation for ordinary Filipinos was worst in the 1980-1985 period when the unemployment rate averaged at 9.9% and the inflation rate at 20.1 percent. The Philippine Statistics Authority (PSA) reports poverty incidence at 49.2% (26.7 million) in 1985, but which is estimated conservatively according to the low official poverty threshold. Other estimates are of 60.6% poverty incidence by 1983 and 51.7% by 1985.[5]

The economy in the final years of the Marcos regime was in neoliberal-induced ruin. Unemployment (non-pandemic lockdown), inflation and poverty were at historic highs.

Chart 12. **Daily wage rate among workers, 1962-1986 (Php, constant 1986 pesos)**

SOURCE: https://martiallawmuseum.ph/magaral/martial-law-in-data/

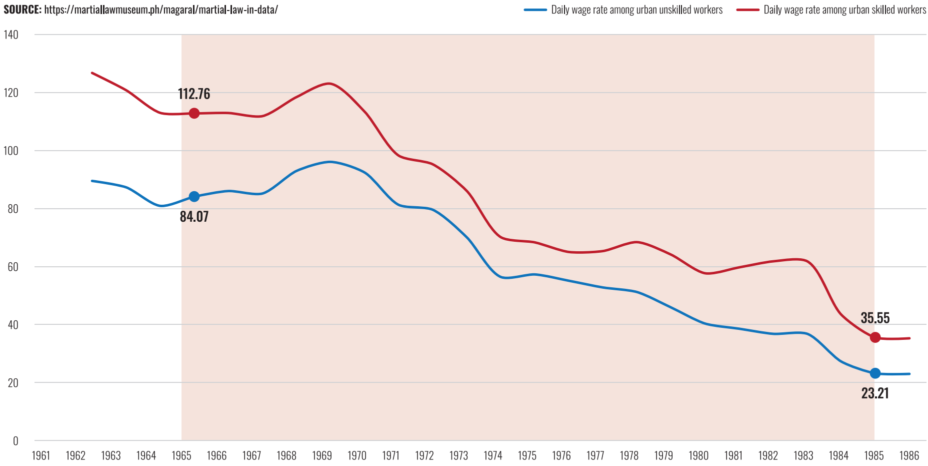
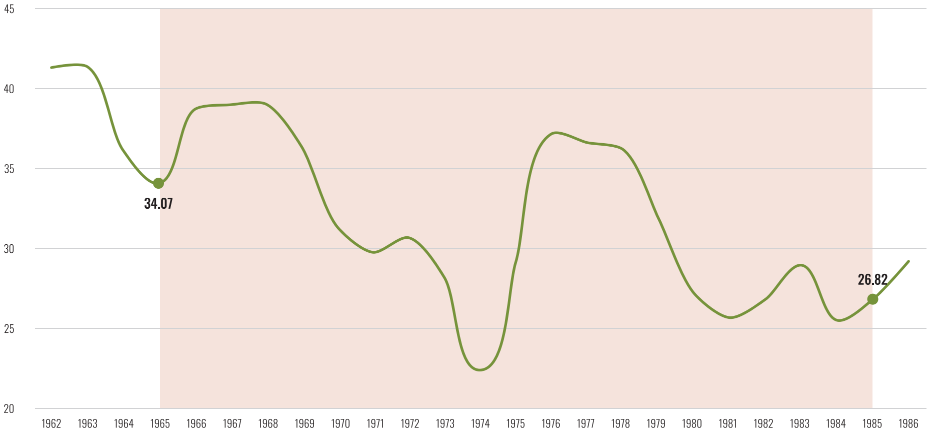


Chart 13. **Daily wage rate in agriculture, 1962-1986 (Php, constant 1986 pesos)**

SOURCE: https://martiallawmuseum.ph/magaral/martial-law-in-data/



The rural economy remained poor and backward from the lack of real agrarian reform and support for the peasantry. The neoliberal structural adjustment and stabilization measures caused firms to close and greatly accelerated Philippine deindustrialization. The manufacturing sector peaked at an average annual of 28.3% of GDP in the period 1971-1975 but then started to fall to an average of 27.8% in 1976-1980 and then more rapidly to 26.1% in 1981-1985. These conditions fueled the storm of protest and opposition to the dictatorship and precipitated its overthrow through a people's uprising in February 1986.

Neoliberal
vanguard

The Philippines' economic policy trajectory under the Marcos regime starkly contrasted with that of the other countries in the region. None of the Southeast Asian economies of the 1960s were independent of foreign monopoly capital in the way that China, for instance, was. Even so, countries like Malaysia, Thailand and Indonesia protected their domestic economies until the early 1980s in ways that the Philippines did not. Vietnam, Lao PDR, Myanmar, and Cambodia had socialist or at least heavily state-dominated economies through the 1970s and 1980s, aside from being subjected to economic isolation and embargoes (Montes 2018).

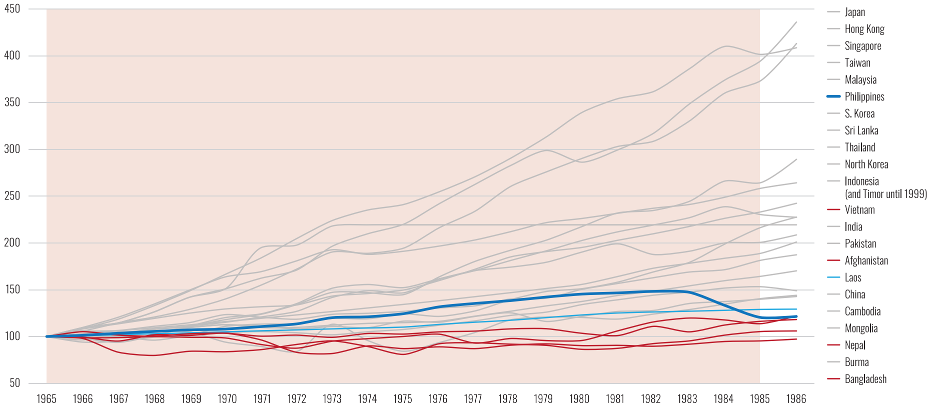
The Philippines formally had an import-substituting industrialization (ISI) thrust in the 1950s with substantial import protections and controls (Rasiah 2020; Montes 2018; ADB 2020, 55-56). US firms in the country were among the biggest beneficiaries of ISI – i.e. Colgate-Palmolive, Mead Johnson, Muller and Phelps, Union Carbide, Reynolds, Phelps-Dodge, Kimberly Clark, BF Goodrich, General Electric – and gave the country among the biggest foreign investor presence in the region. Unlike its neighbors, the Philippines chose to follow the economic policy preferences and conditionalities of the IMF and World Bank since the 1960s, which included an early shift from ISI.

The 1970s saw the shift to foreign investment-driven export-oriented industrialization (EOI) with additional incentives for export industries and setting-up export processing zones. Up to 100% foreign ownership was allowed in so-called pioneering industries – which included garments and textiles, electrical, and electronics – and up to 40% in 'non-pioneering industries'. Agriculture and manufacturing tariffs were cut between 1975 and 1980, with effective rates of protection in manufacturing falling between 1965 and 1974.

Indonesia had a very nationalist economic policy in the 1960s, with strong import protections and nationalization of enterprises, which continued for decades (Rasiah 2020; World Bank 1993; ADB 2020, 53-54; Fausti, et al 1993; Marr 1996). Its state-driven industrialization policy in the 1970s included heavy government investments in oil refining, liquefied natural gas, chemicals, pulp and paper, fertilizer, cement and steel, and even the launch of a domestic aircraft industry. These efforts were supported by gains from rising oil prices and a commodity

Chart 14. **GDP per capita index of selected countries in Asia, 1965-1986 (1965=100)**

SOURCE: Maddison Historical GDP Database



boom. Regulations on foreign and domestic investment were tightened, and although joint ventures were allowed, foreign ownership was discouraged. Import licensing was abolished, but tariff protections continued. Devaluation, tariff cuts, and export incentives in 1986 signified a shift to EOI. Public investments were also adjusted for declining oil revenues and to control balance of payments and fiscal deficits. Private investment started to be allowed in power, telecommunications, ports, and roads.

Thailand similarly had substantial import protection, tariff protections and subsidies to promote ISI in the 1960s, as well as export controls and state marketing monopolies (Rasiah 2020; Montes 2018; World Bank 1993; ADB 2020, 56-57; Marr 1996). There was heavy industrial promotion in the 1970s with: substantial import protection of textiles, pharmaceuticals and automobiles; increased tariffs on consumer goods (but lower for intermediate and capital goods); and domestic content requirements on foreign investment. There was significant firm-specific regulation of imports, investments and incentives to promote local value-added (domestic supply linkages) and technology transfer. Devaluation, tariff cuts, and export promotion in 1981 marked its shift to EOI. Thailand's effective protection rates for manufacturing (52%) was however still higher than in the Philippines, Malaysia, and even Korea.

Chart 15. Average annual GDP growth, 1971-1980 (%)

SOURCE: World Bank database

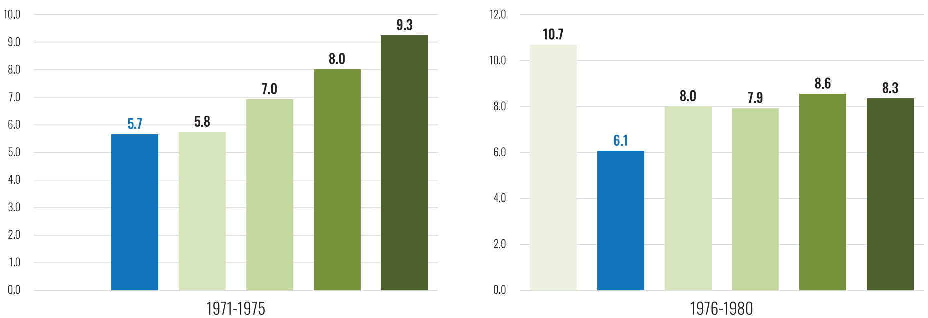
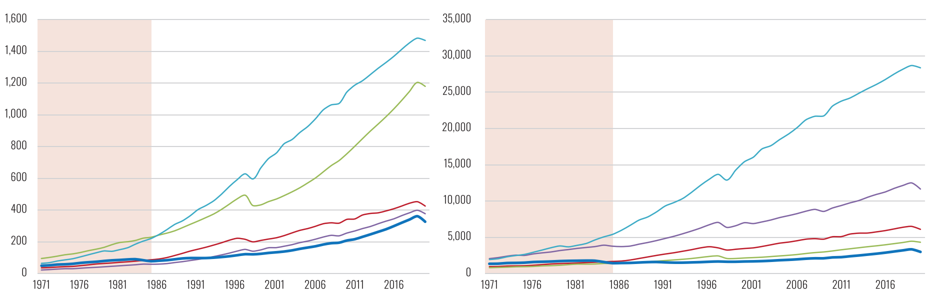


Chart 16.



GDP, 1971-2016 (constant 2010 US$ billion)

SOURCE: World Bank World Development Indicators

GDP per capita, 1971-2016 (constant 2010 US$)

SOURCE: World Bank World Development Indicators

Malaysia's ISI drive in the 1960s focused on consumer goods and natural resource processing and the building of industrial zones (Rasiah 2020; Chang 2019; Montes 2018; World Bank 1993;

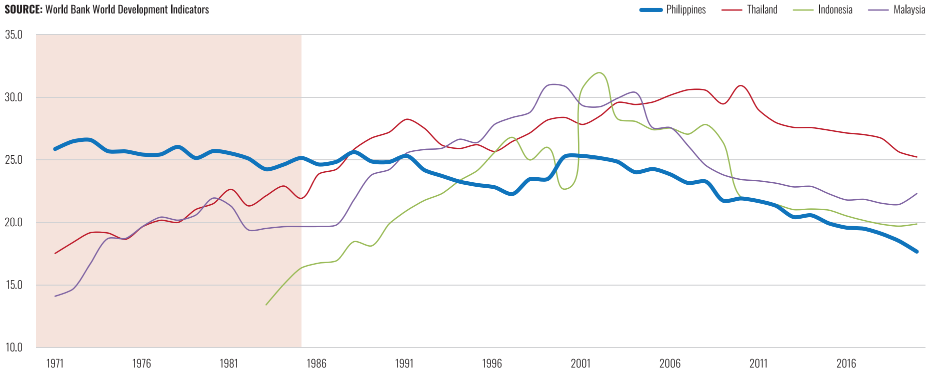
ADB 2020, 54-55; Marr 1996). It also expanded state ownership in the economy, notably of plantations. There was widespread state intervention by the 1970s especially in palm oil, light manufactures, and electronics which included high levels of protection. The EOI of its National Economic Policy (NEP) of 1971 was parallel to the Philippines. Malaysia opened export processing zones and free trade zones with AMD, Hewlett-Packard, and Intel assembly plants setting up in the country as early as 1972-1975. There was a shift to a heavy industrialization policy with high effective protection rates in 1980-1985 to develop national car, pulp and paper, cement, iron and steel, oil refining, and petrochemical industries. Tariff cuts only started to be made in the late 1980s.

The Philippines soon had the most outward- and market-oriented country in Southeast Asia (except for city-state Singapore) and performed worse because of this. The country's poor GDP per capita growth performance under the Marcos regime compared to other countries in Southeast Asia is clear (**See Chart 2**). The same poor performance is there even looking more broadly across Asia. Looking at the growth in GDP per capita of 22 countries in Asia over the period 1965-1986, the Philippines had the 4th poorest performance with only Nepal, Vietnam and Bangladesh showing smaller increases in GDP growth per capita. Afghanistan's GDP per capita grew even more despite having been invaded by the Soviet Union in 1979 (**See Chart 14**).

The Philippines was also the poorest performer by average annual GDP growth in 1971-1975 and 1976-1980, among Southeast Asian countries for which data is available (**See Chart 15**). The country's trajectory also did not improve despite the ouster of Marcos in 1986 and presumably the end of his corruption and cronyism. Philippine GDP and GDP per capita were the lowest among selected Asian countries in the period 1971-1985 and did not just continue to lag but fell even further behind since 1986 (**See Chart 16**). By 2008, the Philippines dropped to 14th place among 22 Asian countries (**See Table 1**).

Chart 17. Manufacturing share of GDP in select Southeast Asian countries, 1971-2020 (% of GDP)

SOURCE: World Bank World Development Indicators



Looking more specifically at the manufacturing sector, the much better performance of more protectionist Indonesia, Thailand and Malaysia during the Marcos era is clear. While the share of manufacturing in GDP was generally falling over the 1971-1985 period in the Philippines, it was very rapidly increasing in the other three countries – with the same comparative trends continuing all through the so-called lost decades of Philippine development until the early 2000s (**See Chart 17**).

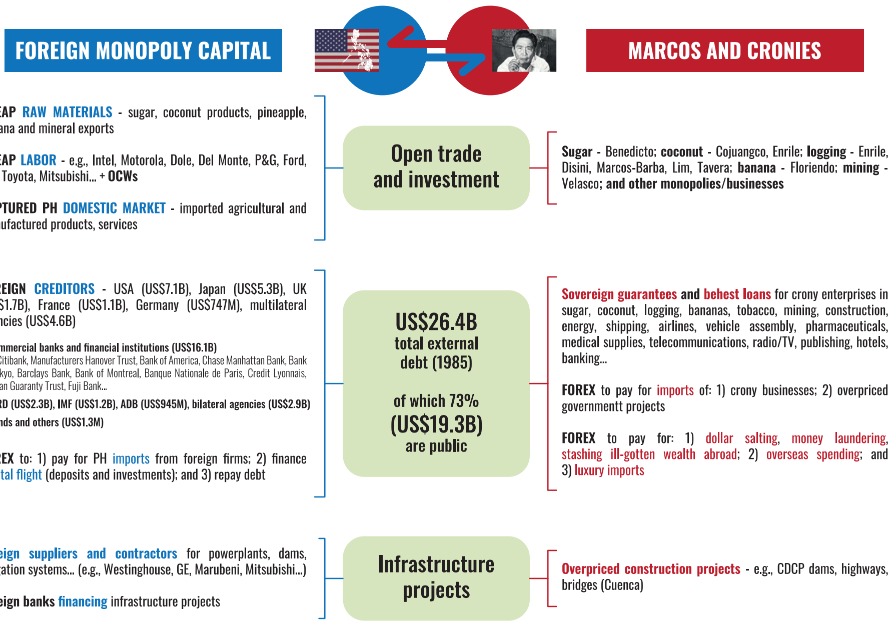
Crony *capitalism*

The Marcos regime's corruption is fundamentally inestimable although estimates have still been attempted. The headline figure for ill-gotten or stolen wealth is conventionally US$5-10 billion as of 1986 (although Marcos' former planning and finance secretary has been cited as saying it could reach as much as US$30 billion). This is a huge amount equivalent to anywhere from 16-33% of the country's GDP of Php571.9 billion in 1985 (or US$30.7 billion at the prevailing exchange rate then). To further put this into context, Indonesian president Mohamed Suharto is meanwhile said to have stolen US$15-35 billion while in power from 1967-1998.

The dictatorship's corruption and cronyism certainly had a deleterious effect on the economy. It grossly inflated government spending and reduced revenues, disrupted business planning or made this inefficient, eroded trust in government and institutions, among many other unquantifiable disruptions. However, other Asian countries in the 1970s and 1980s also suffered corruption and cronyism – some even dictatorial rule as well – but did not experience as severe crises.

A critical difference is perhaps that, in the case of the Philippines, Marcos' corruption and neoliberalism were deeply intertwined. Marcos and his cronies arguably had a symbiotic relationship with foreign monopoly capital (**See Figure 1**). The dictatorship's corruption and cronyism were not just tolerated but actively fueled by the US government, transnational banks and transnational corporations out of their geopolitical, financial and economic self-interest. The US government and foreign monopoly capital pressed for more open trade and investment, encouraged foreign borrowing, and participated in infrastructure projects – all of which Marcos and his cronies hugely benefited from.

Figure 1. **Relationship between foreign monopoly capital and Marcos and his cronies**



There was no contradiction between neoliberalism and crony capitalism. Even with the government favoring domestic cronies and oligarchs, foreign monopoly capital still benefited from the cheap labor, raw materials and domestic market of the Philippines. The elements of protectionism in the economy were not threatening because they did not constitute a plan for independent national development through strategic market-defying industrial transformation. Ultimately, they were merely predatory crony-friendly policies.

The Marcos regime implemented the neoliberal economic policies demanded by the US-dominated IMF and World Bank in exchange for a share in the foreign loans and comprador business opportunities. The dictator and his cronies were allowed to directly control and profit from large portions of the national economy as long as this was in line with the needs of capital. Monopolies in sugar, coconut, bananas, tobacco, logging, and mining were allowed as long as natural resources were provided cheaply. State intervention in construction, telecommunications, energy, shipping, vehicle assembly, pharmaceuticals, medical supplies and others were allowed as long as these remained import-dependent and not oriented towards eventual self-reliance. Public meddling in banking and finance was meanwhile always seen to support these neocolonial purposes.

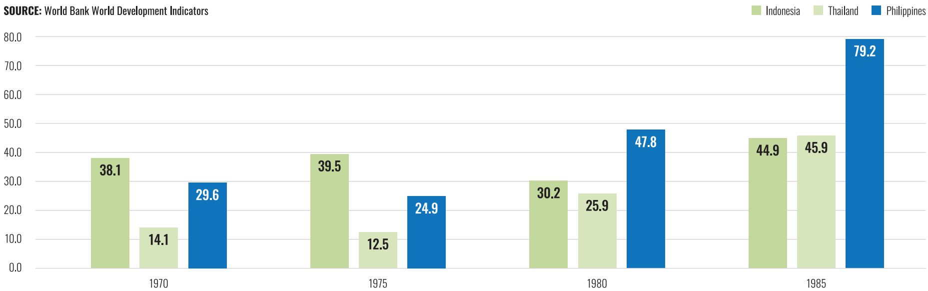
Foreign investors were given incentives and ready access to the country's cheap labor force. The domestic market was increasingly open to imported goods and services. At the same time, geopolitically, the country remained a bulwark of US imperialist aggression in the region including from hosting the largest American overseas military bases at the time.

The Philippines' external debt problem was the sharpest expression of the dictatorship's corruption as well as the most quantifiable. The country's foreign debt increased over forty-fold from US$599 million in 1965 to US$26.4 billion in 1985 (**See Chart 9**).

The Marcos regime caused the Philippines to have the largest increase in external debt in the region. Between 1970 and 1985, the country's foreign debt increased from the equivalent of 29.6% of gross national income (GNI) to 79.2% – compared to just a 38.1% to 44.9% increase in Indonesia and a 14.1% to 45.9% increase in Thailand (**See Chart 18**). The Philippines was the only country in Asia to fall into a foreign debt payments crisis during the global debt crisis in 1982-1983.

Chart 18. External debt stocks, 1970-1985 (% of GNI)

SOURCE: World Bank World Development Indicators



The bulk of external debt was owed by the government which accounted for US$19.3 billion or 73% of the total with the balance of US$7.1 billion (27%) owed by the private sector. Under the Marcos regime, public foreign debt grew from US$460 million in 1965 to the US$19.3 billion in

1985, while its domestic debt grew from Php3.1 billion to Php76 billion. To put these figures into context, the national budget was Php121 billion in 1986 (NSO various years; DBM 2022).

While domestic debt also grew it was really foreign debt that was overwhelmingly problematic – in growing exponentially, from being further bloated by peso devaluations, and in requiring foreign exchange to be repaid. The conditions for the country's foreign debt problem were laid by the oil price hikes in the early 1970s, which created a global glut of petrodollars that banks worldwide wanted to lend out for further profits.

The Marcos dictatorship was a ready debtor that justified its self-serving borrowing as in support of a massive infrastructure offensive. The IMF and World Bank meanwhile paid no heed to the rampant corruption, inefficient lending, and inept state enterprises as long as the general direction of economic policy was to replace nationalist and protectionist measures with market-oriented policies. If anything, they likely knew that making the country's foreign exchange constraint worse with neoliberal policies and debt servicing would only increase the country's dependence on them.

The controversial Bataan Nuclear Power Plant (BNPP) is an emblematic example, and likely the most extreme, of how the regime's foreign debt-fueled infrastructure benefitted various vested interests at the expense of the economy and the people. The bid for the plant was US$500 million in 1974, which became US$1.2 billion when the proposal was submitted in 1975 and eventually reached US$2.3 billion after construction in 1984. It was later revealed that Marcos received a kickback of US$80 million while a crony, Herminio Desini, received US$17 million. The plant has however never been operated because of concerns about its safety.

However, the foreign loan taken out for the BNPP has already been fully paid with interest to all the commercial debtors. The imports of all the necessary goods and services especially from US suppliers and contractors have all been paid for, as have all the relevant local service providers and all the kickbacks. The foreign exchange has likely also been used to support profit repatriation and capital flight.

Elsewhere, the Presidential Commission on Good Government (PCGG) and Commission on Audit (COA) estimate that the Marcos regime gave sovereign guarantees worth US$3.6 billion to loans taken out by a host of crony companies and crony-run agencies – i.e. PLDT, Philippine Airlines, Meralco, Cellophil, Landoil, Construction and Development Corporation of the Philippines, National Investment and Development Corporation, Philippine National Oil Company, National Sugar Trading Corporation/Philippine Sugar Commission, and others. There were also behest loans worth Php50 billion to Philippine Phosphate Fertilizer, North Davao Mining Corp, Bukidnon Sugar Milling Corp, United Planters Sugar Milling, Northern Cotabato Sugar Industries, Sabena Mining Corp, Asia Industries, Domsat, Pamplona Redwood Veneer, Pagdanganan Timber Products, Menzi Development Corporation, Mindanao Coconut Mills, and many others.

Although many have closed since then, a few still remain and are among the country's largest corporations. Bizarrely, the Marcoses to this day claim ownership of their ill-gotten wealth, which includes ownership in many of these surviving corporations. Imelda Marcos for instance has boasted: "*We practically own everything in the Philippines.*"[6]

Chart 19. External debt by institutional creditor, 1983-2006 (% share)

SOURCE: Bangko Sentral ng Pilipinas

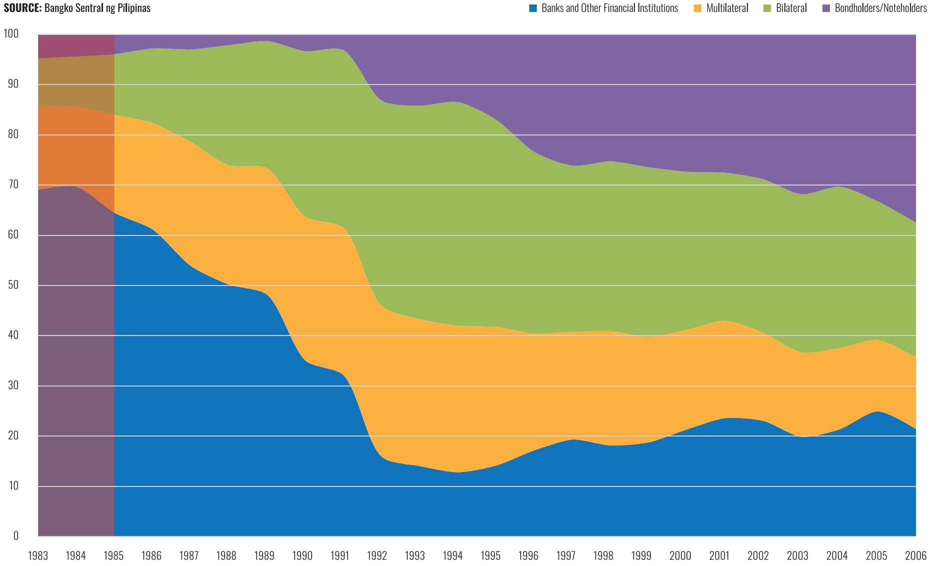
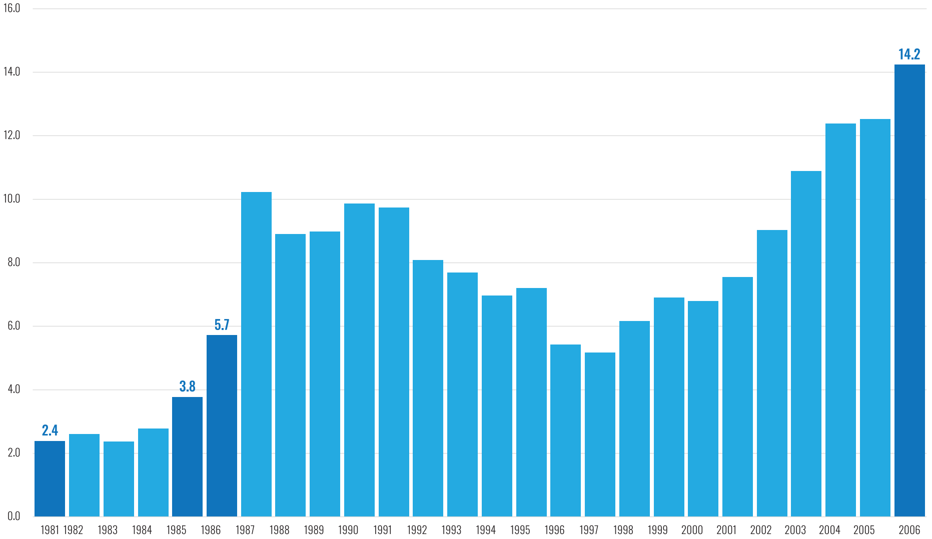


Chart 20. Total national government debt payments, 1981-2006 (% of GDP)

SOURCE: IBON computations on data from the Department of Budget and Management and the Philippine Statistics Authority



Yet there are no debtors without creditors. Foreign banks and governments lent freely to what it knew was a human rights-violating dictatorial regime and despite certain knowledge about how the loans were being grossly misused. Some 90-95% the Marcos dictatorship's debt was from well-informed institutional creditors who each entered into formal negotiations with the government before lending (**See Chart 19**). This is unlike in subsequent decades when increasing amounts of lending were from more impersonal bondholders/noteholders.

These institutional creditors include: giant commercial banks such as Citibank, Bank of America, Bank of Tokyo, Credit Lyonnais, and many others; so-called development agencies such as the IMF, World Bank, and Asian Development Bank (ADB); and the bilateral agencies of the US, Japan, United Kingdom, Germany, South Korea, and others. At the time, the US was the main promoter of lending to the dictatorship especially using its control over the IMF and World Bank to coordinate foreign loans. This was wholly to advance their geopolitical, financial and economic interests.

Creditors' faith in the Philippine government was quickly proven correct when Pres. Cory Aquino affirmed the official debt policy to be "We will honor all our debts" – a warped point of principle that has been upheld by all subsequent administrations. This meant full payment of the debt of the Marcos regime over the succeeding decades (**See Chart 20**). Many of the Marcos regime's debts were medium- and long-term loans with amortization ranging to as much as 10-30 years and started to come due in the 2000s. National finances have remained ever burdened by the neoliberal obsession with debt repayment and creditworthiness even at the expense of national development.


Continuing past

The Marcos regime distorted political institutions inside and outside government to serve the narrow interests of Marcos, his family and cronies. It also distorted the economy to more systematically provide cheap labor, raw materials and profitable investment opportunities for foreign monopoly capital.

Neoliberal economic management and restructuring is the biggest factor in the decline of the economy over the last half century. Corruption and cronyism took their toll, but extreme as these were, these were not decisive in deforming the economy so quickly or in damaging it so permanently. That narrative was promoted not for its accuracy but for serving the interests of powerful neoliberal elite interests. It was useful to justify sweeping 'free market' reforms that were portrayed as the remedy to the Marcos' universally despised corruption and cronyism.

Moreover, that narrative distracted from the direct accountability of the US government and monopoly capitalists for the socioeconomic crises suffered by the Filipino people under the Marcos dictatorship. It also deflected from how market-oriented foreign capital-friendly policies caused decades of socioeconomic distress, as the economy transitioned from pseudo-protectionism to thoroughgoing liberalization, and is still behind intensifying semifeudal backwardness to this day.

In hindsight, the arc of neoliberal globalization of the Philippine economy is clear. The Marcos dictatorship started the market-oriented restructuring of the Philippine economy, and the debilitating effects were immediately felt. After Marcos, cronyism was craftily used to justify even greater liberalization, privatization and deregulation as early as the Corazon Aquino administration but especially during the Ramos administration in the 1990s. This continued through the Estrada, Arroyo, Aquino and Duterte administrations. Neoliberal policies have already had the worst consequences for tens of millions of Filipinos across two generations. Unless corrected, these will burden generations to come.

ENDNOTES

1. GK$ refers to the Geary-Khamis method. This is an aggregation method where the category "international prices" (reflecting relative category values) and country purchasing power parities (depicting relative country price levels) are estimated simultaneously from a system of linear equations.

2. U.S. News and World Report, 26 October 1972 cited in Lindsey (1983).

3. Operating for Profit in the New Society, Business International Asia/Pacific, 1974, cited in Lindsey (1983).

4. This estimate of unemployment rates corrects for a change in the unemployment definition in 2005 that made officially reported rates since then especially incomparable with earlier periods. IBON Foundation re-estimates using the previous methodology for better comparability to see historical trends.

5. The 60.6% poverty incidence estimate for 1983 is from Fuwa and the 51.7% for 1985 is from the World Bank, both cited in De Dios, et al (2021). Poverty statistics during this time can be inconsistent because of sparse data and varying computational methodologies (even within Philippine Statistics Authority estimates).

6. This appeared in a series of interviews with Imelda Marcos published in the Philippine Daily Inquirer, December 6-9, 1998. She said, "*We practically own everything in the Philippines, from electricity, telecommunications, airlines, banking, beer and tobacco, newspaper publishing, television stations, shipping, oil, mining, hotels and health resorts, down to coconut mills, small firearms, real estate and insurance.*" - Ed. Accessed 07/14/22 at http://www.hartford-hwp.com/archives/54a/064.html.

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The Marcos regime's extreme cronyism and corruption is commonly blamed. However, the steady shift to neoliberal economic policies is weightier in explaining the depth of collapse in the early 1980s and the subsequent lost decades of development.

The article "What the Marcos Dictatorship Really Did to the Economy" is a contribution to the Tanggol Kasaysayan book *Martial Law@50: Ala-ala at Pagbalikwas.*

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