THE GOOD, THE BAD, THE UGLY: MYTHS AND REALITIES OF PHILIPPINE TRADE AND ECONOMY DURING THE MARCOS REGIME

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The past few election cycles in the Philippines have seen a resurgence in popularity of rhetoric hailing the regime of Ferdinand Marcos Sr. as the "golden years of the Philippine economy." While this exaltation of the Marcos Sr economic legacy is perhaps most apparent on social media platforms in a torrent of disinformation,[1] there are also economists (albeit in the minority) who still hold a generally positive view of the regime's economic legacy, including in terms of its trade reforms (for example, see generally the work of economist and Marcos-era technocrat Gerardo P. Sicat, 2011).[2]

Supporters of this view often point to the GDP growth during specific years of the regime. The 'best economic performance' years of the regime were from 1973 to 1981, during which debt-driven spending led to an average of 3.48% growth in GDP per capita.[3] The reality, though, was that even though this was already the best economic growth during the Marcos era, it was still lagging behind our Southeast Asian neighbours, and this peak was followed by a period of economic collapse from 1982 to 1985.[4]

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[1] Max Walden, "The Marcos Makeover: How History Was Rewritten to Place a Dictator's Son on the Cusp of Power", *ABC News*, 5 May 2022, available at: https://www.abc.net.au/news/2022-05-05/bongbong-marcos-philippines-election-social-media/101035620.

[2] Gerardo P. Sicat, *The Economic Legacy of Marcos*, UPSE Discussion Paper No. 2011-11, University of the Philippines School of Economics, Quezon City, 2011, available at: https://www.econstor.eu/bitstream/10419/93568/1/672723204.pdf.

[3] Ma. Cielo Amor C. Griño and Lemuel D. Teh, *Evaluating the Economic Costs of Martial Law in the Philippines: A Synthetic Control Method Approach*, September 2024, available at: https://www.researchgate.net/publication/384452805_Evaluating_the_economics_costs_of_martial_law_in_the_Philippines_A_synthetic_control_method_approach.

[4] Emmanuel S. de Dios, Maria Socorro Gochoco-Bautista and Jan Carlo Punongbayan, *Martial Law and the Philippine Economy*, UPSE Discussion Paper No. 2021-07, University of the Philippines School of Economics, Quezon City, November 2021, available at: https://pre.econ.upd.edu.ph/upsedp/index.php/dp/article/view/1543/1027.

The regime of Marcos Sr. coincided with several years during the period in which international trade law principles were just beginning to emerge and crystallise. While the theory of international trade and commercial policy had long been a branch of economic thought, international trade law as a field of law was quite new at the time. It was not until 1 January 1995 that the World Trade Organization was founded,[5] but some of the agreements on which its rules and principles are based were formed a bit earlier; the 1947 General Agreement on Tariffs and Trade (GATT) entered into force on 1 January 1948 and was updated in the 1994 GATT[6] (this was annexed to the Marrakesh Agreement,[7] which created the WTO). While advocates of the Marcos Sr. regime claim the success of its implementation of tariff rationalisation and trade liberalization (which were, at least in theory, in line with emerging international trade law principles), in the end, it failed to achieve its policy objectives and failed to make substantive progress on the Philippines' tariff regime.

Trade and industrial policy in the early years

During his first term as elected president, Marcos Sr. maintained a largely protectionist trade policy, as with the previous administration. The president reintroduced import controls on several manufactured goods that were also domestically manufactured, showing that during his first term, trade reform was not on the president's agenda—this was largely as a result of pushback from the domestic manufacturing sectors that would be most affected by the decontrol of imports.[8]

The trade and industrial policies adopted by the previous administration in the 1950s and the policies that followed during the first term of Marcos Sr. in the 1960s both created an incentive system that encouraged the growth of capital-intensive industries rather than labour-intensive manufacturing that would have

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[5] "Fiftieth Anniversary of the Multilateral", available at:
https://www.wto.org/english/thewto_e/minist_e/min96_e/chrono.htm#:~:text=There%20was%20no%20commitment%2C%20however,1948%2C%20GATT%20entered%20into%20force.

[6] *Ibid.*

[7] Marrakesh Agreement Establishing the World Trade Organization, 1867 UNTS 3, 15 April 1994 (entered into force 1 January 1995), available at:
https://www.wto.org/english/docs_e/legal_e/marag_e.htm.

[8] E. C. Lallana, "The Political Economy of Philippine Tariff Reform", Philippine Political Science Journal, Vol. 18, No. 1-2, 1994, available at: https://doi.org/10.1163/2165025X-01801002002.

better utilised the Philippines' labour surplus. During the 1950s "import control period," it was due to the conferment of private benefits on the importation of machinery and equipment; while during the 1960s "import decontrol period," the low tariff rates on imported capital equipment had the same effect.[9] This was coupled with an unrealistically low interest policy on industrial loans, which effectively discriminated against industrial labour use.[10]

Also, during the 1960s, the president pursued a highly expansionary monetary and fiscal policy motivated by a large increase in debt-driven government spending, which resulted in large deficits on the trade balance, the current account, and a fall in foreign exchange reserves, which put pressure on the peso exchange rate.[11]

The battle of the technocrats and the nationalist business elite

The 1970s saw an increased pursuit of trade liberalization championed by Marcos' technocrats, led by Cesar E. A. Virata (some of whom had undergone training with the World Bank and the International Monetary Fund). During the pre-martial law years, nationalist politico-business elites in Congress and the Marcos technocrats butted heads over the passing of the 1967 Investment Incentives Act.[12] The nationalist business elites in Congress insisted on more protections for their industries, and this prevented the Virata-led Marcos technocrats from pursuing the General Agreement on Tariffs and Trade (GATT) during its Kennedy Round.[13] In the pre-martial law period, despite general support from Marcos Sr., the technocrat-dominated Program Implementation Agency

[9] Romeo M. Bautista et al., Industrial Promotion Policies in the Philippines, Philippine Institute for Development Studies, Makati, 1979, available at: https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsbk79-indprmtn.pdf.
[10] *Ibid.*
[11] E. S. de Dios, M. S. Gochoco-Bautista and J. C. Punongbayan, above note 4, p. 70.
[12] *Republic Act No. 5186: An Act Prescribing Incentives and Guarantees to Investments in the Philippines, Creating a Board of Investments, Appropriating the Necessary Funds Therefor and for Other Purposes*, 16 September 1967 (Phil.), available at: https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/2/19296#:~:text=H.,3913%20%28April%2021%2C%201969%29.
[13] Teresa S. Encarnacion Tadem, "Philippine Technocracy and the Politics of Economic Decision-Making: A Comparison of the Martial Law and Post-Martial Law Periods", *Southeast Asian Studies*, Vol. 3, No. 2, August 2014, available at: https://www.jstage.jst.go.jp/article/seas/3/2/3_KJ00009345779/_pdf/-char/ja.

(PIA) had to contend with the nationalist politico-business elite and the traditionally nationalistic National Economic Council (NEC).[14]

Following the declaration of martial law in 1972 and the subsequent abolition of Congress in 1973, the Marcos technocrats no longer had to bother with consent-building and negotiations in Congress. While Virata himself did not deem martial law necessary, he nonetheless believed that martial law was advantageous for not subjecting their technocratic economic policies to debates in Congress.[15] Though on its face Marcos and his technocrats may have appeared to achieve victory over the oligarchy of the nationalist business elite, the reality was that the authoritarian regime merely replaced it with a new oligarchy of Marcos and his cronies who came to dominate many of our economic sectors.[16]

The failed promise of the Marcos export-oriented industrialisation policy

On its face, it seemed that Marcos Sr. had adopted the export-oriented industrialisation policy advocated for by his technocrats. This new export-oriented strategy brought with it the promise of opening global markets to Philippine trade and of weakening the power of land-based elites that stood in the way of the modernization of the Philippine economy; however, this promise failed to materialise.[17]

Pre-martial law, we saw the passing of the 1967 Investments Incentives Act[18] which created the Board of Investments (BOI) and promoted instruments of industrial planning through fiscal incentives like a tax credit on import taxes that would enable exporters to acquire imported inputs at global prices, a tax credit that provided a modest subsidy for the use of local materials, and tax deductions

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[14] *Ibid.*
[15] *Ibid.*
[16] Emmanuel S. de Dios and Paul D. Hutchcroft, "Political Economy", in Arsenio M. Balisacan and Hal Hill (eds), *The Philippine Economy: Development, Policies, and Challenges*, Oxford University Press, New York, 2003, available at: https://doi.org/10.1093/0195158989.001.0001.
[17] Walden Bello "The Political Economy of Martial Law Revisited (Part I)", *The GUIDON*, 23 August 2023, available at: https://theguidon.com/2023/08/the-political-economy-of-martial-law-revisited-i/.
[18] *Republic Act No. 5186*, above note 12, p. 72.

for export-related marketing and shipping expenses.[19] Also, pre-martial law, the legislature passed the 1970 Export Incentives Act[20] that provided fiscal incentives to operators in new industries,[21] including subsidies through tax deductions based on the amount of use of direct domestic labour and local raw materials.

After he declared martial law, President Marcos Sr. promulgated Presidential Decree (P.D.) 34[22] which created a tariff code that was supposed to be a rationalization of the tariff structure, reducing many columns to only 6 rates ranging from 10% to 100%. It very well could have been, and indeed it was being presented as, a step towards tariff reform (with the highest tariff rates above 100% removed and in some instances going as low as 0%). There was, on the other hand, a much less publicized conscious realignment of tariff rates with the Central Bank commodity classification for controlling imports to make protective instruments more consistent.[23] The president also decreed P.D. 66[24] which created the Export Processing Zone Authority for the purpose of establishing the Bataan Export Processing Zone and other similar export processing zones.

However, despite these highly visible efforts towards supposed tariff rationalisation and trade liberalization, in the end, it failed to achieve its policy objectives. The tariff rationalization program did not actually change the basic protective structure of the Philippine tariff system. The results of tariff-based

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[19] Florian Alburo and Geoffrey Shepherd, *Trade Liberalization Experience in the Philippines, 1960-84*, Report, The Institute of Development Studies and Partner Organisations, 1985, available at: https://hdl.handle.net/20.500.12413/3635.

[20] Republic Act No. 6135: An Act to Invigorate the Country's Export Trade as a Means of Accelerating Economic Growth by Granting Certain Incentives and Exemptions to Registered Export Producers, Export Traders, and Service Exporters, Repealing Export Incentives Granted under Republic Act Numbered Fifty-One Hundred Eighty-Six, and for Other Purposes, 31 August 1970 (Phil.), available at: https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/2/6494#:~:text=themselves%2C%20constitute%20processing.-,SEC.,profitability%20to%20the%20national%20economy.

[21] E. S. de Dios, M. S. Gochoco-Bautista and J. C. Punongbayan, above note 4, p. 70.

[22] Presidential Decree No. 34, *Amending the Tariff and Customs Code of the Philippines*, 27 October 1972 (Phil.), available at: https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/26/25716.

[23] F. Alburo and G. Shepherd, above note 19, p. [Y].

[24] Presidential Decree No. 66, Creating the Export Processing Zone Authority and Revising Republic Act No. 5490, 20 November 1972 (Phil.), available at: https://lawphil.net/statutes/presdecs/pd1972/pd_66_1972.html.

effective protection studies show that from 1965 to 1974, there was no significant difference in the high effective protection levels of consumption goods.[25]

Besides, between 1974 and 1980, many of the ad hoc tariff exemptions were reintroduced anyway, and as a result, the ratio of duty exemptions to actual duties paid on all imports rose from 9% in 1973 to at least 22% from 1976 to 1980.[26] Despite the highly publicized desire to create robust export-oriented industries, domestic industries that were significant exporters were penalised relative to their foreign competitors, as indicated by their negative effective protection rates (ERPs), and domestic industries that did not export to any significant extent were heavily protected and had the highest ERPs.[27]

Additionally, the protectionist effects were only further bolstered by more restrictive non-tariff barriers.[28] Although tariffs were being lowered, new non-tariff import restrictions (many administered by the Central Bank) were introduced, and as such, the protectionist bent of policy was preserved by import regulations that offset the effects of tariff rationalisation.[29]

Despite claims by Marcos Sr and his technocrats of dismantling the oligarchy of the nationalist business elite, any gains in manufactured exports did little but create another revenue stream for favoured family conglomerates to pursue.[30] Likewise, the championed non-traditional exports were not only dominated by family conglomerate cronies, but they were also so highly import-dependent that their existence did not create a clear new constituency demanding an end to the longstanding overvaluation of the peso.[31]

Although by 1980 the support initiatives from the World Bank and the International Monetary Fund (IMF) attempted to address both tariffs (tariff rationalisation) and import restrictions (trade liberalisation), any modest success

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[25] Erlinda M. Medalla et al., Catching Up with Asia's Tigers, Vol. 2, Philippine Institute for Development Studies, Makati, 1996, available at: https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsbk96-catching2.pdf.

[26] F. Alburo and G. Shepherd, above note 19, p. 73.

[27] R. Bautista et al., above note 9, p. 71.

[28] E. C. Lallana, above note 8, p 71.

[29] E. S. de Dios, M. S. Gochoco-Bautista and J. C. Punongbayan, above note 4, p. 70.

[30] E. de Dios and P. Hutchcroft, above note 16, p. 73.

[31] *Ibid.*

from these was short-lived since by 1982, the surfacing of the debt crisis resulted in increased balance of payments difficulties that made the re-imposition of many import controls necessary.[32] The foreign loans that fuelled the debt-driven growth of the 1970s and were abused by Marcos Sr and his cronies had now come to roost, bringing with them the economic disaster of the early 1980s.[33]

The economic and trade ripples that followed the Marcos era

Any attempts (even those made in earnest) at promoting the 'export-oriented industrialisation strategy' were instead frustrated by Marcos Sr.'s consistent pursuit of crony capitalism.[34]

For all of the adulation by the supporters of President Marcos Sr. of his trade liberalisation policies, it was only during the term of President Cory Aquino (who ousted Marcos through the EDSA revolution) that efforts toward trade liberalisation were carried out in earnest.[35] Despite this, the economic scars left by Marcos Sr.'s regime continued to be one of the hurdles to realising the promises of economic progress through international trade.

Rather than meaningful reform, the real economic legacies of Marcos Sr. were the servicing of the debt he had accumulated for the Philippines and the institutionalisation of structural adjustment.[36] During the regime, the external debt of the Philippines had ballooned between 1962 and 1986 from 355 million USD to 28.3 billion USD.[37] Following the ousting of Marcos Sr., the new president Corazon Aquino, was faced with mounting pressure from the World Bank, IMF, and foreign private creditors, to commit itself to repaying the approximately 26 Billion USD debt that the regime had accumulated—a debt that would take a

[32] E. S. de Dios, M. S. Gochoco-Bautista and J. C. Punongbayan, above note 4, p. 70.
[33] E. de Dios and P. Hutchcroft, above note 16, p. 73.
[34] E. S. de Dios, M. S. Gochoco-Bautista and J. C. Punongbayan, above note 4, p. 70.
[35] *Ibid.*
[36] W. Bello, above note 17, p. 73.
[37] James K. Boyce, *The Political Economy of External Indebtedness: A Case Study on the Philippines,* Philippine Institute for Development Studies, available at: https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsms90-12.pdf.

substantial part (20–45%) of the annual government budget of succeeding administrations for nearly two decades thereafter.[38]

The Marcos Sr. regime left the import-substituting industrial sector substantially decimated; production cuts in several industries were as high as 80%.[39] With a cumulative nominal outflow of 4 billion USD that is estimated to have fled from the Philippines from 1976 to 1986, capital flight through mechanisms such as false invoicing of exports and imports, "kickbacks" on import contracts, and interbank transfers, which circumvented capital controls limiting outflows of foreign exchange, also presented another set of problems.[40]

In sum, while indeed there were efforts towards export-oriented trade liberalisation during the regime of President Marcos Sr., these did little to actually achieve tariff rationalisation or trade liberalisation, and they likewise did not achieve the objectives of the "export-oriented industrialisation policy" advocated for by his technocrats. Instead, what the Marcos Sr. regime had left behind were economic scars whose effects continued to impact successive administrations for decades thereafter.

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[38] W. Bello, above note 17, p. 73.

[39] Robert S. Dohner and Ponciano Intal, Jr., "The Aquino Government and Prospects for the Economy", *in* Jeffrey D. Sachs and Susan M. Collins (eds), *Developing Country Debt and Economic Performance, Volume 3: Country Studies - Indonesia, Korea, Philippines, Turkey,* Vol. 3, University of Chicago Press, Chicago, IL, 1989, pp. 558–593, available at: http://www.nber.org/chapters/c9054.

[40] J.K. Boyce, above note 37, p. 76.