

# Arroyo's other Enemy: the Economy

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**Statement of Dr. Walden Bello, Chairman Emeritus, Akbayan; professor of sociology, University of the Philippines, Press Conference, Oct. 7, 2005.**

Malacanang today exists in a very different world from the rest of us. It is not only the Bush White House that lives in a bubble. Malacanang also lives in a bubble, where the rest of the world comes across tinted in pink hues. The rest of the country knows the economy is going to the dogs, but to the palace staff, it is about to "take off."

Let us examine some of the key differences between the economy as they see it and the economy as it really is.

For Malacanang, only 25 per cent of Filipinos are poor. For the Asian Development Bank, whose statistics are infinitely more reliable than airbrushed government data, 44.4 per cent of Filipinos live in poverty. If 15.5 per cent of Filipinos are currently experiencing hunger, up from 15.1 per cent around this time last year, this is not a product of hallucination on their part or of statistical distortion on the part of Social Weather Stations, as the Palace implies. It is real: more people are going hungry this year.

Why do we rely on ADB statistics here? Because this administration has not hesitated to manipulate the data to serve its needs. We still remember how the National Statistical Coordinating Office (NSCO) reported that the trade deficit was a mere \$218 million in 2002, \$1.27 billion in 2003, and \$713 million last year, whereas in fact the figures were \$4.03 billion in 2002, \$4.2 billion in 2003, and \$4.3 billion last year. They had to admit the real figures when they could no longer lie.

For Malacanang, the Arroyo administration has successfully addressed inequality. Really? The gini coefficient is the most reliable measure of inequality, and the latest available data on the Philippines is that the gini coefficient stands at 0.46 per cent, the worst in Southeast Asia. On another measure—the income ratio of the highest 20 per cent to the lowest 20 per cent—the figure for the Philippines is 9.7, also the worst in Southeast Asia.

What is the real score on unemployment? Again, the administration says things have improved. The reality is the opposite. Let us go by yearly averages, instead of month-by-month fluctuations. The unemployment rate rose from 11.1 per cent in 2001 to 11.4 per cent in 2003 to 11.8 per cent in 2004. In 2003, the latest date for which comparative statistics are available, the unemployment rate in the Philippines was the highest for Southeast Asia and the third highest in the whole Asia Pacific region. According to the Asian Development Bank, over the period 1999-2003, the ranks of the unemployed increased by 886,000. In 2004 alone, 312,000 new unemployed were added to the 3.9 million unemployed in 2003.

If the numbers of the unemployed and underemployed are rising, this is because economic growth under Arroyo has been anemic. In 2002 and 2003, the Philippine gross domestic product growth rate was the second worst in Southeast Asia. In 2004, for countries for which data was available, it was also the second worst. In 2005 and 2006, the IMF expects the country to grow by a low 4.5 to 4.8

per cent. As the American Chamber of Commerce notes, "At a 4 to 5 per cent GDP growth rate, the Philippines will continue to grow more slowly than its more dynamic neighbors such as Malaysia and Thailand. Once far ahead of Indonesia and Vietnam, the Philippine economy is moving closer to these two poorer ASEAN states." Owing to stagnation, per capita gross national income (GNI) in the Philippines has been practically unchanged-at around US\$1030-since 2001.

Education is one indicator if the country is going forward or backward, and here the statistics are grim. According to the American Chamber of Commerce, under Arroyo, public spending per student has fallen to only \$170 per student per year, less than one third the amount Thailand spends and the lowest of any country in Southeast Asia. Philippine students spend ten years in elementary and high school, two years less than students in other ASEAN countries.

Under Arroyo, the environmental crisis has continued unabated. In addition to accelerated deforestation and worsening air pollution, one very alarming development under the current administration is the garbage crisis: Metro Manila is facing a solid waste crisis and will run out of disposal capacity by 2006.

Given all this, it is not surprising that the Philippines has slipped in the United Nations Human Development Index rankings. From No. 70 in 1999, the country's HDI ranking fell to 83 in 2002 and 84 in 2003. As has been pointed out by others, under the Arroyo administration, the Philippines now has a lower HDI ranking than the Pacific islands of Tonga and Samoa. How can anybody say this country is taking off?

The government debt is out of control. It rose from 2.8 trillion pesos in 2001 to almost 4 trillion as of June 2005. Servicing this debt more than doubled between 2001 and 2004, from 274 billion pesos to 601 billion pesos.

The foreign debt now stands at \$56 billion, according to official figures, though the Asian Development Bank says in fact that it passed the \$63 billion mark in 2003. Servicing this debt took up about \$3.6 billion in 2004. According to government data, this figure is expected to more than double in 2006, going up to almost \$8 billion. Total external debt came to 56 per cent of the country's gross national product in June 2005, yet only an administration living in a bubble would claim that this dangerously high figure "indicates an improvement in the country's capacity to service its maturing foreign obligations on a continuing basis."

Under Arroyo, the country is now borrowing not only to cover its capital needs but, as former Central bank Governor Rafael Buenaventura said recently, to finance its most basic operations. "Our enormous financial needs and refinancing requirements require us to continue our foreign borrowings...But if we keep borrowing to cover the cost of running the government, we are definitely headed for trouble." Indeed, as of 2004, the percentage of the budget available for capital spending had declined to a low of 12 per cent, indicating that most borrowings were going to fund operational expenses. Yet, much of this borrowing to "cover the cost of running the government," in the view of many, goes towards buying and keeping political allies in line. As the crisis of legitimacy continues, more and more of the government's borrowings will go towards this end.

Despite recent government efforts to paint the fiscal crisis as under control, in fact it is out of control. A massive eight month government deficit of \$80.2 billion is passed off by Finance Secretary Margarito Teves as a "remarkable" improvement, compared to an arbitrarily set "ceiling" of P120 billion. The budget deficit ceiling for the whole of 2005 has been set at P180 billion, but meeting this figure has factored in immediate implementation of the expanded value added tax or EVAT, and that is not likely given the administration's effort to delay its implementation as long as possible to prevent people from spilling out into the streets in protest. What is our fearless forecast?— the

budget deficit will go beyond P200 billion for the whole of 2005.

Let us now turn to EVAT. If the administration now fears the consequences of the EVAT, it has only itself to blame. To contain the fiscal crisis, the Arroyo government could have reversed the massive loss of customs revenue owing to the unilateral liberalization program, which, as former Finance Secretary Jose Isidro Camacho said, was the principal culprit in the creation of the wide gap between revenues and expenditures.

The government could also have simply improved revenue collection. Under Arroyo, the Philippines has achieved the distinction of having the lowest revenue/GDP ratio of economies of its size and income level in Asia, dropping from over 19 per cent of GDP before 1997 to a mere 14 per cent today. Under Arroyo, only 15 per cent of businesses responding to a survey on corruption in 2003 claimed to pay correct taxes.

Lacking the political will to either reverse the unilateral trade liberalization program or to enforce already existing tax obligations, the government has very little room to maneuver at this point. The IMF, international lenders, and foreign investors now regard its implementation of EVAT as a test of the administration's will on economic matters. It will have to choose between satisfying them and not provoking anger on the streets owing to the massive price rises that would accompany EVAT implementation. It is my sense that the administration will have to impose EVAT very soon, most likely before Christmas, which would mean a very bleak Christmas for all of us..and massive trouble for the president.

The Arroyo administration's last line of defense is that foreign investors think it is still the best economic regime for international business in the Philippines. This is patently false. Even as they press her for more concessions, such as revising the constitution to get rid of the national patrimony provisions, the president has long lost the confidence of the international business community, as shown by the following:

The Transparency International Corruption Perceptions Index, moving from least to most corrupt, placed the Philippines 102<sup>nd</sup> out of 133 countries in 2004-from 92<sup>nd</sup> out of 133 in 2003 and 77<sup>th</sup> out of 102 in 2002.

The World Competitiveness Yearbook for 2004, moving from most to least competitive, ranked the Philippines 52<sup>nd</sup> of 60 countries, down from 40<sup>th</sup> in 2003 and 31<sup>st</sup> in 1999.

The World Economic Forum Competitiveness Report, also moving from most to least competitive, rated the Philippines 77<sup>th</sup> out of 117 countries in 2005, down from 76<sup>th</sup> in 2004, 66<sup>th</sup> in 2003, 62<sup>nd</sup> in 2002, and 48<sup>th</sup> in 2001.

In short, the loss of confidence in Arroyo is evident in all quarters, among the people, local businesses, foreign investors. It is a comprehensive collapse of credibility. What all this means is that the president and her administration have become a central factor in the deterioration of the economy. Without legitimacy, it is impossible for this administration to lead the country into economic development. Fighting for survival, the president has sacrificed strategic economic direction to the short term needs of keeping allies happy. The EVAT law shows how a weak president can be told by foreign interests to undertake a measure that is detrimental to the interests of the people.

This is an administration bereft of a vision, a program, and political will.

In sum, the reality of a deep and massive economic crisis is overwhelming the attempts by the

Arroyo administration to distort the realities in order to hold on to power.

We are going to face a very bleak Christmas.

We challenge the Arroyo administration to a debate on the state of the economy. Enough of the lies.  
We repeat: we challenge the Arroyo administration to face the truth in a televised public debate.

The only way that the economic welfare of our country can be advanced at this point is for the people to oust the president and her pack of liars and manipulators.