From bad to worse

In the Philippines, economic globalization resulted in the expansion of informal labour, the contraction of local industries and heavy dependence on exports and remittances from abroad while poverty continued to rise due to inequitable distribution of the gains. Today, the global crisis is slowing down remittances while factories are closing. As usual, it is the poor and the marginalized who pay the heaviest cost. A stimulus package that is rights-based, pro-poor and sustainable is urgently needed.

Social Watch Philippines
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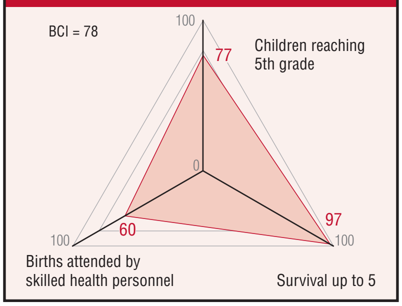
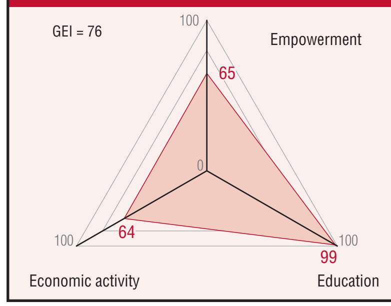
Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Contrary to assessments by the Government and credit rating agencies that it could withstand the global crisis, the Philippines' outward-oriented economy has made it extremely vulnerable to external shocks. The globalization of production, which resulted in the rapid expansion of informal labour, the contraction of local industries due to global competition with cheap and highly subsidized imports, and heavy dependence on exports and overseas labour markets have brought about dire consequences for the livelihood of most citizens.[1]

In fact, even before the global crisis struck, most Filipinos were already reeling from deteriorating economic conditions. According to the Family Income and Expenditure Survey, household incomes were in decline from 2003 to 2006. Moreover, scores of Filipinos were trapped in low productivity jobs, with below-poverty-line wages and record levels of hunger,[2] as registered by the Social Weather Stations.[3] The Government has finally admitted that poverty rose in 2006 during a time of economic growth, making apparent the inequitable distribution of economic gains. As of June 10, 2009, the Government has downgraded GDP growth targets for 2009 to a low range of 0.8 to 1.8%,[4] compelling National Statistics Coordination Board (NSCB) Secretary to declare that the Philippine economy 'is teetering into recession.'[5]

Remittances and exports

The fall-out from the crisis will be widespread. Remittances, for instance, comprised 13% of GDP in 2007. Filipinos working abroad comprise one tenth of the total population (around 8 million), arguably "the biggest net foreign exchange earner for the Philippine economy".[6] Now, however, the Department of Labour and Employment says that up to 575,000 overseas Filipinos could lose their jobs, particularly in South Korea, Taiwan, Macao, Singapore and Hong Kong, as well as those working on cruise ships. The Bangko Sentral ng Pilipinas [Central Bank of the Philippines] projects remittances will slow down 6–10%.

Export earnings plummeted 40.4% in 2008 compared to the previous year, with electronics declining by 47.6%.[7] Labour officials are nervous at the rising number of factories closing down not only in the electronics sector but also among garment manufacturers and other companies in industrial parks, where more than 108,000 workers were affected by the crisis from October 2008 to March 2009 alone. This includes 50,380 displaced workers and 59,149 workers operating under "flexible" arrangements (such as reduced work hours or forced leave).[8]

Unemployment, social security and food

Filipinos cannot afford increasing unemployment and underemployment. While the unemployment rate stands at 8–10%, underemployment had already climbed to 22% even before the global crisis struck.[9] Indeed, mere employment does not guarantee a decent life: a majority (51%) of the Philippine labour force, composed of 12.1 million farmers and fisherfolk and about 10 million labourers and unskilled workers, are earning poverty-level wages, just like those in the burgeoning informal sector.

A large majority of workers in export processing zones are women. Significant lay-offs or work flexibility arrangements in these zones due to the crisis will therefore mostly affect women, who are primarily responsible for managing households and caregiving. The deepening crisis will place further stress on women as they discharge their multiple responsibilities. Overall, however, male workers comprise the majority of the unemployed (64.1%) compared to female workers (35.9%), since male-dominated industries such as construction and transport have been most affected by the crisis.[10]

Philippine social insurance covers about 84.5% of employed workers. However, the working poor benefit little from social security services, and coverage of those in the informal sector is limited.[11] There is no unemployment insurance and the Government has sidestepped safety nets to address joblessness on the grounds that they would be too expensive. Furthermore, the reach of social assistance programmes for those living below the poverty line is limited, as is the level of benefits. Private social security is also not spared by the global meltdown: the Philippine pre-need industry[12] has already sought

1 Gonzales, E. "Social Protection in the Philippines". In *Missing Targets, An Alternative MDG Midterm Report.* Quezon City: Social Watch Philippines, 2007.

2 Malaluan, N."Dire State of the Nation: The Crisis of Income and Employment in the Philippines". Opinion Section, *BusinessWorld,* 21 August 2006. Available from: <www.aer.ph/index.php?option=com_content&task=view&id=437&Itemid=63>.

3 See: <www.sws.org.ph/>.

4 See: <www.gmanews.tv/story/164624/Philippines-cuts-growth-goals-as-IMF-follows-suit>.

5 See: <archive.inquirer.net/view.php?db=1&story_id=207724>.

6 Pascual, C. "Remittances for Development Financing". In *Finance or Penance for the Poor.* Quezon City: Social Watch Philippines (forthcoming).

7 National Statistics Office. "Merchandise Export Performance". December 2008 (preliminary).

8 Fabros, M. L. "Health Insecurity: A GMA Legacy". In *Missing Targets, An Alternative MDG Midterm Report.* Quezon City: Social Watch Philippines.

9 Social Watch Philippines. *Missing Targets, An Alternative MDG Midterm Report.* Quezon City: Social Watch Philippines, 2007.

10 Alave, K. L "Unemployment Rate Worsens, Hits 7.7% in January". *Philippine Daily Inquirer Online,* 18 March 2009. <www.business.inquirer.net/money/topstories/view/20090318-194715/Unemployment-rate-worsens-hits-77-in-Jan>.

11 *Missing Targets, An Alternative MDG Midterm Report.*

12 Pre-need firms offer plans to provide for future education costs, retirement, etc. As plan-holders' payments are placed in trust funds that invest in financial instruments such as stocks and bonds, they are subject to the vagaries of the market.

Government help in dealing with the reduced value of their trust funds. Unfortunately, mismanagement, greed and regulatory capture have also marred the workings of some pre-need companies and some are reportedly on the brink of collapse, endangering the earnings of thousands of plan-holders.

Food and fuel price levels have eased somewhat compared to 2008. However since many Filipinos are earning meagre incomes, the purchase of goods and services to meet basic needs remains a daunting challenge. As a result of the global meltdown there have been increases in the price of rice, a staple in Filipino households, which means further food insecurity. Indeed, the Asian Development Bank has calculated that for every 10% increase in food prices, 2.72 million Filipinos would slip into poverty.[13] Although the Philippines is a middle-income country, this masks regional disparities: while the capital enjoys high growth levels, child malnutrition in some regions is equal to or even exceeds that of sub-Saharan Africa. This illustrates the high level of inequality in the country; its Gini co-efficient of 0.45 is the 3rd highest in Asia, behind Nepal and the People's Republic of China.

Basic social services, the environment and ODA

The delivery of basic social services will undoubtedly suffer due to the global financial meltdown.[14] The Millennium Development Goal (MDG) target of universal primary education is already the most threatened goal nationally.[15] Many educators are alarmed that students dependent on remittances from relatives and benefactors will not go to school next academic year due to collapsing incomes abroad.[16] Prior to the global crisis, the Philippines was already the worst performing country in the region in terms of infant mortality and maternal mortality rates, owing largely to public underinvestment.[17] Whatever funds that go to health-related MDGs are generally ODA-backed, although whether the aid is going where it is needed most – the poorest communities – requires further investigation, according to advocates of the Alternative Budget Initiative (ABI).[18]

The Government has also relied on ODA to implement environmental legislation such as the Clean Water Act and the Clean Air Act in the last three years.[19] Its spending priority is in mining and forest production (rather than protection) in spite of unresolved issues related to huge mining disasters and widespread deforestation. This means that if ODA significantly decreases as a result of the global crisis, its negative impact will be especially felt in sectors like health and the environment.

Government response to the crisis

The Government has joined the global chorus to "pump-prime the economy" in the form of the now familiar-sounding economic stimulus package. Government is touting a PhP 330 billion (USD 6.87 billion) Economic Resiliency Plan (ERP) to address the crisis. A study conducted by the ABI however, showed that of the PhP 1.4 trillion (USD 29.14 billion) national budget recently passed by both Houses of Congress, only PhP 10.070 billion (USD 208.25 million) in new money will go to an Economic Stimulus Fund (ESF) geared to address the negative impact of the global crisis. Included under the ESF are items such as student loan assistance for college students, technical and vocational skills training for youth, loans and grants to small and medium enterprises, training assistance to laid off workers and returning overseas Filipino workers, construction of school buildings, and the like. While many of these are laudable, one cannot help but question why the bulk of the funds are for tertiary education and none for early childhood, primary and secondary education. Second, the emphasis on re-training for laid off workers is good but there must be greater emphasis on job creation that goes beyond the construction of school buildings. In other words, there is no comprehensive plan to mitigate the effects of the crisis. Most alarmingly, the President has vetoed the special provision on the use and release of the PhP 10 billion (USD 208 million) which effectively subjects it to 'conditional implementation' based on guidelines to be drawn up, ultimately, by the Executive. Given that national elections are coming up in 2010, civil society is concerned that the funds might be used for other purposes.

Frequently bandied about by government officials is an additional PhP 300 billion (USD 6.2 billon) for the ESF, ostensibly to be pooled from Government corporations and the private sector. As of this writing, the proposal remains vague. Many analysts are skeptical about it since much of the funds of Government corporations also come from public coffers. Furthermore, not many pin their hopes on the "charitable spirit" of the business sector, especially in the context of the economic downturn. Even during prosperous times, the Government's revenues were alarmingly below targets due to massive tax evasion by big companies and rich individuals.

ABI advocates are dismayed by the fact that at a time of worsening job insecurity and rising hunger, public officials bloated their pork barrel in the 2009 national budget by billions of pesos.[20] Debt interest payment stands at PhP 302.65 billion[21] (USD 6.3 billion), which constitutes 21% of the 2009 national budget. However the Government will have to raise an even larger amount of PhP 378.87 billion (USD 7.86 billion) to pay the principal component of the debt, which is disingenuously not reflected in the expenditure side of the national budgeting process.[22]

Finally, there is widespread concern that much of public funds, including those in the economic stimulus package, will end up as "political stimulus" instead, going to the electoral war chests of administration candidates preparing for the national elections to be held next year. There is a widely held belief that the Arroyo administration has routinely used public funds to stay in power and that its primordial "governance" agenda has been ensuring its own political survival in the face of growing social and political unrest.

Moving forward

A stimulus package is definitely in order but, unlike the one outlined by the Government, it should be based on a clear national strategy that is rights-based, pro-poor and sustainable that aims at strengthening domestic demand, especially in light of the current economic climate that is hostile to exports. It should place a premium on food security, on job creation by strengthening local enterprises to benefit both male and female workers, and on investment in pro-poor and green infrastructure projects (e.g., construction of a network of irrigation systems, electrification of far-flung villages and developing clean energy) as well as expansion of social and economic security for the poor and unemployed.

In the short term, immediate relief is needed to cushion the worsening effects of the impact of the global crisis on Filipinos. This means ensuring that the ESF goes to where it is meant to: food, income and emergency work relief, as well as to basic social services. Furthermore, the removal of the regressive Reformed Value Added Tax on oil, the implementation of a PhP 125 (USD 2.59) across-the-board wage hike and a PhP 3,000 (USD 62.20) monthly increase in Government salaries will provide some degree of economic relief. Finally, renegotiation of the national debt so that the bulk of the country's revenues go to urgently meeting the basic needs of the people rather than to service the debt requires serious consideration. ■

13 Angara, E. J. "A Gathering Storm". *Opinion, Business Mirror.* 24 November 2008.

14 This report does not include a discussion of the effects and impact of the conditional cash transfer programme on the delivery of social services, particularly in education and health, as it was only piloted in a number of municipalities in 2008. The programme bears watching in 2009.

15 Raya, R. R. "The Missed Education of the Filipino People". In *Missing Targets, An Alternative MDG Midterm Report.* Quezon City: Social Watch Philippines, 2007.

16 GMA TV News. "Educators Brace for Impact of Global Financial Crisis". 4 December 2008. Available from: <www.gmanews.tv/story/137541/Educators-brace-for-impact-of-global-financial-crisis>.

17 In *Missing Targets, An Alternative MDG Midterm Report.*

18 ABI is a broad-based network of civil society organizations monitoring and lobbying for increased social and environment spending in the Philippine national budget. It is anchored by Social Watch Philippines.

19 Ronquillo, J. D. and Morala, R. O. "Environmental Insecurity: The Cost of Misgovernance". In *Missing Targets, An Alternative MDG Midterm Report.* Quezon City: Social Watch Philippines, 2007.

20 2009 General Appropriations Act.

21 This reflects what is included in the 2009 Budget Law and the Presidential Veto Message, which restores a budget cut of PhP 50 billion (USD 1.06 billion).

22 Tanchuling, M. Interview with the Secretary-General, Freedom from Debt Coalition, Philippines, 3 March 2009.