



THIS COUP IS DIFFERENT

The December 1989 Philippine coup is a historical watershed. Its predecessors were mere punctuation marks.

All Sides Have Lost

In this coup, all sides have lost. The rebels have lost militarily. The U.S. has lost most prospects for retaining its Philippine military bases. And the Aquino government has been crippled.

The Aquino government has been crippled because it has been shown to be dependent on American military support. Although supporters point out that only two American aircraft were mobilized, and even they did not shoot at anything, the Aquino regime did feel it necessary to plead for American support, and many observers believe the appearance of the U.S. aircraft turned the tide against the rebels. The Filipino people will not enthusiastically support a regime whose viability is, or is seen to be, dependent on American military intervention.

People's Power Has Vanished

The weakening of the government goes even deeper. A serious challenge to the existence of the government was sustained for nearly a week, without a single major public demonstration in support of Aquino. People's Power has evaporated. The basis of People's Power was determination to expel Marcos and confidence that Aquino would restructure politics and the economy so as to nurture an Asian-style economic takeoff. But now there is no more Marcos, and the promises of reform have collapsed. To be sure, Aquino has created political reforms: democratic elections and restoration of the most vital freedoms. But the democratic regime has not reformed government institutions and it has not followed through on its economic policies. Indeed, democracy has spread corruption and the Congress has immobilized economic reform.

Because of this, while Cory Aquino remains the nation's most popular figure, the organized, courageous middle class that brought her to power has decided to sit on the sidelines. The withdrawal of middle class support cripples her in war and equally in peace: when she established her government, the country's best managers were eager to help her rebuild the nation, but she largely rejected them in favor of traditional patronage politics. By 1987, those managers were unwilling to join her government even if asked. In 1989, they huddled in their apartments watching passively as the military contested the same streets where they defeated far greater military forces less than four years ago.

New Moral Tone

Thus the coup has led to an outpouring in the press of grievances against the regime. Before, when Aquino was under fire, the public and press rallied around her. Today, the moral climate has changed. The current threat has precipitated widespread expression of anger about uncollected garbage, inadequate infrastructure, incompetent ministries, and omnipresent corruption.

The discrediting of the regime because of the American connection, the change of moral tone, the serious casualties, and the tougher and more principled stand of the rebel soldiers all differentiate this coup from its predecessors.

America Has Lost Too

The American military intervention, no matter how minimal, ensures the mobilization of the right wing of Philippine politics against the continuation of the American bases. The objections of the left to the bases will not diminish. The center of Philippine politics is weak and growing weaker. Thus the weight of organized political power in the Philippines now opposes the bases. This was not true before the coup: the center of gravity of Philippine politics was in favor of squeezing the bases for every possible dollar, and of adopting a posture that minimized the Philippine interest in restoration of the bases in order to enhance the Filipino bargaining position, but not of eliminating the bases.

Before the coup, a referendum on the bases would almost certainly have endorsed their continuation. Out in the countryside, Americans are still pretty popular, and the money from the bases is very popular indeed. But the average Filipino is also a nationalist; he didn't see any concrete signs of American bases manipulating his country's politics before, but he does now.

The destruction of the political support for the bases will probably take years to actually move Clark and Subic, but movement is now inexorable. The destruction of American bases in Southeast Asia will be the monument to Dan Quayle's first exercise of initiative in foreign policy.

The decision went against the American tradition of military nonintervention in the politics of allies who are at peace except in cases where a communist takeover appeared imminent or intervention by other powers provoked U.S. countermeasures. For instance, in Korea in 1961 and 1979, the U.S. strongly opposed the coups, spoke out forcefully, and even gave orders to Korean troops to return to their posts, but stopped short of using American forces to put down an anti-democratic coup even though American opinion was overwhelmingly against the coup.

The justification that President Aquino specifically requested U.S. assistance is a fairly weak one, particularly since the U.S. has strongly rejected such an argument when used by its adversaries. Much of the impetus for the decision

seems to have come from negative press reaction to President Bush's failure to intervene in favor of a coup against Panama's Noriega. The argument that Bush can't get his pistol out of the holster has been settled, but the debate over the utility of shooting himself in the foot has hardly begun. That debate will only heat up when negotiations over the bases begin to go very badly.

Previous coups led to no enduring economic consequences. Defeat of the coups buoyed business confidence. Not this time. Business confidence has been profoundly affected by the changed moral tone and by the correct perception that military-led political instability is deep, whereas before it was pathetic.

For a period of at least months, investments by Japanese, Taiwanese, and Americans will stagnate. Bank loans will be delayed. The real estate market will fall, and collapses in excess of 50% are likely in high-flying Metro-Manila. Capital flight has already resumed, reversing a trend for Filipinos to keep their money at home and even bring back some from abroad. Capital flight and reduced capital inflow will weaken the peso. Because of all this, the stock market will fall down and stay low after an initial bounce.

The fall of the market will be cushioned by the huge, politically sympathetic funds President Aquino raised in the U.S. Meanwhile Tokyo and Washington may well be willing to bridge the delayed bank loans and to offset at least temporarily any foreign exchange crisis risked by the resumption of capital flight. But it will not be clear for some time what is on the other side of the bridge.

In the longer run, the bases problem will join with the financial problem. The regime has been unwilling to contain its burgeoning current account deficit, and the only serious theory of covering it has been a rising squeeze on the U.S. bases. If those go, who will finance the deficit?

Another consequence of the coup has been a temporary shutdown of government operations against the communist New People's Army. There have been clear communist initiatives in a few areas. Given the importance of continuous pressure in waging a guerrilla war, the costs of the coup in the battle against the communists are probably quite significant although inherently unmeasurable. Because of the short duration and more limited scope, previous coups were far less costly in this respect.

The communist movement has retained much more influence in the countryside than recent public reports would suggest. Investors should bear in mind that the next shock to the market could come from a communist incident. The NPA represents no immediate threat to the government, but it controls large territories and can stage major incidents.

The Economic Consequences Will Be Severe

The Communist Connection

In addition to the risk of communist shocks in the future, there may be early shocks from the continuing standoff with rebels in Mactan, or from a possible failure by Aquino to obtain from Congress the emergency weapons seizure powers that she demanded.

The weakness of the regime does not imply that a rebel victory would have been good. While the regime has failed to implement clear policies, the rebels have no economic policies. To the extent that these colonels have articulated economic views, they call for Latin American protectionism and express a hostility toward multinational corporations and foreign banks that converges with the far left. Their motivation seems much more self-interested than the military interventions that have imposed reforms in South Korea (1961) and Thailand.

The tragedy of the Philippines is that no major political force has a coherent theory of administrative reform and economic restructuring. The structure of Philippine management and policy remains much closer to Latin American models than to any of the successful Asian models. Investors should view commitments to the Philippines not as purchasing a piece of the next Asian economic takeoff but as punts on Latin American style volatility.

William H. Overholt
Director of Research

8 December 1989
PH 1/1

More Shocks ?

The rebels would have been worse

No Force For Real Reform

PHILIPPINES:

Corinthian Plaza, 3rd Floor, 121 Paseo de Roxas,
 Legaspi Village, Makati, Metro Manila, Philippines
 Tel: (010 632) 819 0231, Fax: (010 632) 818 7349

AUSTRALIA:

Tel: (010 612) 251 1622, Fax: (010 612) 221 7028

HONG KONG:

Tel: (010 8525) 861 8300, Fax: (010 8525) 865 6732

INDONESIA:

Tel: (010 6221) 578 0514, Fax: (010 6221) 578 0562

KOREA:

Tel: (010 822) 778 9011, Fax: (010 822) 756 2648

LONDON:

1 Appold Street, Broadgate, London EC2A 2HE
 Tel: (01) 982 3235-3252, Fax: (01) 982 3379
 Telex: 291936 BTSPNG

SINGAPORE/MALAYSIA:

Tel: (010 65) 224 9233, Fax: (010 65) 224 9180

TAIWAN:

Tel: (010 8862) 322 7777, Fax: (010 8862) 322 4976

THAILAND:

Tel: (010 662) 233 9885, Fax: (010 662) 236 2769

Research products of Bankers Trust Company — Hong Kong Branch and its subsidiaries and associated companies (Bankers Trust) are based on diverse sources. We endeavour to ensure the accuracy of all information provided, consistent with timely transmission of market influences. Bankers Trust accepts no responsibility or liability whatsoever for special, incidental, or consequential damages however caused. Bankers Trust, its affiliates, its directors, or its employees may maintain positions in securities mentioned here, and may receive brokerage fees or act as principal in dealings with respect to them.