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“Developing country”:

There are several ways of creating a definition of ‘developing country’ (Less Developed Nation). Historically, the term ‘third world’ was developed in reference to less-advanced countries. Economists use some level of real GDP growth to distinguish between advanced nations and Less Developed Nations. Economists commonly define a less-developed country as one whose level of real per capita GDP is low in relation to that of more prosperous, advanced nations.

In “Development Macroeconomics”, Pierre-Richard Agenor, an economist at the International Monetary Fund lists the traits that the ‘typical’ developing countries still share:

- They tend to be more open than richer countries: trade contributes a bigger fraction of national income.
- They tend to depend more on foreign capital
- They tend to have fixed exchange rates and, often, exchange controls.
- Their financial markets are rudimentary and often distorted by heavy government regulation.
- The public sector plays a bigger role than in rich countries, particularly in directing the pattern of investment.
- The operation of macroeconomic policies, particularly monetary policy, is much more harder than in developed countries, making the control of inflation difficult.

Although this approach is also fraught with difficulties - the largest being that there is no such thing as a ‘typical’ developing country - this does provide a reasonably illuminating definition.

Philippines - Characteristics:

Geography

Neighbouring Indonesia and Malaysia, the Philippine archipelago (7,107 islands) occupies 300,000 km^2 of land. The largest islands are Luzon and Mindanao. The population in 1990 was 66,100,000 of which 41% lived in urban areas. The birth rate is 2.4%, and 83% of people are Roman Catholic.

Recent political unrest

In November 1965, Ferdinand Marcos became president of the Philippines, transforming his country into a dictatorship, holding that post through a period of economic stagnation and endemic corruption until 1986, when the 'people power' revolution forced him to flee the country. The new president, Corazon Aquino had to survive defections from her party and seven attempted coups by right wing elements. The Aquino administration was unsuccessful in its attempts to recoup US$10 billion the Marcos family looted from the Philippines. In 1992, Fidel Ramos was elected president. There is a Muslim separatist problem on the southern island of Mindanao.

Constitution and government

The president, elected to a single six-year term, has executive power, governing with an appointed cabinet. Legislative authority is vested in a congress (250 in House of Representatives and 24 in Senate). The country is divided into 14 administrative regions and 73 provinces. The judiciary consists of a supreme court which can declare a law or treaty unconstitutional. Law and order is a serious issue. The elite dominate the legislature either by holding office or through patronage.

Economy

National finance:
Government Expenditure: The main items are education and defence.
GDP: The current rate of GDP growth is 4.7%, with industrial production rising by 24.9% per year. GDP per capita in 1987 was $546, which is not much higher now due to high population growth.
Inflation: Inflation in the Philippines is presently 10.4%, compared to 3.8% in 1987.
Balance of Payments: The current account deficit is $3 billion, compared to $0.7 billion in 1987.

Poverty, income distribution and education: Under Marcos the Filipino economy was strangled by protectionism and corruption. As a result, economic growth was never sustained for long enough to reduce poverty to the lower levels now found in neighbouring East Asian countries. According to the World Bank, the proportion of people living in poverty in the Philippines is 39%, compared to 19% in Indonesia and 14% in Malaysia. Income distribution has hardly changed in 30 years. Most Filipinos live just above or below the poverty line. The middle class remains tiny. The average income of the richest fifth is almost 11 times the average income per head. Public elementary education of six years is free, literacy is 88%.

Trade, savings and investment: Starved of foreign investment when Ramos came to power. The country sends 4.5 million people overseas to take jobs abroad, who send most of their earnings home. Compared to other Asian nations, savings in the Philippines is abysmally low.

Infrastructure, Agriculture and industry: Infrastructure is poor, particularly roads, railways and telecommunications. Agricultural production, with importation of rice and other foods while vast tracts of land remain unproductive, is struggling. Main industries are textiles, pharmaceuticals, chemicals, wood products, food processing, electronics assembly, petroleum refining and fishing. Of the work-force, 47% are involved in agriculture, contributing 24% of GDP.

How the characteristics of the Philippines have worked against development

Geography - birth rate

The high birth rate makes it even more difficult for the Filipinos to catch up with their less prolific East Asian neighbours. If the economy was to continue to grow at the current rate, it would take more than 20 years for the Filipinos to reach the income the average Thai enjoys today.

Political unrest - Muslim fundamentalism

On Mindanao, the second largest island, economic growth in the early 1990s barely moved above zero due to political unrest. One of Mindanao's problems has been that politicians in Manila have dismissed it as a dangerous part of the country cursed with violent Muslim separatists. With a world-wide resurgence in Islamic fundamentalism, the Muslims found overseas supporters and began to pursue their claims for self rule with bullets and bombs. A peace deal was brokered in 1976 and a cease fire attempted in 1993, but both failed, due to the extremist Moro Islamic Liberation Front. The MILF and the military frequently clash, and a number of splinter groups also operate on the island.

constitution and government - corruption

The complex political system, adopted from the United States, inhibits reform programmes. The size of the government and the low wages of government workers encourages graft and corruption, thus damaging the international reputation of the country and scaring away investment. Some members of the police and armed forces make their living from crime, and some politicians and government officials are disposed to corruption. The government's own machinery - an overbearing and expensive bureaucracy that works largely through political patronage - does nothing to help. This is a litigious society and its legal system is ponderous and convoluted. With a supreme court judge earning less than $10,000 a year, the system is wide open to bribery. Due to the level of protection, large budget deficits are very common.

Economy: - slow pace of reform

poverty and income distribution: The Philippines' colonial legacy vested land and political influence in a small number of powerful families. Those with money and power and money tried to maintain their position through inward-looking policies that guarded local fiefs and subsidised local industries, shielding them from foreign competition and encouraging inefficiency. The system made their country parochial and inward-looking. The dynasties are still there and fighting for their corner. The Philippines' middle class is extremely small, leading to political unrest, as a middle class is the traditional support for a democracy.

trade, savings and investment: High protection stifled trade between the Philippines and its neighbours during the Marcos regime, forcing outlying islands to trade with the more expensive Luzon, the largest island. Recently, due to very low savings, large investments have had to occur to bolster industry, for the banks are incapable of supplying large loans, ensuring that profits will return overseas.

Infrastructure, agriculture and industry: The lack of infrastructure in transport and telecommunications has been a disincentive for investment by multinationals. The reliance on the struggling agricultural sector has ensured that poverty has remained. Filipinos worry that they will not be able to compete in what is turning into one of the most open economies in the region. The government is still protecting firms and industries - such as retailing - that do not really need help.

Plans devised by the government to promote development

Mr Ramos has established an independent central bank; launched a programme to cut import tariffs that helped make Philippine exports more competitive; deregulated the telecommunications, airline and shipping industries; opened up the finance industry (for the first time in more than 40 years, foreign-owned banks are allowed in; ten set up in Manila in 1995); and lifted foreign exchange restrictions. Foreign investors are encouraged to break into further areas of the economy - mining was deregulated in 1995 and retailing will be opened in 1996. As long as the economy continues to grow, millions of people will be pulled above the poverty line, just as they have been in other Asian countries. Mr de Ocampo, the Finance Minister, argues that the reforms already passed make development possible, while Mr Ramos intends to undertake more contentious reforms.

Privatisation and deregulation:

The government has relied on the proceeds of privatising more than 400 government assets and agencies, including banks, oil refineries and the state airline. An oil deregulation bill to end petrol-price subsidies introduced earlier was difficult. The bill was eventually passed in March. Even old monopolies have been invigorated by competition. The deregulation of telecommunications has opened up the industry, creating one of the most competitive telecoms markets in Asia. The former state monopoly's share of it is plunging: from 97% in 1991 to about 80% in 1996 and probably no more than 50% in 2000. Yet the sector is now growing so rapidly that the former monopoly's business is set to triple from about 1 million lines in 1994 to an estimated 3 million by 2000. The higher scope for growth has made it far easier to attract foreign partners and investment capital.

Privatisation, taxation reform and cutting the budget deficit:

Officials are convinced that many of the problems of the past were due to deficit financing, pushing up interest rates and inflation. Privatisation proceeds helped the government post a budget surplus in 1994 and in 1995, the first surplus for two consecutive years in the Philippines' recent history. Privatisation brought in 50 billion pesos (US$1.9 billion) in 1994 and 44 billion pesos in 1995. A second wave of privatisation is under way, but many businesses concerned are public utilities that need investment and extensive reorganisation, suggesting that they will not generate expected revenue. They include the Metropolitan Waterworks and Sewerage System, the sole supplier of water to the Manila area. Its "non-revenue" water amounts to an astonishing 50%.

Tax avoidance has been more of a consumer sport than a crime in the Philippines in recent years. To begin the process of effective tax collection, an expanded value-added tax (E-VAT) was introduced in January. A review of the personal and corporate tax system will bring down income-tax rates for most people, but it will also close popular loop-holes. As privatisation revenues start to decline, E-VAT and tax reform are meant to maintain the surplus. By cutting the budget deficit, the government will reduce the 'crowding out' effect.

Government joint ventures with the private sector and international aid agencies:

Mr Zobel, president of Ayala Corporation, one of the Philippines' richest conglomerates explains that the single most important reason for the transformation of Philippine business is that political instability is no longer a main concern. Business has the confidence to invest. When the Subic Bay naval base closed down in 1992, a bill was hustled through congress to turn the base into a free port. Subic Bay has attracted some 200 companies that have pledged investments of $1.2 billion.

A prominent example of co-operation between government, private sector and international aid agencies to promote development is on Mindanao, the second largest and most troubled island in the country. Foreign investment is still low, but money from Manila is heading south as investment rather than hand outs. In General Santos city, at the south of the island, $100 million is being spent on new roads, port facilities and airport by the US agency for International Development, World Bank, Japan's Overseas Economic Co-operation Fund and the Philippine government. By concentrating their efforts in one area the benefits can then spread the benefits to other areas of Mindanao. There are two parts to the island's development strategy. The first is to provide Mindanao with an internal infrastructure. The next step is to link Mindanao with the rest of the world. For hundreds of years the only markets and suppliers the island knew were from Manila and Cebu, making life on Mindanao expensive. For example, asphalt shipped from Manila cost 40% more than it would if shipped from North Sulawesi, an Indonesian island only half as far away.

Encouraging trade with the region:

BIMP-EAGA is the latest in a line of East Asian growth areas, an idea that involves neighbouring countries fostering trade links between areas that are geographically close. The BIMP-EAGA connects Brunei and parts of Indonesia and Malaysia close to the southern Philippines. The four countries are talking about how to liberalise and encourage trade, with the backing of the Manila-based Asian Development Bank. Other areas may join, including the Northern Territory. Some of the trading partners are Muslims, providing further hope for the slow peace process on Mindanao.

Growth of industrial parks and enterprise zones:

Much of the Philippines recent industrial growth has been concentrated in a series of industrial parks and enterprise zones that have sprung up all over the country. The government owns four which generated $2.6 billion in exports in 1995. Now private enterprises are building them. The main attraction is that they come with a working infrastructure already in place. The government is encouraging their spread because they help to decentralise the economy away from Manila. Industry in 1995 expanded by more than 7%, enough to push growth in GNP up to 5.7%, even though agricultural output was almost stagnant due to extensive flooding. The Philippines Central Bank believes that a realistic estimate of GNP growth in 1996 might be 6.5-7%.

Investment and exports:

The results of the government's attempts to encourage industry are clear. The latest growth spurt has been led by investment and exports, unlike previous ones that were fuelled by consumption. The value of exports increased by 29% to $17.4 billion in 1995. Electronics jumped by half to $7 billion. Electronics firms from Japan, America and Europe are flooding into the Philippines, creating an export sector which could triple within a few years. According to government forecasts, exports could grow by 25% a year to 2000, by which time they would exceed $50 billion.

Decentralisation of government and entrepreneurship:

On Cebu, an economic powerhouse of 2.8 million people behind a regional economy that has been growing by an average of 14% for the past six years, the provincial government has taken control of its own economic affairs. Over the past decade, law are order has been restored by providing policemen with vehicles, drivers and clerks, paid for by the city, so the policemen could concentrate on lowering crime. The biggest contingent of foreign investors is made up of some 60 Japanese companies. The island's first big export-processing zone is full up and the second, not yet completed, is already almost sold out. In 1995 exports ran at $1.4 billion. Some 80% of its visitors are big spending Taiwanese and Japanese. Cebu is bumping up against the limits of its infrastructure. Cebu officials have plans for dams and pipelines to bring in more water, as well as a new bridge to link the airport, on Mactan, with the main island and a by-pass around Cebu city. These projects are worth some 10 billion pesos and they will be funded entirely by direct loans from Japan's Overseas Economic Co-operation Fund. Big land reclamation projects in the Hong Kong model are also on the drawing board.

Mexico - characteristics

Geography:

Mexico is the largest country in Central America, with a 2,000 mile border with the United States. Covering a total area of 1,958,201 km^2 Mexico is divided into 31 states and Mexico City, with nearly 15% of the population. The population in 1990 was 88,600,000 of which 69.7% live in urban areas. The rate of population increase was 2%, with 93% of the population Roman Catholic.

Constitution and government:

Executive power is held by a president elected for six years who appoints the cabinet. Legislative power is rested in a National Congress (400 in Federal Chamber of Deputies and 64 in Senate). Being a democracy, Mexico has an unfortunate history of pre-election populism that takes governments at least one year to recover from. The 1988 presidential election was won, allegedly, through widespread fraud. The Mexican government also has to finance a very large social security system. The Mexican establishment - oligarchic, bloody and venal - has held a grip on power through presidents such as Carlos Salinas from 1988 to 1994.

Economy:

National Finance:

Government expenditure: The main items are education, housing, and welfare and defence.

GDP: GDP growth is currently negative 1%. Industrial production is growing at 2.8%. In 1987 GDP per person was US$1,640.

Balance of Payments: Current account in 1990 was $5 billion deficit, and in mid 1990s, a string of large current account deficits contributed to a currency crash in January 1995. Subsequently, the current account has almost been returned to balance with a modest $0.3 billion deficit in 1995.

Inflation: Inflation in 1990 was 21.1% and has remained high - 33.8% in May 1996.

Foreign Debt: Foreign debt has been a recurring problem for the country, particularly in 1982, when the government declared that it could no longer service its foreign debt at $80,000 million - second only to Brazil's - with the debt rising to $106,700 million by 1987. Since the financial crisis of January 1995, these debts have been added to substantially.

Stock-market: In the early 1990s, Mexico had a volatile stock-market, and a large financial imbalance due to the inability of exports to keep up with capital inflow.

Banking System: Mexico's banking system is very fragile and in dire need of reform, burdened with up to 25% bad loans. There is a very cosy relationship between banks and big business.

Currency stability: Mexicans are used to 'having to start all over again' with peso collapses in 1982, 1987 and 1995. Mexico is a country that relies on foreign investment, but is having difficulty providing a stable investment environment. Up until 1995, Mexico did not have a truly independent central bank, and was unable to effectively control currency fluctuations

Agriculture, Industry and trade: 20% of work-force is in agriculture: 9% of GDP. Main industries are food, beverages, tobacco, chemicals, iron, steel, petroleum, mining, textiles, clothing, transportation and tourism. 80% of work-force is in industry or services: 90% of GDP. As NAFTA comes into force, tariff and transport barriers between Mexico, Canada and the United States are being eased, increasing the potential market for low wage Mexican goods reflected in increased trade between the US and Mexico. Mexico's big exporting firms are disconnected from the rest of the economy - a large share of their inputs come from abroad.

Communications and education: Mexico has a highly developed telecommunications system, there are two airlines, 225,000 km of road and 20,000 km of railway. Elementary and secondary education is obligatory and state-maintained. Literacy is 88%.

How these characteristics have worked against development

The causes of the 1995 collapse of the peso: - disgraceful economic management

Carlos Salinas shaped a Mexican economy that looked stronger than it really was, contributing to the crash of the peso just after he left office. Originally unenthusiastic about free trade, Salinas embraced NAFTA because it promised to attract the foreign investment that Mexico needed to modernise its economy. But most of the $50 billion that flowed into the country did not go to build factories or create jobs; it was invested in the volatile Mexican stock market, often in large monopolistic companies run by government party loyalists. Macroeconomic policy was run in a reckless fashion in the early 1990s: huge current account deficits, a lot of short-term debt to pay in dollars, dangerously low reserves and a vulnerable currency. Mexican exports could not keep up with the inflow of capital, creating a financial imbalance that undermined the peso.

The currency crisis and consequences: - confidence destroyed

The weak central bank was powerless to restore the confidence of investors. Salinas spent the country's foreign reserves to prop up the currency, leaving it to his successor, Zedillo to devalue the currency, which he did in December 1994 in a clumsy manner, deepening the panic that ensued. Large banks and companies were haemorrhaging money, and it was estimated that at least two Mexican businesses were closing each day. The country was down to its last $3 billion in foreign reserves. Following the currency crisis, Mexico is suffering an economic slump, high unemployment and banking troubles. Its stability is threatened by political violence and drug trafficking. While stable growth has long eluded Mexico, the country has now returned to recession. Even during the bubble years of the early 1990s, its average annual rate of growth was only 2.7%.

Banking crisis: - stifling a recovery

The fragile banking system is the foremost hurdle facing corporate Mexico. Bad loans account for more than 30% of the total, meaning that not even the wealthiest banks will issue much fresh credit this year. That may jeopardise economic recovery, without which even more loans will turn sour. Despite numerous government bailout programmes, the banking system as a whole is still short of capital. One obstacle to restructuring is the cosy relationship between banks and big business, which are the banks biggest debtors, often reflected by posts on one another's boards of directors. The much-needed corporate shake-out is also held up by feeble bankruptcy rules.

Debt and Inflation: - threatens to cause another crisis

Despite its careful refinancing of debt so far, Mexico still faces a huge bulge of payments in 1998 and 1999. Adding corporate and government foreign debts together brings a total of around $35 billion coming due during those two years. Mexico's high inflation, over 25%, is a further destabilising factor working against a stable exchange rate. As a result, this high inflation threatens to damage exports as higher costs are not always reflected in currency devaluation. With a freely floating peso and a shell-shocked government and central bank, it is feared that any action using foreign reserves to lower the peso could cause another catastrophic collapse.

Government weakness: - failure to deregulate and reform

In Mexico, despite the government's recent penury, a full privatisation of Pemex, the huge inefficient state oil monopoly, is still deemed unthinkable. In January the sale of Pemex's petrochemical plants prompted a sit-in at well-heads by opposition. Recent plans to reform the Social security system have been attacked in parliament by opportunistic politicians, encouraging dissent from the public service and inhibiting the passage of bills through the houses of parliament.

government plans to promote development

The international rescue package to solve the January 1995 peso crisis and the recovery:

Bill Clinton saved Mexico from default by producing $20 billion from the little-known Emergency Stabilisation Fund. $30 billion came from the IMF, which is the main enforcer and monitor of Mexico's performance. Among the many belt-tightening conditions set by the IMF and Washington, the nation had to halve its current-account deficit and the Bank of Mexico had to be converted into a truly independent central bank that would have to commit to specific credit growth and money-supply caps. Within one year of the rescue plan for Mexico in February 1995, Mexico recovered from its dire financial position. Investor confidence revived quickly. The reformers who ran Mexico's economy since the mid-1980s engineered two feats that made it easier to start all over again: they cleaned up the country's finances and forged what proved to be a protective partnership with the United States in the North American Free Trade Agreement. The new president, Zadillo, broke Mexico's cycle of crisis by strengthening the central bank's autonomy, lowering interest rates, democratising the political system and reducing the country's dependency on short-term investment. Both fiscal and monetary policies have stayed tight. After a small surplus in 1995, the budget still showed another in the first quarter of 1996; and real short term interest rates are high.

Encouraging investment to return:

The government has raised over $6.5 billion in international capital markets in 1996. But rather than issue flurries of short-term paper, it has tapped the capital markets carefully and occasionally, seeking to lengthen the maturity of the debt. In February Mexico launched its first global bond issue, a five-year $1 billion deal which proved popular in Europe, America and Asia. There has been a net capital inflow of some $3.2 billion into Mexico in 1996. Much of this money has gone into the stock-market, as some foreign investors have bet on economic recovery. Most important, much of this year's investment is seen as relatively 'stable'. It is not the hot money of a few years ago.

Controlling the debt:

Mexico is using novel methods to refinance more expensive debts. A $1.75 billion debt-exchange offer in April saved some $600 million in interest. The new debt will carry an average interest rate of 9.06% compared with 10.16% on the emergency loans, saving $50 million a year. The refinancing will dramatically ease Mexico's debt burden. Between now and 2000, it must repay a total of $25 billion to America and the International Monetary Fund. The Mexicans believe that the deal will stretch the average maturity on $4.7 billion of this from 3.5 to 10 years. A comfortable margin. On June 18th Mexico's finance Minister announced a $3 billion international bank loan which uses oil receipts as collateral. The money raised from this deal will repay the costlier loans made by the American government after the devaluation crisis in early 1995.

The reform platform:

Far from turning its back on economic liberalism, Mexico has rediscovered its reformist zeal. Despite its recession, Mexican imports from the United States in 1995 were still above their 1993 level. Fiscal policy is now commendably tight; there are no signs of a government-led dash for growth. A large real depreciation of the peso has also helped, boosting exports in 1995 by over 30% in dollar terms. The economy is now both more open and more competitive.

Solving the bank crisis:

The finance minister has announced the creation of an agency which will assess, restructure and sell the many bank assets which the government now controls. It is hoped that the sell-off will spawn a secondary-market for bank debt. The finance minister promises new laws that should help get the market started, by removing legal barriers to non-banks and foreign firms, modernising bankruptcy laws and speeding up the collection of debts. A proper consolidation of the dozens of banks in Mexico will be allowed. Nationalistic politicians, who in 1995 watered down Mr Ortiz's attempt to allow foreigners to own 100% of local banks, may try to resist a foreign invasion.

On 16 May, the government unveiled plans to subsidise the country's mortgage holders, and thus indirectly the banks. In the first year of the plan, the government will pay 30% of their monthly payments. This figure will fall progressively, reaching 5% when the plan ends in ten years' time. Officials put its likely total cost at about 1.2% of current GDP, or $3.2 billion. It could actually cost twice as much. The main aim of the plan is to reduce the level of bank's dud mortgages to below 10% and to encourage them to start lending again. It will also help to ease the blow coming next January, when Mexican banks must convert to American accounting standards, leading to up to 20% of mortgages to be classified as non-performing, from the present 5% level.

Mexico's government is also counting on securitisation to help resolve the mortgage problem. The idea involves creating mortgage backed securities. These can them be traded in a secondary market, creating a new source of liquidity for banks who wish to shrink their portfolios. For such a market to work, potential investors will need to be convinced that Mexico has improved its legal and administrative framework for mortgages. Work on this is in progress: a new law should speed the process of foreclosing on properties, which currently takes over three years. Plenty of obstacles from tax codes to bureaucrats remain, with a pilot planned for 1997. It is believed that this is the surest way to get the market going.

Controlling inflation or the peso:

To encourage exports, there has been widespread pressure in Mexico for a devaluation of the peso. The more autonomous Reserve Bank wants to keep the currency value firm to fight inflation, which is running at over 33%. Before the previous currency crisis, Mexico had tried to push inflation down too quickly, using an exchange rate anchor. Some believe that Mexico should adopt a crawling peg system, under which the peso would be devalued continuously in line with inflation. The drawback to the system is that it could make it harder to beat inflation. Mr Ortiz says that he would like to shift the peso to a crawling peg, or peg it to a basket of currencies, except that Mexico does not have the foreign exchange reserves to make such a system credible. Until then, he will stick to the float, not least because he thinks that what little credibility the country has regained since devaluation stems from its consistency in economic policy.

Reforming the social-security system:

Zedillo's plan is designed to improve health care and boost the low savings rate that made Mexico so dependent on foreign capital and aided the rout of the peso. The main reform law in December, laid down the end of cross-subsidies from 1997. It will also farm out pension-fund management to private managers. The World bank cautions that the IMSS, the biggest social security institute, must become much more efficient before the government will gain from the reforms.

The results of the reforms:

The most dramatic performance has come form exports, which have risen by more than 35% since the beginning of last year. Unemployment has fallen from 6.4% in January to 5.4% in May, car sales are up sharply and retail sales are beginning to thrive. Private consumption was by far the largest component of first-quarter growth. Much of the credit for this recovery lies with the Mexican government as well as with the Clinton rescue package. After the previous administration bungled macroeconomic policy in 1994, and despite a faltering start in 1995, President Zedillo's team has followed the textbook.

Compare and contrast these plans and analyse the suitability of each to addressing the problems in the country.

Neither the Philippines nor Mexico have an outlined ‘development plan’ similar to a ‘new deal’ or a ‘5 year plan’, rather, they have a series of economic policies to deal with serious problems in their economy that work against development. Both the Philippine and Mexican economy have had serious disturbances in the last ten years, and as a result, many of their development plans have actually been recovery plans. Due to the political instability caused by the fall of the Marcos dictatorship, the numerous failed coups against Corazon Aquino and the continuing Muslim separatism on Mindanao, the Philippines was not considered to be a reliable investment opportunity. The Philippine government has spent a large amount of time and money improving the desirability of the country for foreign investors through improved infrastructure and lower protection. In Mexico, after several boom years, the financial system collapsed, scaring away many American investors who had seriously burnt fingers. In Mexico, the government has attempted to restabilise the financial system through tight macroeconomic policy and specific rescue packages. In both cases, the governments have been trying to solve their relative problems with reasonably logical policy. Naturally, it is not a simple task to make comparisons between countries with very different initial positions and totally different political and economic surroundings. Mexico is constantly cradled by the United States, whilst the Philippines has to find a place in the world’s most dynamic market. There are, however, several areas where the two countries face similar problems and where their policy decisions can be compared.

In terms of political and legal difficulties, both countries face internal separatist groups and significant crime and drug problems. Whereas the Philippines attempts to subdue Muslim fundamentalism through increased economic prosperity and recently, successful negotiations, the Mexican government seems incapable of dealing with the Zapastis and other rebel groups that are growing in the peasant regions. Both countries development plans do not really deal with the problems of crime and corruption. In the Philippines, on the island of Cebu, crime has been controlled, similarly, at the highest level, Mexican crime is being fought, with arrest warrants issued for the previous president, Salinas. At the street level, both countries are incapable of controlling their thriving marijuana trades and crime. Both countries have well entrenched establishments that are involved in graft and corruption, and since the respective country’s leaders are drawn from this class, the crime problems that threaten development are not being satisfactorily fought.

Both governments have included privatisation and deregulation in their reform programmes. Both governments have reduced protection for industries and tariffs: Mexico, through the NAFTA agreements; and the Philippines, in line with a strategy designed to increase productivity through competition and through the BIMP-EAGA negotiations with the countries’ neighbours. As a result, both economies have become much more open and exports have thrived. Both governments have also used privatisation and deregulation as a means of reducing the size of government, and hopefully the budget deficit as well. This can be seen in the privatisation of telecommunications in the Philippines and the social security reforms in Mexico. However, on the point of privatisation, the government of the Philippines has been much more successful than that of Mexico. The Mexican government has failed to privatise their inefficient oil company, at the same time that their South American competitors are inviting joint ventures with American oil companies and reaping the profits of privatisation. Due to privatisation, the Philippines has been extremely successful in reducing the budget deficit, however, the success of their taxation reforms such as E-VAT will determine whether this will be a long term position. However, both governments suffer from American inspired constitutions, executive and legislative structures that ensure great difficulty in passing further reforms, as experienced in the Philippines with taxation reform and in Mexico with social security reforms.

Both countries have experienced large export growth over 1995, but for very different reasons. The Philippine government has been encouraging exports through joint ventures with aid agencies and the construction of enterprise zones at Subic Bay, Manila and Cebu to encourage foreign investment. On the other hand, the success of Mexican exports is actually due to a booming American economy and a weak peso. Therefore, whilst the Philippines will be able to take advantage of export growth in the long term, Mexican exports rely strongly on American demand and the ability of the government to depreciate the peso in line with the high rate of inflation. Still, many of the foreign investors settling up in the Philippines come for the low labour costs - This will be eroded as living standards rise. The Philippines will not be able to rely on selling itself as a cheap, English-speaking labour force for ever. With the restructuring of the central bank as truly autonomous, it will be very difficult for the Mexican government to allow the currency to continue to devalue, as the central bank wishes to have a strong peso with which to fight inflation. Export growth has at least had the effect of decreasing the current account deficit of Mexico in line with IMF demands.

To encourage further foreign investment, the Philippines has created an independent central bank to retain the confidence of foreign investors in the currency of the Philippines. The Mexican government has actually been trying unsuccessfully to reduce the countries dependence on foreign investment. Instead the government seems to have succeeded in encouraging more medium to long term investment rather than the short term investments that went so sour in January 1995. The biggest challenge is for domestic companies producing for the domestic market. Many, especially in services, missed out in Mexico’s last wave of structural reform; productivity improvements are desperately needed. All firms would benefit from further deregulation and liberalisation. New competition in telecommunications is a useful start, but more is needed. The labour market could also pose problems. Part of Mexico’s success in 1995 was the extraordinary downward flexibility of real wages: the danger now is that these gains may be squandered in excessive pay rises. Long-term success depends on more structural reform and more austerity.

Another area where the countries have faced similar problems is in banking. In the Philippines, the government almost completely deregulated the market, opening the way for foreign banks to enter. This has been a very successful policy, with finance more easily available throughout the country. In Mexico, however due to an obstructive parliament, it has been hard to solve the dire financial problems of the banks. As a result, the government has become far too involved, organising plans whereby the government will absorb some bad bank debts. The government has not been able to pass legislation that would have allowed foreign banks to completely take over Mexican banks, and thus restart the flow of finance. The Mexican government has been attempting to combat the low level of savings through this banking reform, while the Philippines government has attempted to effectively increase the amount of savings available for investment by reducing the budget deficit.

Perhaps the most important area for policy makers in the developing world is the eradication of poverty. In this area, neither the Philippine nor the Mexican government is willing to promote direct policy initiatives. Whilst the Mexican government is concerned with stabilising the economy, and rebuilding after the financial crisis, the Philippine government is running the policy line that if economic conditions improve, eventually, the whole population will receive the ‘trickle down’ effect. Unfortunately, this sort of policy ensures that the owners of multinationals receive large profits whilst the workers exist on minimum, cheap wages. It will take decades for the GDP to be more evenly distributed if the Philippine government continues this policy. Furthermore, the high rate of population growth ensures that it will be even harder for the majority of Filipinos, who live in poverty, to improve their standard of living. As a result, many are sceptical regarding the reforms: the distribution of wealth in the Philippines has changed little, and the rich and influential families that brokered power for hundreds of years remain in place.