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ABSTRACT

IMPACTS OF TRANSNATIONAL CORPORATIONS UNDER THE EXPORT-ORIENTED INDUSTRIALIZATION IN THE PHILIPPINES: CASES OF GARMENT AND ELECTRONICS INDUSTRIES

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Because of the rapid economic growth of Asian NICs, Export-Oriented industrialization (EOI) by inviting transnational corporations (TNCs) is considered as a desirable industrialization strategy for developing countries. Impacts of TNCs, however, vary from country to country. There are both internal and external factors which influence the outcome.

The main object of this project is to examine impacts of TNCs of garment and electronics industries which were two main export-oriented industries in the Philippines and to analyze which factors influenced the undesirable results.

Various factors can be considered, but state seems important because only state consciously controls industrial activities. However, power relations between state, local business and TNCs determine state ability and affect the outcome of EOI. The Philippine state was historically subordinated to both local elites and external forces such as TNCs and failed to draw positive impacts from TNCs and to use it for national industrialization.

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INTRODUCTION

World War II formally marked the territorial demise of colonial inspired hegemony. Thereafter, the sun swiftly set on the various far-flung dominions, sweeping back Britain, France, the Netherlands, the United States, and Japan to their respective nationally boundaries. Lamentably, little changed for the majority of newly independent Third World countries whose expectations of the benefits of independence fell far short of its reality, especially with regards to the popular jargon espousing a cornucopia of munificence for all to share in once the chimera of colonialism was slain. But when the echoes of hard fought campaigns had settled in the dust, people found that no significant changes occurred in the world system: colonial domination simply changed its form. One of mechanisms which kept unequal world system was the transnational corporation (TNC)[1].

Emergent leaders in the Third World such as Nehru, Skarno, and Nassar promised their people national industrialization and economic diversification, as well as an end to privileged concessions to foreigners. In order to

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[1] In this paper, TNC means both 100% foreign owned companies and joint ventures.

accomplish this, government-sponsored import-substitute industrialization (ISI) seemed a compelling alternative to the previous colonial system of a monocultural economy. Accordingly, the government would control the influx of imported goods in order to protect nascent domestic industries from international competition. At first, ISI worked well. Promised structural reforms, however, soon fell short of intended goals. Coupled with small domestic market as well as increasing imports of capital and intermediate goods, local industries set up through ISI stagnated resulting in increased deficits, unfavorable terms of trade, and a widening trade gap.

The most telling problem which acted to undermine ISI wa the lack of a sufficiently developed domestic market. That is, ISI efforts never translated into effective demand or purchasing power at the local level. Small domestic market also prevented an internal capital goods sector from emerging. In effect, national industrialization lay prostrated, a problem plagued low income countries in general.

In the 1960s, South Korea and Taiwan tried to overcome the inherent limitation of ISI by changing to export-oriented industrialization (EOI). EOI is an industrialization policy which promotes national industrialization through manufacturing exports. It does so by inviting TNCs and in return, at least theoretically, developing countries have the TNCs advanced technology and capital at their disposal. The impressive growth rates of about 10 percent per annum in both South Korea and Taiwan fixed the attention of economists and politicians on EOI as the panacea for Third World industrial development. In fact, international agencies such as the World Bank and International Monetary Fund (IMF) soon tied the adoption of EOI policies to the granting of loans.

Other economic forces, however, worked to encourage TNCs to relocate their manufacturing operations overseas. Primarily, the economic recovery of Europe and Japan in the 1970s heated up international competition and let loose the global search for cheap labor, a 'commodity' most Third World countries have in abundance. Moreover, technological developments and advances in communications enabled TNCs to systematically further separate and standardize production processes. In short, the Third World offered TNCs a means to hold down production costs and thus increase profits.

The benefits of the EOI policy pursued by many developing countries, like the ISI before it, however, proved ,marginal at best. International financial institutions were eagerly abetting the Third World governments, pressing the general prescription of comparative advantage in terms of export commodities such as garments and electronic goods. The theory of comparative advantage, nonetheless, requires perfect market conditions, a requirement which never is met outside of a textbook. For most developing countries, the factor which allows 'competitiveness' is labor, a factor which perforce must be cheapened. Government policies are thus geared towards ensuring this under EOI and consequently like the ISI, few people become economically empowered. South Korea and Taiwan, in many ways, proved to be the exception rather than the rule. The case of the Philippines appears to be the typical example where the impacts of TNCs did not approach expectations and industrial development did not 'take off.' What made the difference? What kind of conditions influenced the outcome?

The purpose of this paper is to examine the impact of TNCs under EOI in the Philippines from the 1970s through the 1980s, and to analyze the factors which influenced the result. The case of the garment and electronics industries provide the focus since they comprise the two primary export-oriented industries which flourished under EOI policies. In the first chapter, I review theories about the effects of TNCs on the Third World and construct theoretical framework. Secondly, the historical background of EOI as well as the purposes and strategies engendered within EOI are given consideration in order to understand conditions of EOI in the Philippines. Thirdly, the impacts of TNCs in the garment and electronics industries under EOI in the Philippines will be analyzed by using four indicators: contribution to international payments; forward and backward linkages; employment effects; and skills and technological transfer. Finally, I investigate power relations which underlie the failure of EOI.

1. LITERATURE REVIEW: CONSTRUCTION OF THEORETICAL PERSPECTIVE

In recent years, few topics seemed to have generated as much controversy as the role played by transnational corporations in the Third World. On one side are those who argue that TNCs can provide the needed tonic to revitalize sluggish Third World economies by providing a short cut to industrialization (Watanabe 1989 etc.) Others point out that TNCs merely reenforce older patterns of exploitation and that export-oriented industrialization actually deepens dependency (Frank 1988 etc.) In order to understand the types of argumentation concerning this topic, I divide these theories into three streams: 1) theories which emphasize the positive impacts of TNCs; 2) theories which regard TNCs as a mechanism of exploitation; and 3) theories which stress the role of the state. I will then critically summarize each theory. Finally I will construct a theoretical framework within which to analyze the case of the Philippines.

1) TNCs as a vehicle of development

According to the modernization school, Third World countries can expand their productive capability through EOI policies which invite in TNCs with advanced technology, marketing skill, and abundant capital, all of which developing countries invariably lack. These theorists, including product cycle theorists and neo-classical economists, claim that foreign direct investments can compensate for scarce domestic capital. Through direct investments made by TNCs, advanced skills and technology are transferred to developing countries which increases access to international markets. Moreover, it is assumed that the TNC-induced expansion of productivity and export competitiveness generates profits that can then be re-invested locally. Accordingly, developing countries can reduce economic dependency and diminish social inequality since TNCs are further held to stimulate local industries, both directly and indirectly. An additional benefit associated with TNCs is the enormous indirect impact caused by forward and backward linkages. Thus the more TNCs come into developing countries, the more they activate local industries which creates yet more employment opportunities. All of this is assumed to translate into a better standard of living for the entire populace. Lastly, as local industries expand their productive base, developing countries enhance their bargaining power vis-a-vis the TNCs.

Modernization theorists cite protectionism as the real culprit blocking development and insist that the best way to develop is to open markets and invite in TNCs. Third World countries should thus promote certain kinds of industries in which they enjoy comparative advantage and attract TNCs to nurture those industries. Over time, host countries can absorb technologies from TNCs and upgrade those industries. In short, TNCs can provide the driving force for industrial development in Third World countries.

Although the assertion that TNCs can increase productivity in developing countries is appropriate to some extent, there are several problems with this perspective. First of all, modernizationists seem to consider that economic growth can solve social problems such as the unequal distribution of incomes. But, it can not. For example, in Brazil in the 1960s and the 1970s, the growth of the GNP and exports was not accompanied by a decrease in inequality. TNCs might increase the productivity of the host country, but economic growth does not necessarily mean an achievement of equality.

Secondly, modernization theorists assume that TNCs bring in advanced technology, create local linkages, and upgrade industries. This, in fact, assumes some sort of universal pattern of development. Watanabe mentions several internal conditions which developing countries must meet, including skilled labor, management capability, strong government, and flexibility in policy implementation (1989,p.235). Robert Gilpin (1987) similarly considers problems faced by host government policies and Warren (1973) points out the host country's capacity to assimilate TNCs' technology. However, these theorists tend to underestimate the power of TNCs' to control economic, political, social, and cultural conditions in the Third World. They assume most developing countries can control TNCs for their own benefits fail to pay attention to the fact that TNCs sometimes can restrict the host country's power. Moreover, competition to attract TNCs actually undermines much of the bargaining power of developing countries.

It is also doubtful that TNCs transfer technology in any meaningful degree. Overall, TNCs practice technology protectionism. Furthermore, the extent of technology transfer depends on the types of industries and processes TNCs relocate to Third World countries. Therefore, whether technology is transferred or not depends not only on the host country's capacity, but also on types of plants TNCs relocate.

Comparative advantage, as mentioned earlier, is a vague concept which assumes that each country has certain comparative advantages that can be utilized by promoting activities in which a country can produce a certain good cheaper than others. However, comparative advantage is not formed by nature, rather it is a conditioned of certain economic activities. The idea of comparative advantage is problematic because it can prevent Third World countries from developing heavy industries which do not have 'comparative advantage' and legitimate the exploitation of cheap labor by TNCs in the Third World since labor seems to be the one commodity offering 'comparative advantage.'

In short, modernization theorists tend to overestimate the beneficial impacts associated with TNCs' and underestimate the unequal power relations between countries. They seem not to consider that different positions in the world system result in differential means of control over production processes and thus effect the distribution of capital.

2) TNCs as a machine of exploitation

Dependency theories such as the world system and vertical integration, in contradistinction to the modernization school, pay particular attention to unequal power relationships between TNCs and Third World countries. According to this perspective, TNCs move labor-intensive unskilled processes to Third World countries in order to cope with rising wages and strict regulations in developed countries. Dependency theories specifically call into question the positive impacts of TNCs such as technology transfer because they consider that TNCs simply relocate labor-intensive processes in order to exploit cheap, unskilled labor.

In addition, the dependency school recognizes that TNCs' subsidiaries in the Third World are controlled by their parent companies in terms of production, technology, marketing, design, and so on, and that there are few linkages between TNCs and local industries. Thus, employment effects are drastically limited. Moreover, the lack of local linkage gives TNCs the flexibility to move anywhere they want. As a result, industrialization predicated on TNCs is made vulnerable, held hostage to the 'threat' of relocation. Attracting TNCs is problematic for developing countries: they must offer various incentives and loosen restrictions in order to entice TNCs to relocate. In effect, TNCs enjoy a near monopoly in power.

Overall, dependency theory is highly critical of the role TNCs play in Third World industrial development and focus on the exploitation of cheap labor which ultimately serves to keep these countries economically dependent on advanced countries. In this scenario, TNCs form an enclave economy in the host country so that their positive impacts are quite limited. Host countries consequently seem to gain few long-tern benefits from the relationship.

Dependency theorists have contributed significantly to the investigation of the effects of unequal global-power relationships, but they focus too much attention on the world system and thus neglect internal problems in developing countries. Much of the current difficulty in the dependency literature stems from the failure to appreciate the internal dynamics of individual developing countries. While they may appear less spectacular than those operating within core-capitalist states, they are inherently no less dynamic. This misconception reinforces certain biases; namely, the perceived incontestable domination of the core countries in the global arena. Coupled with essentialist laws of motion, uninformed by rich and varied historical contexts, all change is regarded as a result of the universal impress of capitalism. Therefore, they fail to adequately explain differences within the Third World in other than functionalist terms. For example, dependency theory cannot explain the economic growth of Asian NICs.

Moreover, dependency theory limits itself through its consideration of the exploitation of cheap labor as the primary means to accumulate capital; this ignores the role of technological change in increasing labor productivity (Jenkins 1984,p.33). TNCs do, after all, try to improve technology in order to increase productivity. Positively or negatively, the technological changes introduced by TNCs does influence developing countries and this must be considered in addition to labor costs.

In addition, the role of the states should not be underestimated (Jenkins 1984,p.34). Simply stating that the power of TNCs is too enormous for Third World governments to go against further homogenizes the experiences of developing countries and neglects important variations between political styles. True, some Third World countries are ineffective in controlling TNCs. This pessimistic view, however, underestimates the power of some Third World governments and minimizes their leverage vis-a-vis TNCs. Without this understanding, change is impossible except through revolution.

3) state analysis

Lastly, other theorists place the state squarely in the middle and consider the state as an important factor influencing the impacts of TNCs. More reasonably, this perspective attempts to understand variations in the experiences of developing countries with TNCs through analysis of the role of the state in mediating between local conditions and TNCs. This requires closer consideration of the power of respective states. Within this framework, the state's maneuverability is determined by a 'triple alliance' of the state, domestic enterprises, and TNCs. According to Evans (1987), if a state has relative autonomy and can control local and foreign firms, the country can utilize TNCs to their own advantage as modernization theorists insist. If state autonomy, on the other hand, is restricted by local elites and TNCs, state policies are distorted and become profitable only for the latter and do not contribute national industrialization. In the latter case, impacts of TNCs become mostly negative as dependency theorists assert.

According to these theorists, power relations between the state, local elites, and TNCs, which influence TNCs' impacts on the country, is historically determined and a product of past state policies. Historical conditions (eg. previous colonial experience and lack of an industrial base) might restrict the state's capabilities, but present state policies can influence the basic power relationship between the three actors. Even if they cannot fundamentally change the overall relationship, state policies can militate against the more detrimental effects imposed by such development. In other words, the state can effect both forward and backward linkages which not only ties Third World industries into the international market via exports, but can induce local linkages as well. One version, global localization, argues that a type of managed dependency can act to stimulate domestic markets besides serving international interests.

Although adherents of this perspective agree on the importance of state, there is no consensus on the types of policies needed to blunt the effects of TNCs and recast them favorably. For example, Jenkins (1991) considers that flexibility, selectivity, coherence, and promotion rather than regulation are important factors for effective state intervention. State autonomy and effective bureaucracy are preconditions. Doner (1991) insists that state autonomy is not a necessary condition, rather effective relations between state and domestic enterprises is important if TNCs are to be harnessed for national industrialization.

In my opinion, TNCs can have both positive or negative consequences for developing countries. In order to facilitate the positive impacts offered by TNCs, however, certain conditions are necessary. As state analysts insist, the state may be a key factor. The state seems to play several important roles in industrialization. First, it is the state that decides the direction of economic activities and to promote (or restrict) certain activities in accordance with the direction. Second, the state can advance favorable conditions for economic undertakings which do not exclusively benefit TNCs. The construction of infrastructure, for example, is important and regardless of the fact that it is initially built to attract TNCs. Moreover, the state may be in a position to promote a more equitable distribution of the profits. In addition, in order to draw positive impacts from TNCs, the state needs to promote effective linkage between TNCs and local industries, as well as urge TNCs to improve working conditions. To fulfill these roles, the state must articulate consistent industrialization policies and implement them with flexibility in order to be able to adjust policies according to changing internal and external conditions.

However, when the state fails to elicit positive impacts from TNCs, we cannot attribute it to the lack of Third World state abilities. The eventual outcome of industrialization is influenced by such considerations as local elites, the specific TNC, and international agencies like the World Bank. When the state is subordinate to other factors, it is difficult to implement effective industrial policies. The power relationship is a historical product but is subject to continuous change which rewrite the terms of exchange. Consequently, when we analyze TNCs' impacts on a certain country, we must pay attention to both the historical background in which 'triple alliance' had formed and the type of 'triple alliance' promoted in that country.

In the following sections, I therefore analyze TNCs impacts under EOI in the Philippines by considering the historical background of EOI, the power relations between state, local elites, TNCs and other external factors, and how state industrialization policies have been influenced by internal and external factors. Especially, I examine whether the state undertook coherent policies to positively influence the impacts of TNCs for the country as a whole. This requires analysis of whether or not the state had the ability to implement favorable policies and the flexibly to adjust them to meet new conditions. Lastly, factors restricting the state's maneuverability are explored in an effort to isolate the state's intentions.

2. EXPORT-ORIENTED INDUSTRIALIZATION POLICIES IN THE PHILIPPINES

1) Historical Background of EOI in the Philippines: Problems of ISI

Following the second world war, the Philippines began to industrialize the country by adopting ISI. In order to deal with international payment difficulties, import controls were introduced in 1946. These controls played a role in protecting domestic industries from international competition and served to stimulate them. Thus, import controls were continued in 1960 as a cornerstone of ISI[2]. Under these controls, imports were restricted in accordance with 'essentiality criterion.' Consumer goods were afforded the greatest protection, while imports of capital goods and intermediate goods were not strongly restricted.

The central government gave local 'new and necessary' industries tax exemption and inexpensive lines of credit. The promotion of the Filipinization of the economy restricted foreign capital. As a result, through national policies

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[2] Under the Republic Act 426 of 1950, the Import Control Board was in charge of import control, and after 1953 when the Act expired, the Central Bank controlled imports through foreign exchange control (Fukushima 1990,p.7; Datta-Chaudhuri 1981,pp.64-5).

promoting industrialization, local entrepreneurs invested in highly-protected consumer goods industries. An important exception to this policy of national industrialization was the United States. The Bell Act, which guaranteed U.S. citizens parity rights for exploitation of natural resources and all kinds of investment in the Philippines, was passed through U.S. Congress on condition of Philippine Reconstruction Act in 1946 (Fukushima 1990,p.6). An amendment to the Bell Act was the Laurel-Langley Agreement in 1955.

ISI soon faced its limitation. The main reason for the stagnation was the small domestic market caused by the highly unequal social structure in the Philippines. Spanish and U.S. colonial systems created an unequal social structure in which power and wealth were concentrated in the hands of few. This social structure was maintained after the independence[3]. As a result, the Philippine domestic market was too small to promote further ISI. Furthermore, local elites who engaged in ISI were rent-seeking entrepreneurs and their main interest was to get government protection rather than to furthered ISI in minimally protected sectors such as capital and intermediate goods industries. The development of a consumer goods industry without attendant growth of capital and intermediate industries increased the importation of these goods. In addition, the overestimated exchange rate proved to

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[3] According to Bello et. al., 5% of the population controlled 25% of the national income (1982,p.129).

be a distinct disadvantage for exporters. As a consequence, international payment was further aggravated. By the 1960s, the industrial growth stagnated and unemployment increased.

In 1960, the government tried to cope with the difficult situation and took liberalization policies: the government abolished import and exchange controls and devalued the Philippine peso. The International Monetary Fund (IMF) provided a loan of $300 million to facilitate liberalization. However, because of the pressure from local elites, the government used tariffs as an alternative to import and exchange controls. While tariffs were low on capital goods and intermediate goods, consumer goods industry remained protected by high tariffs. Thus, the local industrial structure, in an already overcrowded consumer goods sector marked by poor capital and intermediate industries, did not change. To make matters worse, the devaluation of the peso increased import prices and swelled repayments of foreign loans, causing bankruptcy of many small enterprises (Bello et al. 1982,p.132). Fundamental problems, that is, a small domestic market caused by the inequitable income distribution and powerful rent-seeking conglomerates, essentially remained the same. In short, the Philippine government failed to break the limitation inherent within ISI. Consequently, the Philippines continued to suffer from high unemployment, economic inequality, a low standard of living, rampant inflation, and large deficits. Another industrialization strategy was clearly needed.

2) EOI in the Philippines: Purposes and Strategies

(a) the 1970s: EOI with ISI

Under the auspices of the Marcos regime dating from the mid 1960s, industrialization policies were reordered to encompass export-oriented industries which would use domestic materials. ISI-type policies were retained for the intermediate and capital goods sectors. In general, Marcos' policies were intended to instill greater economic stability, increase employment, and promote more equitable income distribution by encouraging labor-intensive industries as well as the regional dispersion of industries (Espiritu 1976,p.4; Fukushima 1990,p.20). EOI was especially important because it could improve international payments and increase employment[4].

The important point here is that EOI was intended to promote industrialization by inviting TNCs in to set up export-oriented industries. To this end, restrictions on foreign investments were loosened, especially those concerned with export industries. Pioneer projects and export industries, for example, were allowed 100 percent foreign ownership. Foreign investments were intended as a main force in the promotion of EOI in accordance with the belief that

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[4] Philippine Congress was composed of local elites who benefited from ISI and it was against EOI which might undermined their privileges. Therefore, real EOI began after Marcos proclaimed Martial Law and dissolved the Congress in 1972.

TNCs had modern technology, management skills, and access to international markets and finance, all of which the Philippines lacked. In this way, the Marcos government hoped to unleash the various positive influences of TNCs on the national economy in the following ways:

(1) TNCs export-industries were to help solve the international payment problem. TNCs would increase exports while foreign direct investments were expected to compensate for the capital shortage and reduce the need for foreign loans.

(2) Through TNCs, some technology and skills might be transferred which would stimulate growth and upgrade local industries. In this way, it was anticipated that the deadlock of ISI could be overcome.

(3) The employment effect was another impact that TNCs were considered to contribute to. The relocation labor-intensive industries by TNCs would employ thousands of otherwise unemployed workers. Aside from issues of employment generation, the relocation of industries could improve the low standard of living and the unequal distribution of incomes.

Various factors also underlay Marcos' decision to undertake EOI-oriented development. The most pressing reason was to break the deadlock of ISI and duplicate the rapid economic growth of Taiwan and South Korea. This aspect roundly appealed to Filipino technocrats and made them believe that EOI could be the solution to Philippine problems.

International recommendations for EOI came from the IMF which pressed EOI on Marcos as a remedy for the lack of foreign currency. The U.S. as well was worried about protectionism in the Philippines and pressed its government to liberate the economy (Bello et. al. 1982,p.138). At the same time, in response to increased global competition, TNCs sought places in which they could utilize cheap labor. Technological progress had made it possible to relocate labor-intensive production processes overseas.

In order to promote EOI, the Philippine government enacted the Investment Incentives Act (Republic Act (RA) 5186) in 1967 and the Export Incentives Act (RA 6135) in 1969. The Investment Incentives Act gave various incentives to pioneer and non-pioneer projects,[5] and export industries. Its main incentives were: (1) tax deduction on organizational and pre-operating expenses; (2) accelerated depreciation; (3) carry over of operating losses; (4) tax exemptions on imported equipments; (5) tax credit on domestic equipments and on interest payments; (6) exemptions from capital gain tax and from all Internal Revenue taxes except income tax; (7) employment of foreign nationals; (8) deduction for labor training expenses. As for export industries, there were additional incentives such as double deduction on promotional

[5] Pioneer projects were those whose products are not commercially manufactured or uses new technology or process in the country. Non-pioneer but preferred projects were those activities are not pioneer, but for which additional capacity is deemed necessary. (Espiritu 1976,p.7)

activities and on shipping costs as well as special tax credit on raw materials. The Export Incentives Act provided: (1) reduced income taxes for the first five years; (2) exemptions from export taxes; (3) tax credit on raw materials and semifinished produce used in the manufacturing of exports for a period of ten years, in addition to incentives which provided by the Investment Incentive Act. (Espiritu 1976,pp.8-9; Data-Chaudhuri 1981,p.67; Fukushima 1990,p.23). The Board of Investments was established as an institution to manage these two acts. Although there were certain reservations about some incentives, the basic content remained and these two laws provided the foundation of EOI in the Philippines.

The operationalizing of these measures produced the first Export-Processing Zones (EPZs) in Bataan in 1972, and another in Mactan and in Baguio in 1979. EPZs allowed 100 percent foreign ownership. Moreover, enterprises in EPZs could get various privileges such as tax exemptions on imported raw materials and equipment, exemption from the export tax and from municipal and provincial taxes, tax credits on domestic capital equipment, accelerated depreciation of fixed assets, the priority of foreign exchange allocations for imports, and low rents for land and water (Bello et al. 1982,pp.140-1).

The availability of an educated and, above all, compliant, labor force proved the ultimate selling point in the Philippines efforts to attract TNCs. As a result, the government firmly oppressed all labor movements and held real wages low. In the case of Japanese companies, for example, important factors for investments were political and economic stability; an acquiescent labor force with no aggressive union activities; domestic resources which could by utilized, partners for joint ventures; and infrastructure facilities (Sunvictores 1988,p.121; Kobayashi 1992,p.88). In light of investor needs, Presidential Degree 823 restrained wages and banned strikes in 'vital industries,' which included export-oriented industries. The Philippine Labor Code admitted 'preventive suspension' which meant that employers were allowed to suspend workers deemed as dangerous to their profits. Labor organizations were summarily restricted and unions remained as such in name alone. During the Martial Law, it was not unusual for the military to intervene in strikes (Bello et. al. 1982,p.143). At the end of 1970s, the minimum wage and cost-of-living allowances were raised, but labor-intensive export-oriented industries such as garment and electronics were excluded from these economic benefits (Bello et. al. 1982,p.159).

Foreign investments, on the other hand, were not welcomed in the domestic-market-oriented industries which Filipino entrepreneurs had already developed. The Foreign Business Regulation Act (RA 5455) in 1970 explicitly restrained TNCs in these industries. Furthermore, the government continued to protect domestic markets for local enterprises in spite of opposition from both the IMF and World Bank. Although Marcos advocated the dismemberment of traditional conglomerates, his activities merely resulted in the replacement of the previous owners with his 'cronies.' Additionally, import controls were reopened in 1969 with the Central Bank in charge. The bank subsequently erected tariffs in order to further protect the struggling domestic consumer goods industry. Average real protection rates of consumer goods in 1965, for example, was 70 and this rose to 77 in 1974, while that of intermediate goods was 27 and 23 respectively, and that of capital goods was 16 and 18 (Nohara 1987,p.96).

In short, EOI was promoted through TNCs, but export-oriented industries were separated from domestic industries. Consequently, the domestic industrial structure remained the same.

(b) the 1980s: EOI under Structural Adjustment Program (SAP)

International stagnation from the end of the 1970s onward saw a substantial rise in interest rates, making it difficult to borrow from abroad. The Philippines, which promoted industrialization through its reliance on foreign funds, faced tremendous difficulties in securing capital. International stagnation made it difficult for the Philippines to increase exports rapidly as they had during the 1970s. As a result, the Philippines faced financial and economic crisis. Therefore, the government had no alternative but to accept SAP from the World Bank in order to borrow money in the 1980s.

The World Bank was upset with Philippine protectionism and SAP forced the Philippines to liberalize their economy and remove market distortions. The Philippines was also pressured into continued alliance with TNCs. The revitalized program of EOI included tariff reform, cancellation of import controls, and export promotion.

Evidence of international pressures exerted by the international community are readily observable in such legislation as the Five Year Tariff Reform Program (Executive Order 609) imposed a nominal minimum tax rate which raised the minimum from 0 to 50 percent and lowered the maximum tax rate from 100 to 50 percent between 1981 and 1985. The average tax rate was also reduced from 45 to 28 percent. These reforms had an effect on dismantling protection for domestic industries (Fukushima 1990, p.31).

As for import control, SAP required liberalization of prohibited items and most of the restricted items by 1985. The liberalization was interrupted, however, by political and economic crises in 1983, but Aquino regime quickly reinstituted them. By 1988, the liberalization was, for the most past, completed (Fukushima 1990,p.32).

The most important point in the SAP was export promotion, especially goods exported through TNCs. The Philippine government tried to establish additional 100 bonded manufacturing villages, 12 more EPZs[6], and 12 accredited trading companies in order to provide further facilities to export-oriented industries. Industries, especially those enjoying 'comparative advantage' like garment and electronics industries, soon became objects for special support and the Board of Investments prepared promotion programs to attract these industries in unprecedented numbers (Ofreneo and Habana 1987,p.27). Moreover, Executive Order 815 in 1982 gave additional tax incentives to export industries and made it easier to import spare parts and accumulate profits (Ofreneo and Habana 1987,p.32). The New Investment Incentives Act (RA 391) in 1983 simplified incentives, while it simultaneously strengthened incentives for export industries. Export-oriented small and medium firms were encouraged to promote international subcontracting. They were further encouraged to build linkages with large TNCs in order to obtain financial and technical assistance (Ofreneo and Habana 1987,p.32).

The Marcos administration also curried the interest of TNCs through special legislation. Incentives specific to TNCs were outlined in 1982 by Presidential Degree 1892 which admitted 100 percent foreign ownership in the non-pioneer sector. Presidential Degree promulgated in 1983 reduced the

[6] Because of the economic crisis, government could not afford to build 12 EPZs but only one in Cavite in 1983. The rate of the operation of EPZs are not so high mainly because of problems of infrastructure. So, to increase of the use of existing EPZs rather than to construct new EPZs is the present direction of the policy (Kobayashi 1992).

minimum amount of investment to obtain a special Investor's Resident Visa from $200,000 to $75,000.

The overriding interest of the government, however, lay in labor control and keeping low wages. In spite of strict labor laws controlling the right to strike, repeated strikes during the latter 1970s forced the government to admit the right to strike in 1981. The government, nonetheless, preserved the right to intervene in any labor dispute deemed potentially disadvantageous to the 'national interest.' The Ministry of Labor was given the power to control strikes in EPZs (Bello et. al. 1982,p.159). Executive Order 815 in 1982 also certified the government with the right to intervene in labor disputes (Ofreneo and Habana 1987,p.32).

While the Marcos government further promoted export-oriented development under SAP, it tried to deepened national industrialization. In this vein, the government announced Major Industrial Projects which included 11 projects designed to develop capital-intensive industries[7]. However, because the government did not have sufficient capital for these projects, they were forced to solicit funds from foreign direct investors. Given the political instability in the Philippines at this time, international capital proved

[7] These were a copper smelter, an aluminum smelter, a phosphate fertilizer plant, diesel-engine manufacturing, cement industry expansion, coconut industry nationalization, an integrated pulp and paper mill, petrochemical complex, a heavy engineering industry, an integrated steel project, and alcogas production (Bello et. al. 1982,p.149).

reluctant in lending capital to the Philippines. Consequently, about half of these projects never materialized while three of them ran into fiscal troubles.

The Aquino regime from 1986 onward succeeded in continuing EOI policies under the guidance of the World Bank and IMF. In fact, the IMF provided a $519 million loan in 1986 to further support EOI programs. Because of the restriction by GATT, however, the Philippines had to abolished some of its incentives used to attract export industries. Labor control, nevertheless, remained an important cornerstone of EOI. Government policies promoted micro, cottage, small, and medium enterprises by encouraging international subcontracting and by providing some finance to national industries. The Trade Training Center was also established in order to offer technological supports to national industries (Sakai 1989,pp.40-4; NEDA 1989,pp.202-3).

During Aquino era, both EOI and liberalization was forwarded, but there were still strong pressure from local elites to protect their privileges[8]. For them, to make personal relations with president was effective way to get profits rather than to promote industrial reform (Fabella 1989,p.237).

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[8] Under Aquino regime, traditional elites who were robbed of their assets by Marcos restored their power.

3. IMPACTS OF TNCS UNDER EOI

In this part, I analyze Philippine society under EOI by looking at garment and electronics industries which grew rapidly through the presence of TNCs. The garment and electronics industries were by far the main export-oriented ventures operating in the Philippines. Exports of non-traditional goods increased under EOI and the share of non-traditional exports rose from 8.3 percent in 1970 to 55.5 percent in 1984 (Table 1). It is no exaggeration to say that this growth was fueled by the rapid increase in garment and electronics exports: the share of these two exports alone in non-traditional exports was about 30 percent in 1975. In the 1980s, however, they exceeded 60 percent (Table 1). TNCs took the lead role within these industries.

It is neither possible nor necessary to analyze the impacts of TNCs on all spheres of Filipino economic life. For the purposes here, I examine TNCs in the Philippines from four perspectives.

(1) Contribution to international payments: One of the expressed purposes of EOI is to increase exports and thus to reduce deficits in international payments. TNCs were expected to contribute to this purpose. The analysis of the effects of

Table 1. Export: 1970-1984 (in million dollars)

	garment (1)	electronic (2)	non-tradition (3)	total (4)	(1)/(3)*100	(2)/(3)*100	(3)/(4)*100
1970	36.2	0	94.5	1142.2	38.31	0.00	8.27
1973	58	22	226.8	1886	25.57	9.70	12.03
1975	107	78	573.9	2294	18.64	13.59	25.02
1979	405	589	1519.6	4601	26.65	38.76	33.03
1980	501	869	2106.8	5788	23.78	41.25	36.40
1981	616	1072	2571.7	5722.2	23.95	41.68	44.94
1982	540	1186	2460.8	5020.6	21.94	48.20	49.01
1983	544	1052	2547.2	5005	21.36	41.30	50.89
1984	603	1329	2991.3	5391	20.16	44.43	55.49

Sources: Nohara 1987,pp.98-9; Ofreneo and Habana 1987,p.15,57,67; Fukushima 1990, p.314, pp.318-9.

Table 2. Garment Trade: 1970-1984 (in million dollars)

	total (1)	consigned (2)	imports* (3)	consigned(%) (2)/(1)*100	imports(%) (3)/(2)*100
1970	36	36	35	100.00	97.22
1971	35	35	35	100.00	100.00
1972	39	36	n.a.	92.31	n.a.
1973	58	47	47	81.03	100.00
1974	94	71	66	75.53	92.96
1975	107	74	59	69.16	79.73
1976	185	105	115	56.76	109.52
1977	250	137	100	54.80	72.99
1978	327	167	127	51.07	76.05
1979	405	188	130	46.42	69.15
1980	501	222	148	44.31	66.67
1981	616	269	195	43.67	72.49
1982	540	235	155	43.52	65.96
1983	544	227	145	41.73	63.88
1984	603	365	234	60.53	64.11

Source: Nohara 1987,p.99.

*"Imports" indicates imported materials for consigned manufacturing.

TNCs contribution to international payments is therefore an important consideration.

(2) Local backward and forward linkages: The positive impacts of TNCs assumes larger proportions when they provide local backward and forward linkages. Without these linkages, the impacts of TNCs on local industries remains very limited. Many authors argue that the contributions to national industrial development remain marginal without significant local backward and forward linkages and subcontracts (Higuchi 1980; Watanabe 1984, etc.). TNCs are not only expected to increase exports through their own firms, but also to stimulate the development of local industries. Thus, how TNCs create local linkage is an important point to be examined.

(3) Employment effects: The reduction of unemployment has always been an important component justifying EOI policies and is a major reason governments encouraged TNCs to relocate labor-intensive to their shores. The impact on employment is thus a crucial consideration. However, when we consider impacts on employment, we should examine not only the number of workers but the working conditions as well. If the working conditions deteriorate, we cannot regard employment opportunities as necessarily positive, even when employment increases.

(4) Skills and technology transfer: As modernization theorists suggest, skills and technology are indispensable for industrial development since they can be responsible for

productivity increases. Host governments hope to acquire certain skills and technology through foreign direct investments. Whether skills and technology are effectively transferred or not, however, is an important indication of effectiveness of state policies in controlling TNCs. Other considerations include production, management, marketing skills.

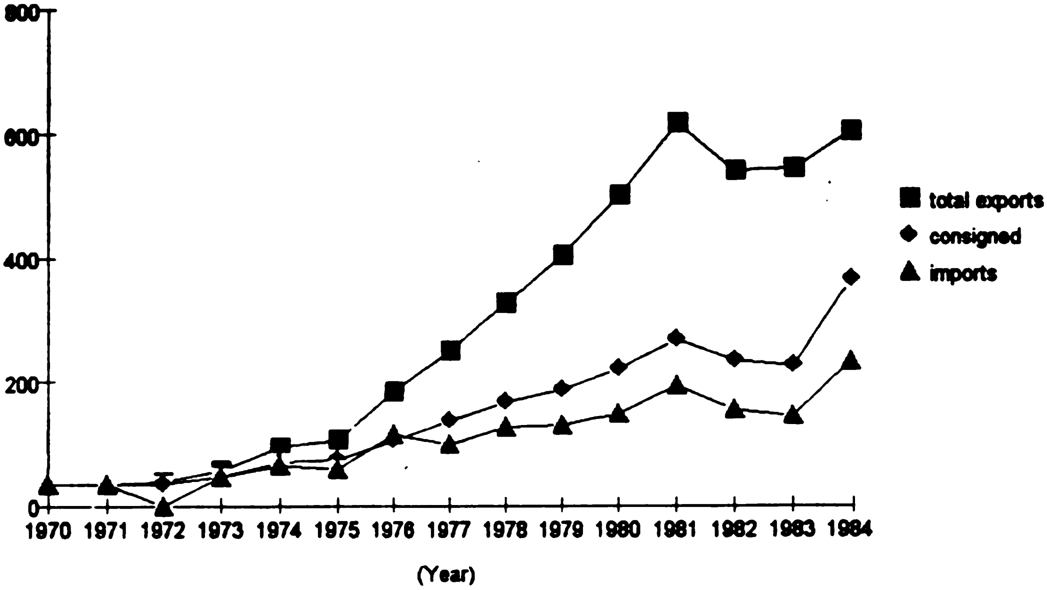
These four also comprise important indicators from the viewpoint of the expectations of TNCs under EOI policies.

1) Garment Industry

Before the 1960s, garment production in the Philippines relied on household-based tailors and dressmakers. It was only after the 1970s when the Philippines adopted EOI policies that garments became one of the leading non-traditional export products. The garment industry grew rapidly as a result of various incentives for export industries (Figure 1). In addition, quota system based on Multi-Fiber Agreements[9] helped support garment exports from the Philippines. In fact, most garment products were exported by this quota system to several countries, especially, U.S. In 1987, for example, 92 percent of garment exports went to the quotas of numerous countries and among them, 70 percent went to U.S. (Aldana 1989, p.55).

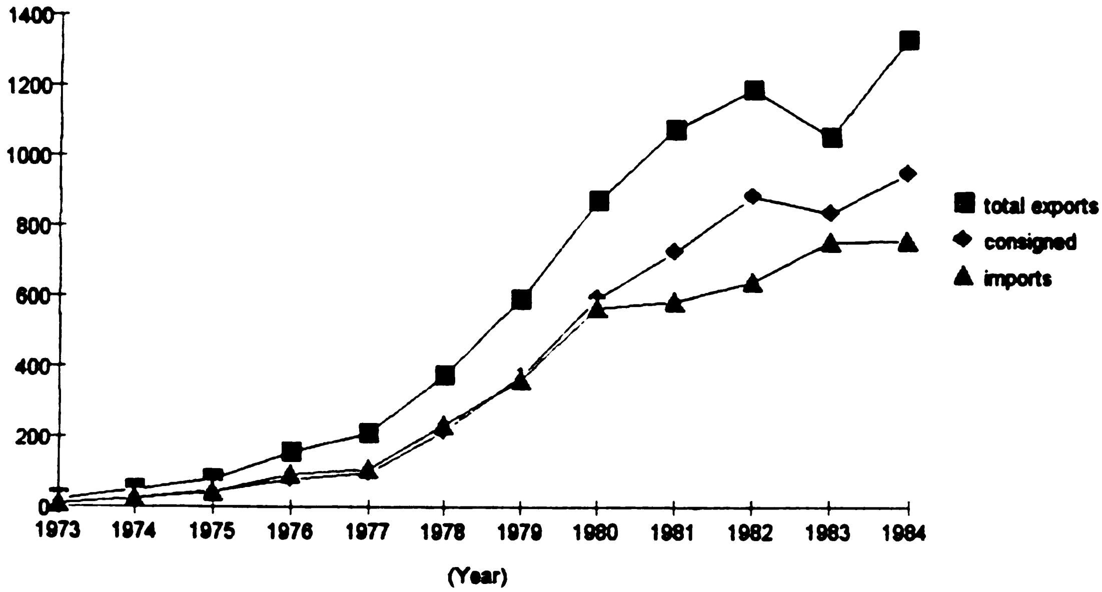
[9] The agreements specified the quality of garment and textile exports from Third World countries to advanced countries. So called 'quota' countries are U.S., 10 EEC countries, Norway, Sweden, Austria, and Canada (Aldana 1989,p.24).

Figure 1. Garment Trade (in million dollars)



Source: Table 2.

Figure 2. Electronics Trade (in million dollars)



Source: Table 3.

In short, the Philippine EOI and the U.S. quota for Philippine garments were two main factors which caused TNCs to establish plants in the Philippines.

(a) contribution to international payments

TNCs were the main actors promoting garment export. TNCs controlled almost 50 percent of the garment firms and about 50 percent of garment export in the Philippines. Among the top 20 firms which accounted for 43 percent of the exported garments, only two were totally locally-owned firms (Nohara 1990,p.212, p.218). Local garment exporters were, in the main, subcontractors of TNCs.

The typical pattern of garment export by TNCs was consigned manufacturing: TNCs in the Philippines imported raw materials for processing from parent companies and re-exported almost all products. According to the investigations of Kobayashi (1992), most Japanese garment companies in EPZs imported nearly 100 percent of their raw materials and re-exported them immediately after processing. TNCs only relocated labor-intensive production processes such as cutting, embroidery and sewing into the Philippines, imported raw materials, and re-exported most products. As previously mentioned, the Investment Incentives Act, Export Incentives Act, and EPZs provided various incentives to TNCs which engaged in export-oriented industries so that TNCs in the garment industry could easily operate such consigned manufacturing under the 'new international division of labor.' As a result, imported materials for consigned manufacturing increased, but without the Philippine generating additional revenues through payments of import fees. On the average, from 1970 to 1984, the cost of raw materials accounted for about 80 percent of the amount of consigned manufacturing exports[10] (Figure 1, Table 2). Under TNCs, garment exports increased dramatically, but raw material imports accompanying the export reduced foreign exchange earnings. Hence, the contribution of TNCs in improving international payments proved smaller than expected.

(b) forward and backward linkage[11]

Despite the dramatic increase in garment exports, strong backward and forward linkage were never forged with other local industries. This occurred, in part, because the TNCs engaged in consigned manufacturing. As a result, TNCs maintained stronger ties with their parent companies in advanced countries than with local Philippine industries. The TNCs did not have to make forward and backward linkages with local industries because the parent companies provided most raw or unfinished materials and shipped the garments out immediately after they were completed. The main purpose of

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[10] However, the share of the cost of imported materials tended to decline (Table 2).

[11] Here, I mainly look at linkage between TNCs in export-oriented garment industry and local textile industry.

TNCs was to utilize cheap labor in labor-intensive processes such as cutting, sewing, and embroidering in order to reduce production costs. They were not interested in forging local linkages and instead preferred to use imported materials which were cheaper and of higher quality than domestic products.

Moreover, as Broad indicates (1988), local value added to the finished garments was low. For example, the value added in 1979 amounted to 44 percent and included on the labor cost (p.192). This figure may not at first appear low, but under consigned manufacturing, especially under conditions in the Philippines, it must be remembered that the value added is in the form and expense of extremely cheap labor and thus is actually minimal.

Additionally, government incentives allowed TNCs to import textiles duty-free which relegated the Philippines to merely a cite of consigned manufacturing. Government incentives succeeded in attracting TNCs, but failed to encourage them to create local ties. It was only in 1985 that the government recognized the necessity to persuade TNCs to create local linkages and obligated garment exporters to use local contents of up to 35 percent (Ofreneo and Habana 1987,p.123).

Other problems hampered the domestic textile industry. Reliance on high government protection did not produce intended results; its products were high priced but of low quality. Moreover, the domestic industry lacked the capital necessary to introduce new machinery to increase productivity. Consequently, the industry was constantly plagued by low productivity which prevented it from effectively competing with the increased demands of the export-oriented garment industry.

Liberalization of textile imports under SAP further weakened the domestic industry. The Textile Industry Modernization Program, launched with $157 million provided by the World Bank, failed to achieve the purpose stabilizing the local industry. Under the program, local firms had to provide and invest 30 percent of the costs of modernization in order to secure a loan from the agency. The burden proved too great for them when the demand for local textiles declined and interest rates rose (Ofreneo and Habana 1987,p.129). The domestic textile industry just could not compete against imported textiles and the industry continued to decline. In fact, the number of workers employed in the domestic textile industry in 1982 fell to only 68 percent of that in 1980 (Broad 1988,p.126). Consequently, local textile industries found in increasingly difficult to provide a sufficient supply to the foreign-controlled garment industry.

In addition, protectionist policies in the developed countries from the end of 1970s further prevented the Philippines from developing a textile industry. Multi-Fiber Arrangements controlled quotas in developed countries and restricted exports of textiles and garments from developing countries increased restricted items so that it became difficult for the Philippines to establish a large-scale textile industry (Broad 1988,p.181, p.193; Aldana 1989,p.24).

On the other hand, local large-scale garment enterprises hesitated to engage in competition with TNCs because they could reap huge benefits from government protection in their own domestic market. It was much easier to ask the government to protect them rather than to expand into exports. As a result, most local enterprises in this area remained small-scale enterprises and in most case, they were subcontractors of TNCs.

Such an economic structure as evidenced by the export-oriented garment industry, with weak local linkages, could not effectively stimulate local industries. Although the TNCs relied on consigned production, local garment manufacturers on their own could not effectively cope with changes in international demand and protectionism which rose within developed countries in the 1980s.

(c) employment effects

In terms of number, TNCs did increase employment. Export-oriented garment enterprises were usually large-scale and each firm employed approximately 800 people on the average; the domestic garment firms usually employed less than 10. It is estimated that TNCs employed about 47 percent of about 214,000 garment factory workers (Nohara 1990,p.212).

However, the number of workers who were directly employed in TNCs was relatively small and most workers were employed under subcontracting. According to Pineda-Ofreneo, from 450,000 to 500,000 workers, mostly women, were employed on a subcontracting basis (1984,p.351). Because they were considered as cheap and 'docile' workers who had 'nimble fingers,' and they were considered as just 'secondary' money earners for their families, TNCs preferred to employ women.

Figure 3 shows the structure of subcontracting in the garment industry. In general, the working conditions in TNC factories are considered better than those of domestic industries. However, working conditions for domestic outworkers, those who undertook most of the garment production, were worse than those of TNC firm workers. In general, these workers lacked social security and social welfare; employment was insecure; wages were low[12] and were piece-work, and real wages were even decreased (Pineda-Ofreneo 1984,p.355). Severe competition between subcontractors also worked to drive labor costs down as the price paid for piece-work declined, and with it a lowering of wages for domestic outworkers (Ofreneo and Habana 1987,p.120).

The problem of poor working conditions of domestic outworkers also prevented TNC firm workers from improving their working conditions. If firm workers complained about

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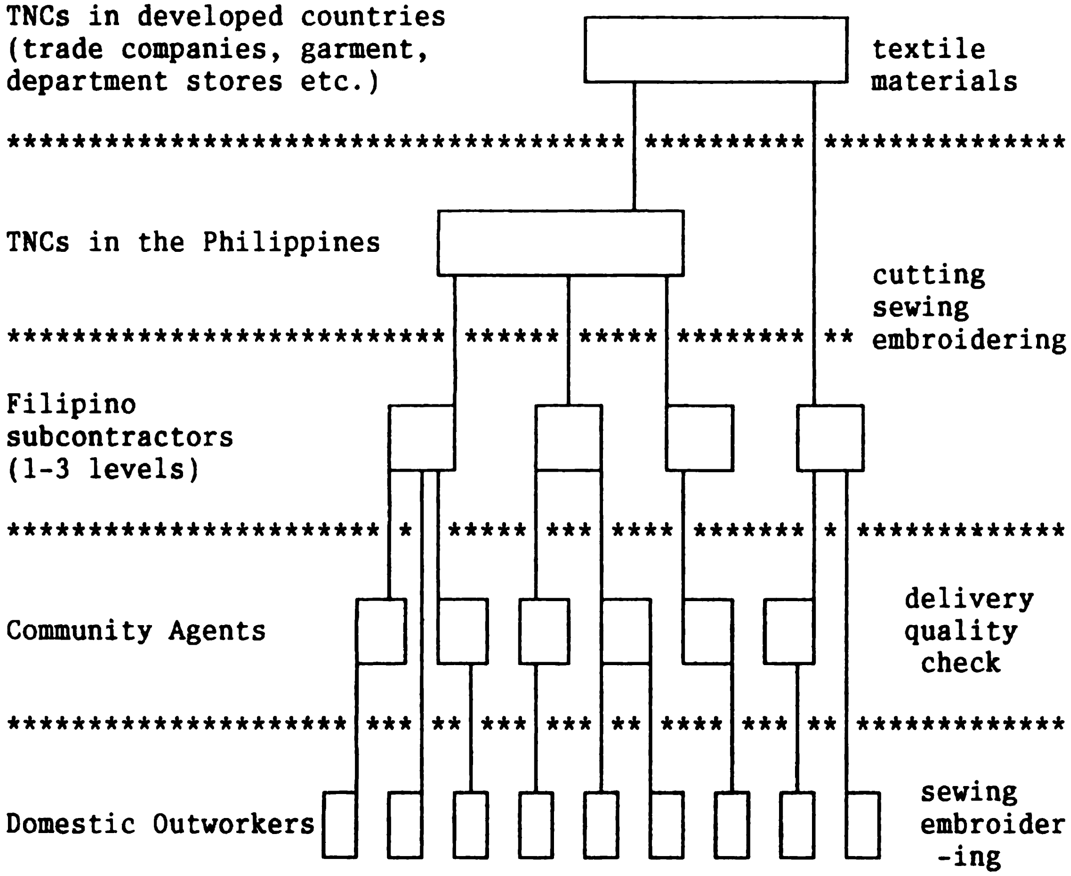
[12] Domestic outworkers' wage for one piece was one fifth of that of first level subcontractors (Pineda-Ofreneo 1984,pp.357-359).

Figure 3. The Subcontracting Structure in Garment Industry



Sources: Pineda-Ofreneo, *Subcontracting in Export-Oriented Industries: Impact on Filipino Working Women*, 1984, pp.357-250, Institute of Industrial Relations, *The Employment Crisis and the World Bank's Adjustment Program*, 1987, pp.118-119, and Aldana, *A contract for Underdevelopment: Subcontracting for Multinationals in the Philippine Semiconductor and Garment Industries*, 1989, p.49.

their working conditions, the TNCs could threaten to take their jobs and let domestic outworkers do them (Pineda-Ofreneo 1984,p.366).

Moreover, government policies designed to oppress union activities and hold wages low aggravated real wages as well as working conditions. The garment industry, as one of the most important export-oriented industries, required inexpensive and compliant labor. Without this, TNCs would simply look elsewhere. Labor control, as the primary point of attraction for TNCs, was thus the key to a 'healthy' garment industry. Not surprisingly, labor laws were strictest in this sector of the economy than in any other domestic industries. The government did not try to protect workers from exploitation, but rather sacrificed workers in order to attract TNCs to the export-oriented garment industry.

(d) skills and technology transfer

The technology and skills transferred to the Philippines by TNCs was minimal since the labor-process required simple activities such as such as cutting and sewing. Nor did TNCs, given the type of activities, have to provide special training programs for workers. As for managerial skills, most TNCs in the garment industry engaged in consigned manufacturing, and it made them dependent on parent companies for raw material, design, and marketing. This kept the demand for local managerial skills quite low. Compared to training programs for workers, however, TNCs did place an emphasis on training of Filipino managers. According to Kobayashi (1992), the Japanese TNCs felt it to be important to raise managers' skills and he found two Japanese garment companies which sent Filipino staff to Japan for job training.

Government policies should also be held accountable for the relatively poor achievement of TNCs in terms of skills and technology transfer. The government tried to attract TNCs in export-oriented industries, but it did not urge them to upgrade their industries. The Technology Transfer Board, whose primary role was the promotion of technology transfer, did not require TNCs to establish research and development (R&D) which is significant element for effective technology transfer. This resulted in only marginal transfers of technology. For example, technological agreements between TNCs and local enterprises aimed at technology transfer, but their effects were doubtful since of the transfers simply involved permission to use licenses and agreements (Aldana 1989,p.70, pp.196-7). The technical know-how or marketing agreements remained firmly in the hands of the TNCs.

2) Electronics Industry

The growth of the electronics industry in the Philippines began in the middle of the 1970s. Its growth stemmed largely from the semiconductor industry. Under EOI, electrical and electronic equipment and components, along with garments, became the primary non-traditional exports. The growth rate of electronic exports exceeded that of garment, and by the end of the 1970s, it overtook the latter in terms of volume (Table 1). This growth was due to government incentives based on EOI. The government established the Electronic Local Content Program and support electronics industry which was intended to increase manufacturing exports of these items. Severe competition between TNCs in the 1960s, especially between American and Japanese TNCs, forced them to relocate labor-intensive processes to industrializing countries such as Latin America and East Asia where TNCs could avail themselves of cheap labor. The rise of production costs, including the increase of wages, in Asian NICs in the 1970s encouraged these TNCs to relocate firms from Asian NICs into ASEAN countries like the Philippines where wages were low and various government incentives appealing.

The following analysis will focus mainly on the semiconductor industry since the involvement of TNCs evidences its greatest impart here.

(a) contribution to international payments

Without question, TNCs are the main actors for the production of semiconductors in the Philippines, especially American TNCs and the local subcontractors. Interestingly, the local subcontractors established firms in the Manila Metropolitan area while the former built subsidiaries in EPZs, mainly in Baguio and Cebu (Fujimori 1990,p.252). The share of this industry held by TNCs tended to increase; in 1977 some 18 percent of firms were TNCs and by 1980 this number increased to 65 percent (Ofreneo and Habana 1987, p.102). It is no exaggeration to say that the rapid growth of the semiconductor industry coincided with the arrival of TNCs, especially American TNCs. In 1985, the share of American TNCs of the production of semiconductors was 60 percent and that of the exports was 70 percent (Fujimori 1990,p.253). According to Ernst, the dependence on foreign investment by the Philippines was very high, even when compared with other East and Southeast countries (1985,p.340).

TNCs contributed to the increase of electronics exports but, like the garment industry, consigned manufacturing was the main form of electronics production. In the semiconductor industry, we can see the extreme case of consigned manufacturing. In the semiconductor industry, the production of semiconductors is divided into four processes: circuit design and mask-making; wafer fabrication/ diffusion; chip assembly; and testing. The first two are capital-intensive and required high technology. Consequently, they usually are located in developed countries. The latter two are low skilled labor-intensive processes and thus are candidates for relocation to industrializing countries in Asia and Latin America. In the Philippines, TNCs moved only chip assembly which is the most low skilled labor-intensive process. TNCs and local subcontractors of TNCs in the Philippines imported wafers from parent companies and were concerned with assembling chips and exporting them to developed countries or Asian NICs which had testing process. Thus, the more TNCs came into the Philippines, the more the Philippines engaged in consigned manufacturing of electronics, and the more it had to import raw materials for assembly. According to Kobayashi (1992), the typical pattern of Japanese electronics companies in EPZs was to import 100 percent of the required raw materials and to export 100 percent of the finished products. In addition, the rate of consigned manufacturing tended to significantly increase over time in the electronics industry (Table 3, Figure 2).

Electronic exports necessitated the import of raw material. Overall, the share of imports of raw materials was very high and its average was about 95 percent of the total amount of the export between 1973 and 1984 (Table 3). Like the garment industry, the rise of the electronic industry did little to ameliorate the chronic deficit problem plaguing the Philippines. Overall, the contribution of this industry to foreign exchange earnings were much smaller than the amount of exports.

(b) forward and backward linkage

Like the export-oriented garment industry, TNCs and local subcontractors of TNCs in semiconductor industry undertook

Table 3. Electronics Trade: 1973-1984 (in million dollars)

	total (1)	consigned (2)	imports* (3)	consigned(%) (2)/(1)*100	imports(%) (3)/(2)*100
1973	22	10	9	45.45	90.00
1974	49	25	25	51.02	100.00
1975	78	45	42	57.69	93.33
1976	157	77	93	49.04	120.78
1977	211	97	109	45.97	112.37
1978	375	215	233	57.33	108.37
1979	589	372	363	63.16	97.58
1980	869	590	566	67.89	95.93
1981	1072	724	584	67.54	80.66
1982	1186	880	638	74.20	72.50
1983	1052	834	753	79.28	90.29
1984	1329	948	755	71.33	79.64

Source: Nohara 1987,p.98.

*"Imports" indecates imported raw materials for consigned manufacturing.

Table 4. Real Wage-Rate Index in Manila and Suburbs (1972=100)

	Skilled Laborers	Unskilled Laborers	Salaried Employees
1965	115.2	102.7	119.3
1970	114.4	111.6	109.7
1971	105.1	104.1	103.0
1972	100.0	100.0	100.0
1973	92.4	90.0	96.6
1974	75.6	72.8	79.5
1975	72.7	72.9	82.4
1976	71.2	72.3	86.7
1977	72.9	70.4	-
1978	76.1	68.4	-

Source: Robin Broad, *Unequal Alliance: the World Bank, the International Monetary Fund, and the Philippines*, 1988, p.120.

consigned manufacturing, and consequently did not develop forward and backward linkages with local industries significantly. Although Scott (1987) considers the appearance of testing process activities in the Philippines to be an indication of a forward linkage, Broad (1988) insists that it was not part of mainstream activities. Moreover, Henderson (1989) finds that although the Philippines was one of the main bases of the American semiconductor industry in Asia, plants which were relocated in the Philippines was assembly plants; there were no plants for the production of wafers. Broad also points out that the value added in the Philippines was low. I 1978, for example, the value added for electrical equipment and components was a mere 13 percent (1988, p.192). TNCs simply utilized the Philippines as a place for assembly and did not create strong linkages with local upstream and downstream sectors.

There were a number of reasons for weak backward linkages. First, oligopoly of the capital-intense processes by advanced countries such as U.S. and Japan made it impossible for developing countries like the Philippines to enter these processes and to forge backward linkages. Even when local technology improved, American TNCs did not relocate the capital-intensive processes to the Philippines but kept them in the U.S. (Scott 1987, p.148).

On the other hand, the Philippines did not have sufficient capital or a technological basis to compete with the TNCs. Moreover, the lack of industries producing raw materials such as chemicals made it difficult to establish backward linkages (Fujimori 1990, p.261).

As for forward linkages, one reason why TNCs in the semiconductor industry did not create local linkages was the stagnation of the consumer electronics and electrical appliance industries in the Philippines. They could be 'demanders' of semiconductors, but the small domestic market caused by the unequal social structure, rampant smuggling, and low government incentives for these industries prevented them from development one of their own. After SAP-sponsored liberalization, imports of consumer electronics products increased, further weakening these industries (Ofreneo and Habana 1987, p.111; Fujimori 1990, p.261) Undeveloped downstream industries could not establish linkages with TNCs and thus were not able to share in the growth of the electronics industry.

In addition, various government incentives allowed export industries to import materials and re-export products without creating linkages to local industries. TNCs received additional incentives such as a tax credit on imported materials by exporting products rather than by making forward linkages. Nor did incentives compel them to sell products to domestic industries. After SAP, export industries like electronics industry which enjoyed a measure of 'comparative advantages' could get additional incentives such as tax exemption of import spares. This tendency was promoted.

In short, TNCs merely needed cheap labor for assembling chips and were not interested in forming forward and backward linkages. On the other hand, the fledgling domestic industry, both upstream and downstream, did not have enough capacity to make linkages with TNCs desirable. Government policies promoted exports, but failed to stimulate TNCs to increase forward and backward linkages.

In accordance with the increase of TNCs, however, local subcontracting firms which were small-scale and specialized certain tasks increased. In addition, a number of tool and die and machine shops were established in order to provide services to the semiconductor industry (Scott 1987,p.155)[13]. These subcontractors and small service shops enhanced the basis of the production of electronics goods and provided conditions for international subcontracting.

(c) employment effects

In 1985, the number of people employed in the semiconductor industry was 48,968, with TNCs employing 40 to 45 percent of them (Ofreneo and Habana 1987,p.107; Fujimori

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[13] Scott (1987) sees the rise of testing process and service shops for electric industry as the growth of linkage of TNCs and local industries, but when we consider that there was no former capital-intensive high-skilled processes in the Philippines and there were weak linkage between TNCs and local downstream industries like consumer electronics industry, even linkage between TNCs and local other industries existed and it grew gradually as Scott observed, it was not strong and limited one.

1990,p.259). In terms of the number of employed, the performance of TNCs was not bad. Like the garment industry, the electronics industry mainly employed women, especially young single women. According to Bello et al. (1982), about 90 percent of the workers were women (p.144). Again, women were considered as cheap, 'docile' labor and to have 'nimble fingers' and easy to be fired because they were just 'secondary' money earners for the family.

One of the biggest problems of employment in this industry was job vulnerability. The production of semiconductors under international subcontracting was affected by the international market. As a result, workers were let go during times of economic downturns. In fact, in the middle of the 1980s, the market for semiconductors faced recession and led to the dismissal of many workers. According to Ofreneo and Habana, 5,533 workers were laid off in the semiconductor industry between January 1984 and June 1985. Two TNCs alone laid off a total of about 6,000 workers (1987, pp.107-8). TNCs were usually larger their domestic counterparts in the semiconductor industry and employed more people, but during the recession, they dismissed workers on a larger scale.

Automation of production processes also contributed to the reduction of workers. TNCs in the 1980s began to automate relatively complicated production processes (Fujimori 1990,p.263). This caused an increase in the employment of technical workers, but it greatly reduced the need for assembly line workers[14]. Ernst (1985) estimated that "a stand-alone automated bonding machine controlled by one operator typically replaces up to 30 manual operators" (p.349). The effects of automation, however, should not be overestimated since new investments in electronics brought in more employees than automation replaced (Fujimori 1990,p.263). Nevertheless, worker anxiety over job security exists.

Other serious problem for workers was health problems caused by the use of dangerous chemicals such as acids, solvents, and gases used to protect semiconductors. Workers were constantly exposed to toxic chemicals which caused nausea, lung ailments, and allergic reactions (Pineda-Ofreneo 1984, p.350; Aldana 1987, p.177). In addition, because workers must look through microscopes for long periods of time, eye problems are also common (Pineda-Ofreneo 1984, p.350). TNCs showed little consideration over the health of their employees and did not provide workers with the knowledge to avoid on the job dangers. On the contrary, TNCs imposed a heavy production quota so that workers had to work earnestly without concern for their own health (Bello et. al. 1982,p.145).

Wage conditions were also problematic. Aldana (1989) points out that although workers in this industry received better wages than many Filipinos, only the managerial class

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[14] Nonetheless, most workers in TNCs were assembly line workers (Scott 1987,p.152).

got adequate wages; 96 percent of workers received less than the minimum wage (p.172). Government policies influenced this situation. During a six month probation period, the government allowed export-oriented companies to pay only 75 percent of the minimum wage to employees. This encouraged both TNCs and local enterprises to fire workers just before the end of the probation period and re-hire them again on a probationary basis (Bello et. al. 1982,p.143). Under SAP, the electronics industry was earmarked as one of the Philippines 'vital industries' in order to promote EOI. Moreover, to quell any labor unrest, the "government could certify a labor dispute for compulsory arbitration" (Ofreneo and Habana 1987,p.32). The government shut the door on improving working conditions and thus may be held accountable for the exploitation of the workers.

(d) skills and technology transfer

Similar to the garment industry, TNCs did not transfer significant skills and technology. Since TNCs only relocated assembly processes, the skills and technology transferred were low. In addition, consigned manufacturing, typical of the operation style of TNCs, retained such activities as marketing, design, and research and development for themselves. Nonetheless, U.S. firms which introduced new machinery were more capital-intensive and employed more engineers and administrative staffs than did local subcontractors. In accordance with automation, TNCs employed more technicians (Scott 1987,p.152). Aldana (1987) insists, however, that technology transferred to local engineers were skills merely required to maintain and to repair equipment so that there was no significant impetus to upgrade the industry (p.159).

Most workers, in general, were assembly line workers. The training period for these workers was designed to decrease pay roll costs rather than for workers to master skills since probationary workers received less than the minimum wage. Moreover, automation simplified assembly line workers required very little actual training. Automation reduced the three month training period to just two weeks, although the probationary status did not alter accordingly (Fujimori 1990,p.263).

3) Summary of Impacts of TNCs in Garment and Electronics Industries under EOI

(a) contribution to international payments

Both the garment and electronics industries under the aegis of TNCs increased exports rapidly under EOI. Imports of raw materials, however, rose in conjunction with the increase of exports. As a result, for the government the costs of imports cancelled out revenues generated from exports, particularly in the electronics industry. One reason attributed to this is the oligopolistic structure of the electronic industry (especially semiconductor industry). With only a few TNCs controlling the industry and monopolizing mask-making and wafer fabrication/diffusion, the Philippines was forced to import all wafers from advanced countries like U.S. and Japan. In the case of the garment industry, the Philippines had a domestic textile industry but it was plagued with a lack of international competitiveness. All the domestic textile industry could do was to supply some of the needed raw materials.

Another problem minimizing the contribution of TNCs to the Philippines deficit was the 'new international division of labor.' In both the garment and electronic industries, TNCs relocated labor-intensive, simple-skilled processes in order to utilize cheap labor. In the garment industry, activities included cutting, sewing, embroidering and in electronics the assembling of micro-chips. The value added in both industries was low but especially so in the electronics industry.

(b) forward and backward linkage

Reliance on consigned manufacturing by TNCs did not encourage the creation of strong forward and backward linkages with local industries. Internal factors affecting linkages included the weak basis of domestic upstream and downstream industries, a small domestic market, and government policies. The domestic textile industry relied on government protection during ISI and its products were of low quality and high price. The Philippines did not have the necessary technology nor capital to create its own semiconductor industry. The domestic market remained small because of the chronic low standard of living, although rampant smuggling also prevented the expansion of an electronics industries. Government incentives to export-oriented industries allowed TNCs in the garment and electronics industries to undertake consigned manufacturing. Moreover, liberalization policies under SAP damaged domestic industries like textile and consumer electronics rather than improve these industries' productivity and effectiveness.

External factors also blunted the creation of local linkages. The purpose of relocation by TNCs was to utilize cheap labor in order to reduce costs and increase competitiveness. Hence, TNCs were never really concerned with effecting linkages and concerned themselves primarily with importing needed materials from parent companies and re-exporting finished products. Not surprisingly, linkages between TNCs in the Philippines and parent companies was much stronger than linkages between TNCs and other local industries; TNCs had little motivation to make establish local linkages.

Furthermore, the IMF and World Bank are not without blame because it was their recommendations and forceful encouragement that EOI and forced liberalization was implemented by the Philippine government. Failure to adopt these programs meant that desperately needed loans would not be forthcoming. The IMF and World Bank inspired programs placed strong emphasis on increased exports but paid little attention to forward and backward linkages. The international lending agencies desired immediate effects and did not concern themselves with long-term consequences.

The local linkages made by TNCs was not of the forward and backward variety but rather linkage through subcontracting. TNCs failed to stimulate other industries and thus did not stimulate the hoped for industrialization process. Instead, TNCs though subcontracting merely vertically integrated local enterprises.

(c) employment effects

Employment effects were also limited because of weak linkages between TNCs and local industries. TNCs did employ a large number of workers, but direct impacts associated with employment were limited. It is indirect impacts through local forward and backward linkage that make TNCs' effect on the increase of employment large. The small indirect impacts on employment prevented the improvement of working conditions. TNCs in both the garment and electronics industries mainly hired women. The indirect impact of TNCs on employment did improve employment opportunities for women. Other jobs open to women were mainly informal ones like domestic servants and hostesses. Moreover, the salary paid by TNCs was much better than that available in the informal economy, workers competed to get jobs of TNCs and had to endure hard working conditions.

In general, TNCs salary seems higher than that of other local occupations. This can be misleading, however, because in the case of the garment industry, for example, domestic outworkers did most of production. In addition, it was primarily the management-level positions that enjoyed high wages in TNCs. Torres (1979) worried that the high wages paid managers and technical experts in TNCs actually directed human capital away from local industries, further retarding their development. In the main, TNCs in export-oriented industries like the garment and electronics industries formed an enclave economy. Hence, the absorption of competent workers by TNCs was felt as a direct loss to local industries.

Labor appears the real loser under EOI. Consigned manufacturing was influenced by international market conditions so that global recessions immediately reduced employment in TNCs in the Philippines. Government policies to oppress labor movements and to hold wages low, especially in export-oriented industries like garment and electronics, worsened working conditions. They weakened workers' bargaining power and made it difficult to improve working conditions. In fact, under EOI, real wages declined (Table 4).

In order to improve working conditions, workers must be guaranteed the right of bargaining. Only when conflicts between workers and management become an obstacle to increased profits, are the demands of workers met. Kobayashi (1992), for example, mentions that as a result of the labor movement, Japanese enterprises began to employ Filipino supervisors and managers. Nonetheless, in labor movements are strongly discouraged by the government which aims to restrict bargaining power of workers and to keep low wages in order to attract TNCs. Under these condition, TNCs have little incentive to provide adequate wages and a safe working environment.

(d) skills and technology transfer

The relocation of simple-skilled, labor-intensive processes on a consigned basis in both garment and electronics industries did not transfer skills nor technology effectively. Skills required for work were relatively simple so that TNCs did not have to spend much time training its work force. TNCs in the Philippines which engaged in consigned manufacturing relied on parent companies in terms of the supply of raw material, product design, and commodity marketing, all of which negated the need to contribute to the local development of these skills. Moreover, technological protectionism in advanced countries provided an additional factor which prevented technology transfer. This tendency was explicit in the electronics industry.

In the case of Japanese TNCs, to the contrary, Filipino supervisors and managers were hired in greater numbers and an attempt was made to train them in management skills. They were considered to be useful in mediating between TNCs and workers and to reduce conflicts between them.

There were problems which made the transfer of skills and technology difficult on Philippine side. Government policies prepared an environment for international subcontracting but did not promote R & D. Efforts to train technological experts were equally insufficient. Furthermore, skilled Filipino workers sought jobs overseas because of higher wages which weakened the domestic basis for technological development. A chronic shortage of technical experts in the electronics industry in advanced countries led TNCs to relocate more skilled jobs to industrializing countries like Asian NICs, but the Philippines could not take advantage of this because of the out-migration of its skilled work force (Ernst 1985, p.345, 350).

TNCs did have positive impacts in the garment and electronics industries although they were relatively minor. The benefits were, nevertheless, usually limited, and sometimes negative effects were observed: increase of imports accompanying the increase of exports; weak backward and forward linkages; limited employment effects and poor working conditions; and negligible impacts on skills and technology transfer.

4) Power Structure behind Limited Impacts of TNCs

Despite the rather limited positive, and sometimes negative, impacts of TNCs, it was the state who was probably the most important factor holding the economic arrangements together. Although the state is not a direct driving force behind industrialization, state policies can direct industrialization by encouraging (or discouraging) certain economic activities and by providing incentives (or restrictions). Within capitalism, the state is important since TNCs and local elites generally have their own rather limited interests at heart; i.e., profits. We cannot expect TNCs' activities automatically to contribute industrialization like modernization theorists consider nor local elites to do so. Industrialization of a country in line with some idea of social justice thus falls firmly within the domain of the government. It is thus the state that has a role to coordinate economic activities through state power to promote a country's industrialization. In order to fulfill this task, as previously mentioned, the state needs consistent policies, implementation of the policies, and flexible adjustment of the policies[15].

In the case of the Philippines under EOI, the state expected TNCs to have far-reaching positive influences. The

[15] Doner (1991) considers concertation between state and local industries are indispensable, but in order to create effective concertation, these state abilities seem to be needed.

state, however, did not create coherent policies to maximize these influences. In order to utilize TNCs for national industrialization, forward and backward linkage are indispensable. But what the state did was to guarantee consigned manufacturing by giving TNCs various incentives such as tax exemption of imported materials and the continuation of protecting rent-seeking enterprises; the state failed to promote effective linkages between them. To the contrary, the sudden liberalization of the economy by SAP damaged upstream or downstream industries for garments and electronics industries so that it too did not promote effective linkages between TNCs and local industries. In order to alleviate poverty and to increase the standard of living, not only the must there be an increase of employment, but improving working conditions as well. The state, however, actively oppress labor movements and shut the door on improvement of working conditions. Whereas the state expected the transfer of skills and technology, it did not impose R & D transfer on TNCs. The policies pursued by the state under EOI simply provided TNCs with places for consigned manufacturing and thus failed to elicit and positive benefits.

In terms of implementation, under the Marcos regime the National Economy and Development Authority (NEDA) was established as the institution to manage development policies. NEDA soon proved ineffectual since Marcos retained ultimate authority and could rule by decree. Moreover, the distribution of government funds was influenced by Marcos cronies; so that projects sponsored by NEDA ran short of funds while corruption reached new heights (Fabella 1989,p.216). In many respects, however, the Philippine state had limited flexibility to control industrialization policies since it was subject to a wide range of pressures. The state changed policies dependent on pressure from local elites or external forces such as the IMF and World Bank.

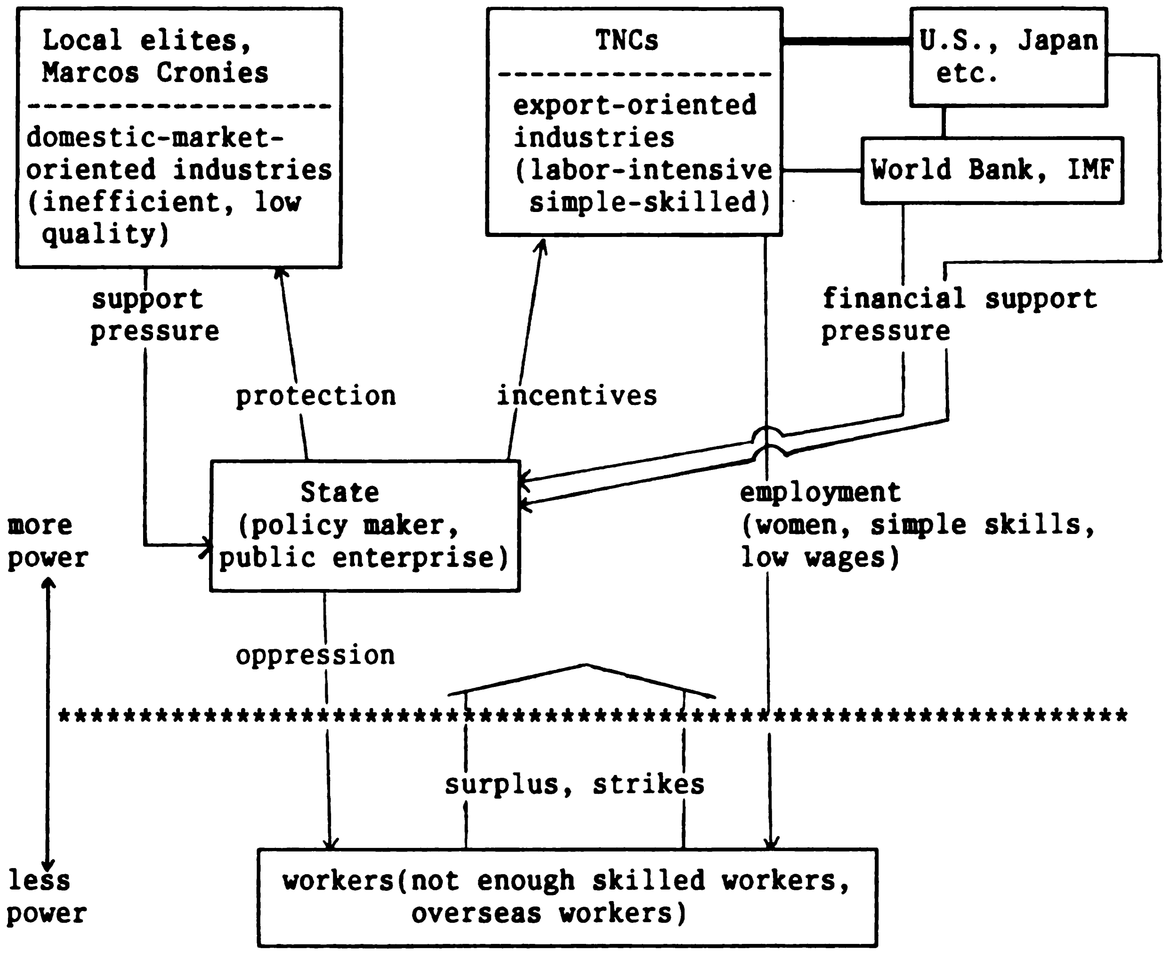
We cannot just point the finger at the state's inability to administer industrialization. We should look at power relations behind policy making. The state was not the only factor that decided which policies should be taken, and there were both internal and external pressures.

Figure 4 shows the relevant power relations under EOI: TNCs, local elites, workers, IMF and World Bank, and state can be considered as main actors.[16] Evans (1987) insists that when the state is controlled by local elites and TNCs, the state cannot carry out industrialization policies for national development but is, instead, used as a vehicle to maintain and increase benefits to TNCs and local elites. The Philippines was the typical case.

The IMF and World Bank also undoubtedly had power to affect state policies. Without their forceful input, the

[16] Evans (1987) considers the power relationship between state, local elites, and TNCs significantly influences industrialization (triple alliance), but in the Philippine case, international agents like IMF and World Bank and workers also seem important factors.

Figure 4. The Power Relation under EOI



Philippines was unlikely to undertake liberalization policies in the 1980s. The Philippine state was in relatively subordinate position to local elites and external forces like TNCs, the IMF, and the World Bank. It was this absence of state autonomy which created many of the undesirable consequences of EOI.

Such a subordinate position of the state can be readily seen to have long standing historically roots. Spanish and U.S. colonialism created the Philippines as a monoculture economy and fostered a inequitable system of social stratification. Unlike other Asian countries, Philippine independence was peacefully "given" by the U.S. without changing the uneven social structure in return for the maintenance of U.S. power in the Philippines. A few privileged people kept their political, economic, and social power[17]. The Philippine Congress was comprised of such traditional elites and they were against policies which might reduce their profits and power.

Moreover, damage incurred from the war coupled with a poor industrial base at the onset of independence forced the Philippines to rely on U.S. aid for industrialization. In order to get financial aid, the Philippines had to give American TNCs parity rights and a secure basis for economic

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[17] Tsurumi (1992) considers that the reason why U.S. which required land reform in Japan and Taiwan did not recommend land reform in the Philippines was that some Americans were landlords so that U.S. tried to keep their interests after Philippine independence (p.19).

activities. As a result, American TNCs and rent-seeking local elites took the initiative in industrialization. According to Evans (1987), it is the state which directed industrialization in both Taiwan and South Korea, and this is what led to different outcomes in industrialization in the three countries[18].

In addition, after the 1960s the IMF and World Bank acquired the power to intervene in Philippine policy making. They gave loans on condition that the Philippines undertake EOI policies and thus forced Philippine dependence on TNCs. A chronic shortage of funds made the Philippines subordinate to external power and forced them into their uneasy alliance with TNCs.

This subordinate position of the state caused the creation of industrialization policies beneficial to TNCs which sought mainly cheap labor concomitantly to the local backing of Marcos' cronies and traditional 'compradores.' Policies which TNCs and local elites preferred were thus those that would benefit them and not the Philippine economy as a whole. Theoretically, the state should control national interests and work for national industrialization, but both the TNCs and local elites restricted the state's ability to

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[18] According to Evans (1987), in South Korea and Taiwan, traditional elites who enjoyed privileges under Japanese rule lost their basis of power after WWII, while TNCs did not TNCs did not enter these countries until the 1960s because they feared communist threat. As a result, states in both countries succeeded to take the initiative to establish national industrial basis.

carry out this roles. This situation strengthened the hand of TNCs and enriched the local elites, both of which ultimately furthered state subordination. As a result, the Philippines could not effectively integrate TNCs into domestic economy and make the most of TNCs' impacts to promote her industrialization.

CONCLUSION

Debates on the impact of transnational corporations under export-oriented industrialization assume a wide variety of perspectives. Some regard TNCs as a vehicle for national development, others blame TNCs for exploitation and continued underdevelopment of the Third World, while still others emphasize the state as a determinant factor conditioning the impacts of TNCs. While the first tow arguments have certain merits, especially the dependency perspective with its focus on the unequal distribution of power in a world system, the later perspective of the state sheds considerable light on the uneven experiences of industrialization across developing societies. Unquestionably, the state was seen to play an important role in Philippine industrialization. If we have learned anything, however, it is that we need more case by case analyses before we can begin to feel more comfortable in generalizing from particular instances.

In this paper, I examined the impacts of TNCs in the garment and electronics industries under EOI in the Philippines and to this end constructed a framework to analyze those impacts and focussed on four points: contribution to international payments, forward and backward linkage, employment effects, and skills and technology transfer. The outcome of the research shows that TNCs did not significantly contribute to industrialization in the Philippines, ameliorate international payment problems, create linkages between TNCs and local industries, improve employment and working conditions, and transfer of skills and technology. Unlike some theories which emphasize the positive effects of EOI policies, TNCs in the Philippines failed to become a beneficial driving force for industrialization. This result was caused not only by the exploitative character of TNCs based on the 'new international division of labor,' but also was exacerbated by various internal problems. When we look at other ASEAN countries, even those with TNCs who relocated similar labor-intensive, simple-skilled processes, we notice that they are still economically better off than the Philippines today. Consequently, internal problems were shown to significantly affect the outcome.

In general, pro-TNC advocates offer superficial arguments and do not consider the deeper structure which influences internal conditions, nor do they adequately consider the historical context. If they had, they probably would have taken greater notice of such problems plague the Philippines as the shortage of skilled labor, state's inability to implement industrialization policies, and undeveloped condition of local industries as causes of the failure of TNCs to become integrating into local economy.

In the case of the Philippines, the subordinate position of state to local 'compradores,' TNCs, and international financial agencies gravely undermined the state's ability to stimulate industrial development that was more favorable to the Philippine economy as a whole. Both local elites and TNCs utilized state industrialization policies for their own narrow interests, and state did not have sufficient leverage to control them for a viable program of national industrialization. The state ability to create, implement, and adjust consistent industrial policies was restricted. The Philippine state clearly lacked flexibility in responding to both internal and external conditions. The subordinate position of the Philippine state was a historical product and was reproduced through state policies themselves.

Liberalization reforms forced by the World Bank and IMF did not provide solutions to the problem either. Their plans were too theoretical and were more concerned with short-term outcomes than with long-term results. They also failed to adequately consider the deleterious effects of the international recession on the Philippine economy. Their prescription gave TNCs more advantages, but could not maximize positive impacts of TNCs on national industrialization. They seemed to think that if the Philippines restored a free market economy and reduced restrictions against TNCs, than the Philippines would be automatically moving in the right direction of industrialization. However, it was just a illusion. TNCs were not interested in industrialization of the country, however, and merely sought a place for international subcontracting. If anything, the case of the Philippines amply shows that is not the free market that compels TNCs to establish effective linkage between local industries and the promotion of national industrialization. In order to effectively elicit more favorable impacts from TNCs required consistent state policies to coordinate TNCs and local industries, and to integrate TNCs into the domestic economy. Reforms which neglected this point caused economic confusion in the country.

In the case of the Philippines, where traditional elites are fully entrenched and TNCs as well as their benefactors such as the IMF and World Bank, it is difficult for the state to achieve some form of autonomy. As a result, the state was not able to effectually change its industrialization policies to benefit national industrialization. The power structure, however, is not immutable but can be changed over time. State policies may ultimately be the one that can break the vicious cycle of underdevelopment. In order to maximize the effects of TNCs, the state should and must take the initiative to effectively integrate TNCs into local economy. Failing this, the Philippines will continue to flounder in a sea of hopeless despair.

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