Industrial Policies and Government–Business Relations in Southeast Asia: The Case of the Philippines

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1. Gutachter: Prof. Dr. Alexander Ebner
2. Gutachter: Prof. Dr. Lothar Brock

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List of Acronyms

ADB – Asian Development Bank
AmCham – American Chamber of Commerce of the Philippines
ATC – Accredited Trading Company
BEPZ – Bataan Export Processing Zone
BIA – Basic Industries Act
BIR – Bureau of Internal Revenue
BOC – Bureau of Customs
BMW – Bonded manufacturing warehouse
BOI – Board of Investments
BOC – Bureau of Customs
BPI – Bank of the Philippine Islands
CA – Commission on Appointments
CAO – Customs Administrative Order
CBP – Central Bank of the Philippines
CCBW – Common customs bonded warehouse
CCP – Chamber of Commerce of the Philippines
CEMA – Consumer Electronics Manufacturers Association
CEPD – Council for Economic Planning and Development
CEPMA – Consumer Electronics Products Manufacturers' Association
CFBP – Consolidated Foreign Borrowing Program
CNIS – Comprehensive National Industrial Strategy
CONGEP – Confederation of Garment Exporters of the Philippines, Inc.
COPE – Confederation of Philippine Exporters, Inc.
DA – Department of Agriculture
DBP – Development Bank of the Philippines
DCI – Department of Commerce and Industry
DI – Department of Industry
DOF – Department of Finance
DT – Department of Trade
DTT – Department of Trade and Tourism
EACIB – Embroidery and Apparel Control and Inspection Board
EDB – Economic Development Board
EER – Effective exchange rate
EFF – Extended Fund Facility
EIA – Export Incentives Act
ELCP – Electronics Local Content Program
EMAP – Electronics Manufacturers Association of the Philippines
EO – Executive Order
EPA – Economic Planning Agency
EPB – Economic Planning Board (South Korea)
EPB – Export Promotion Bureau (Philippines)
EPP – Export Priorities Plan
EPR – Effective protection rate
EPZ – Export processing zone
EPZA – Export Processing Zone Authority
EPZCEM – Export Processing Zone Chamber of Exporters and Manufacturers
ERSO – Electronics Research and Service Organization

FBRA – Foreign Business Regulation Act
FDI – Foreign direct investment
FFCCCII – Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc.
FILP – Fiscal Investment and Loan Plan
Filsyn – Filipino Synthetic Fiber
FKI – Federation of Korean Industries
GATT – General Agreement on Tariffs and Trade
GBAP – Garment Business Association of the Philippines
GDP – Gross domestic product
GMTFM – Greater Manila Terminal Food Market
GO – General Order
GSIS – Government Service Insurance System
GTEB – Garments and Textile Export Board
HDI – Human Development Index
HPAE – High-performing Asian economy
HSP – Hsinchu Science Park
IDB – Industrial Development Bureau
IED – Institute of Export Development
IGLF – Industrial Guarantee and Loan Fund
IIA – Investment Incentives Act
ILO – International Labour Organization
ILP – Import Liberalization Program
IMF – International Monetary Fund
IMI – Integrated Microelectronics, Inc.
IPP – Investment Priorities Plan
IRA – Independent regulatory agency
ISI – Import substitution industrialization
ISSI – Institute for Small-Scale Industries at the University of the Philippines
ITRI – Industrial Technology Research Institute
JDB – Japanese Development Bank
JETRO – Japan External Trade Organization
JSPS – Japan Society for the Promotion of Science
KEPZ – Kaohsiung Economic Processing Zone
KIST – Korea Institute of Science and Technology
KMT – Kuomintang Nationalist Party
KOR – South Korea
KOTRA – Korea Trade Promotion Corporation
LDP – Liberal Democratic Party
LOI – Letter of Instruction
MECA – Manufacturers of Electronics Components Association
MEPZ – Mactan Export Processing Zone
MFA – Multifiber Arrangement
MHS – Ministry of Human Settlements
MI – Ministry of Industry
MIP – Major Industrial Project
MIT – Massachusetts Institute of Technology
MITI – Ministry of International Trade and Industry
MNE – Multinational enterprise
MT – Ministry of Trade

MTI – Ministry of Trade and Industry
NAST – National Academy of Science and Technology
NCSO – National Census and Statistics Office
NEC – National Economic Council
NEDA – National Economic (and) Development Authority
NEPA – National Economic Protectionism Association
NES – National Export Strategy
NIE – Newly industrializing economy
NIST – National Institute of Science and Technology
NSDB – National Science and Development Board
NSTA – National Science and Technology Authority
OECD – Organisation for Economic Co-operation and Development
OFW – Overseas Filipino Worker
OIC – Omnibus Investments Code
PAEAE – Philippine Association of Embroidery and Apparel Exporters
PAEE – Philippine Association of Electronics Exporters
PAEII – Philippine Association of Electrical Industries, Inc.
PAP – People Action Party
PCEI – Philippine Chamber of Electronics Industries
PCGG – Presidential Commission on Good Government
PCCI – Philippine Chamber of Commerce and Industry
PCI – Philippine Chamber of Industries
PCMP – Progressive Car Manufacturing Program
PD – Presidential Decree
PDCP – Private Development Corporation of the Philippines
PEAC – Philippine Export Advisory Council
PEC – Philippine Export Council
PEFLGC – Philippine Export and Foreign Loan Guarantee Corporation
PEPCEP – Progressive Export Program for Consumer Electronics Products
PES – Presidential Economic Staff
PESA – Federation of Electrical and Electronics Suppliers and Manufacturers of the Philippines, Inc.
PEZA – Philippine Economic Zone Authority
PhilGuarantee – Philippine Export and Foreign Loan Guarantee Corporation
PHILEXPORT Foundation – Philippine Exporters Foundation
PHL – Philippines
PHP – Philippine peso
PIA – Program Implementation Agency
PITC – Philippine International Trading Corporation
PMP – Progressive Manufacturing Program
PNB – Philippine National Bank
POSCO – Pohang Iron and Steel Company
PP – Presidential Proclamation
PPP – Purchasing power parity
PSA – Philippine Statistics Authority
PTRI – Philippine Textile Research Institute
RA – Republic Act
RFC – Rehabilitation Finance Corporation
SAL – Structural Adjustment Loan
SEIFI – Semiconductor Electronics Industry Foundation, Inc.

SEZ – Special economic zone
SIMSOP – Small Industries and Machine Shop Owners of the Philippines
SME – Small and medium-sized enterprise
SMI – Stanford Microsystems, Inc.
SOE – State-owned enterprise
SSS – Social Security System
SWS – Social Weather Stations
TAC – Trade Assistance Center
TCCP – Tariff and Customs Code of the Philippines
TEXPAP – Textile Producers' Association of the Philippines
TFP – Total factor productivity
THA – Thailand
TMAP – Textile Mills Association of the Philippines
TMP – Textile Modernization Program
TRC – Technology Research Center
TRP – Tariff Reform Program
TTF – Taiwan Textile Federation
UK – United Kingdom of Great Britain and Northern Ireland
UNCTAD – United Nations Conference on Trade and Development
UNDP – United Nations Development Programme
UNIDO – United Nations Industrial Development Organization
UP – University of the Philippines
US – United States of America
USD – US Dollars
WB – World Bank
WDI – World Development Indicator
WTO – World Trade Organization

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1. Introduction

In contrast to Japan and the "dragon economies" (Vogel 1991), the Philippines has not been able to partake in the "Asian Economic Miracle" (WB 1993a: 1). In short, the Philippines does not classify as a *developmental state* which exercises strategic industrial policies as traced in Japan, South Korea, Taiwan and Singapore. In fact, even its Southeast Asian neighbors Malaysia, Thailand and Indonesia had economically outdone the Philippines by the 1980s even though their prospects were much worse than those of the Philippines in the 1950s. And while the Philippine economy has been experiencing an upsurge in recent years, it is still significantly lagging behind regional standards—especially with regard to *industrial* development. From a political economy perspective, it is of key interest in how far the Philippine state has been contributing to this subpar development. In order to explore the ongoing Philippine development dilemma, the present study thus offers a comprehensive analysis of the Philippines' industrial policies, based on distinct government–business relations and patterns of social embeddedness. In so doing, the focus is on the Marcos era lasting from 1965 to 1986 since it was during this (postwar) period that the Philippines was most likely to succeed economically by means of state intervention. In addition to assessing the Philippines' industrial policies and their embeddedness in general, two of the Philippines' main export industry sectors—textile/garments and electronics—are examined. In this manner, the study contributes to the analysis of the political economy of economic development in the Philippines and provides insights on the prospects and limits of industrial policy in the Southeast Asian context.

The remainder of the introduction proceeds as follows. Subsection 1.1. elaborates on the relevance of the research topic. Subsection 1.2. specifies the emerging research questions and hypotheses, while subsection 1.3. delineates the methods employed. Eventually, subsection 1.4. lays out the structure of the study.

1.1. Relevance of the Research Topic

Since the 1960s, Japan and the so-called "dragon economies" (Vogel 1991)—South Korea, Taiwan and Singapore—have achieved substantial economic growth which led to the notion of an "Asian Economic Miracle" (WB 1993a: 1). Amongst others, structural change and the leading role of exports caused a decrease in inequality and poverty and, currently, these economies are increasingly shifting into the setting of knowledge-based economies, indicating the changing

nature of these states (Ebner 2014: 141n; WB 1993a: 27n). While the respective approaches to achieving rapid economic growth differed from each other, these Asian high performers shared a similar vision and the use of strategic industrial policy (Kasahara 2013: 6). "Industrial policy," in this context, refers to nonmacroeconomic policies aimed at industrial development through changing the structure of the economy on the whole in favor of the industrial sector and the industrial sector in itself towards potentially more promising areas of industrial activity with the overall goal of generating sustainable and inclusive economic development. Moreover, South Korea, Taiwan and Singapore were at least temporarily ruled by authoritarian regimes while experiencing rapid economic development, although the causal connection between these aspects is discussed controversially (Hayashi 2010: 56n). In fact, controversy is also sparked by the question in how far the use of industrial policy actually influenced economic growth (see, e. g., Stiglitz 2001: 517n). Nonetheless, there is a strong notion of the state's significant role in promoting economic development through industrial policy—not only in East Asia (see, e. g., Wade 1990a: 345 or Rodrik 2007: 2). As Evans (1995: 5) puts it, "states have become responsible for economic transformation." This stance is also reflected in the concept of the *developmental state* characterized by strategic industrial policies and effective relations between the public and the private sector and developed in the context of the Asian high performers.

However, while Japan, South Korea, Taiwan and Singapore have been able to achieve significant economic growth, others in the region have not—or, at least, not to the same degree (WB 2019). In contrast to their high-performing neighbors, Indonesia, Malaysia, the Philippines and Thailand heavily relied on natural resources, i.e. agro-based activities, in their respective development—resulting in lesser degrees of industrialization (Kasahara 2013: 6; Noland and Pack 2003: 82n; Jomo 2001: 466). Generally, these Southeast Asian governments employed far less strategic industrial policies than their counterparts in Japan and the "dragon states" and—if they did—were influenced by political, military and ethnic issues or simply tended to particularistic interests (Hayashi 2010: 53; Jomo 2001: 473; Stiglitz and Uy 1996: 271). Essentially, government–business relations are considerably more problematic with regard to their developmental impact in these Southeast economies than in the *developmental states* (Haggard 2015: 52; Kasahara 2013: 7). Incidentally, these Southeast Asian countries are also much more heterogeneous internally than their high-performing neighbors. This refers to ethnic and religious cleavages as well as inequalities in land ownership—due to a lack of agrarian reforms—and income (Tipton 2009: 401; Jomo 2001: 466, 472). In this context, the economic dominance of the Chinese minority throughout Southeast Asia is important to note—in part as it adds to

the "complex class structures" (Kasahara 2013: 6; Tipton 2009: 411). In short, Indonesia, Malaysia, the Philippines and Thailand feature inherently different development trajectories than Japan, South Korea, Taiwan and Singapore. Accordingly, the former have not succeeded in moving on to more sophisticated business functions until now, thereby indicating more stable types of state in comparison with the latter (Wade 2012: 232).

With regard to underperformance in comparison with Japan and the "dragon economies," particularly the Philippines stands out as it went from having brighter economic prospects than even South Korea and Taiwan in the 1950s to having been outdone not only by them but also by its Southeast Asian neighbors Malaysia, Thailand and Indonesia by the 1980s (Hutchcroft 1994: 218). Incidentally, the Philippines did not belong to the high-performing Asian economies (HPAEs) identified by the *World Bank* (1993a: 1) in the early 1990s—while Indonesia, Malaysia and Thailand were, in fact, regarded as members of this group yet distinguished by the label "newly industrializing economies" (NIEs). And even though the Philippine economy has been picking up in recent years, in 2018, its gross domestic product (GDP) per capita at purchasing power parity (PPP) still only amounted to 8,935 current international dollars compared to Malaysia's GDP per capita of 31,698 current international dollars, Thailand's GDP per capita of 19,017 current international dollars and Indonesia's GDP per capita of 13,056 current international dollars—still a 4.8 per cent increase from the previous year, however (WB 2019). Above all, the manufacturing sector of the Philippines has neither been significantly contributing to GDP nor employment in the past decades and, thereby, could not propel the rest of the economy—this stands in sharp contrast to the *developmental states'* development characteristics (Intal, Jr. et al. 2008: 16n). In fact, the stagnation of economic growth in the Philippines was even accompanied by the country's *de*industrialization (Felipe et al. 2019: 161; Ofreneo 2015; Bello 2014: 17; Balisacan and Hill 2003: 27). Additionally, the Philippines has been exporting less than the *developmental states* and the aforementioned Southeast Asian economies (WB 2018). This is particularly relevant since manufacturing exports have been crucial for the development of, for instance, South Korea and Taiwan (WB 1993a: 22n). Relatedly, in terms of competitiveness, the Philippines ranked 56th in the world in 2018, while South Korea ranked 15th, Taiwan 13th and Thailand 38th, respectively (WEF 2018: xi). The textile and garments and electronics industry sectors of the Philippines are cases in point as they have been the economy's main manufactured exports since the 1970s but so far failed to generate as advantageous trajectories as their equivalents in neighboring economies including the *developmental states* where they significantly contributed to stimulating economic development

(Aldaba 2013: 2, 2014: 28n; Frederick and Staritz 2012: 67; Usui 2012: 20n; Rasiah 2009; Weiss 1998: 56; WB 1993a: 304n). Instead, the Philippine economy has increasingly been relying on the services sector for value creation and employment (WB 2018). Such "leapfrogging" of industrialization in favor of the services sector, however, bears dangers and development efforts should rather build on both pillars, i.e. industry *and* services (Usui 2011: 21). In this manner, industrialization and industrial policies still matter.

Accordingly, the Philippines has frequently been coined Asia's "sick man" (see, e. g., Kind 2000 or Noland 2000) and also been described as "Anti-Development State" (Bello et al. 2004). Other labels given to the Philippines' political economy include "cacique democracy" (Anderson 1988), "booty capitalism" (Hutchcroft 1994, 1998) and "inequality-trapped capitalism" (Kondo 2014). The present study now introduces the concept of the *underdevelopmental state*, combining institutionalist approaches to political economy with pragmatic approaches to industrial policy and thereby offering a holistic perspective on both internal and external factors blocking economic development in the Philippines rather than focusing on just one particular aspect of Philippine underdevelopment or merely presenting a short overview. In particular, the present study analyzes both the Philippines' industrial policies and the respective government–business relations including the way in which they are framed by specific internal and external circumstances unique to the Philippines. In so doing, the focus is on the presidency of Ferdinand E. Marcos lasting from 1965 until 1986—including the martial law years from 1972 to 1981—since it was during this (postwar) period that the Philippines was most likely to succeed economically by means of state intervention—both for political and economic reasons (Thompson 2015: 209; Hutchcroft 1993: 184). In fact, the roots of the Philippines' ongoing predicament may well be found in these twenty years when the Philippines, in contrast to the *developmental states*, failed to industrialize. In historical institutionalist terms, particularly the declaration of martial law in 1972 can be dubbed a (potential) "critical juncture." Moreover, the postwar decades were the respective high-growth phases in the economies serving as benchmarks in this study (Flath 2005: 375; Lim 1988: 6n; Cumings 1984: 1n). In assessing the Marcos era's industrial policies and their embeddedness, the present study explicitly includes matters of economic development planning, an aspect largely neglected in the pertinent existing literature so far—a notion which was confirmed by one of the Philippines' leading scholars in the field in one of the explorative expert interviews conducted in the course of the fieldwork for the present study.

On the whole, the present study then contributes to the analysis of the political economy of economic development in the Philippines and provides insights on the prospects and limits of industrial policy in the Southeast Asian context. Apart from that, the study adds to the scarce research on development failure (Kondo 2014: 187; see also George and Bennett 2005: 163n).

1.2. Research Questions and Hypotheses

In operationalizing the exploration of the Philippine development dilemma, the following research questions are being posed:

Q1: In how far did industrial policies in the Philippines during the Marcos era differ from those in the *developmental states* during their high-growth phases?
Q2: In what way were these industrial policies embedded in government–business relations and wider institutional structures unique to the Philippines?
Q3: Can industry (sub)sector specificities be observed regarding the orientation and efficacy of industrial policies and their embeddedness in the Philippines during the Marcos era?

With regard to these questions, the following research hypotheses are being put forward:

H1: Industrial policies in the Philippines during the Marcos era differed from those in the *developmental states* during their high-growth phases in that they were less strategic and rather the result of political choices than efficiency considerations.
H2: Industrial policies in the Philippines during the Marcos era were embedded in ineffective government–business relations and unfavorable wider institutional structures promoting corruption and rent-seeking, thus blocking the formation of a *developmental state* and, by that, the generation of sustainable and inclusive economic development.
H3: There were major industry (sub)sector differences regarding industrial policies and government–business relations in the Philippines during the Marcos era.

1.3. Research Methods

In order to explore the Philippine development dilemma and its (potential) underlying reasons, the present study adopts a comparative-historical approach (see, for instance, the volumes edited by Mahoney and Thelen 2015 or Mahoney and Rueschemeyer 2003). In being

comparative, the study "focuses on concrete variations across historical cases rather than on generic explanations" (Evans 1995: 18). Comparisons are drawn with other Asian economies in order to better situate the Philippines in its (Southeast) Asian context. In accordance with the 1993 *World Bank* (1993a) report *The East Asian Miracle*—in which the Philippines is not featured (sic!)—, comparisons are made with the HPAEs and especially Japan, South Korea, Taiwan and Singapore since the former three were the economies that led to the notion of a *developmental state* to begin with while the latter clearly features the characteristics of a *developmental state* (Doner et al. 2005: 346; Wade 1990a; Amsden 1989; Johnson 1982). While Hong Kong does belong to the HPAEs, is not included here due to its mainly laissez-faire policies and alleged lack of major developmental challenges (Noland and Pack 2003: 4; Lall 2000: 8; Rodrik 1999: 56n; Haggard 1990: 115n). Hence, whenever the present study speaks of *"developmental states,"* it means Japan, South Korea, Taiwan and Singapore, serving as benchmarks against which the Philippines' development performance and institutional set-up is assessed. With regard to development performance, Thailand serves as an additional focal point because of its postwar similarities with the Philippines concerning size and resources as well as economic and trade structure (Balisacan and Hill 2003: 4). Such a structured and focused comparative assessment of the Philippines' institutional set-up may then provide useful insights into the underlying reasons for Philippine underdevelopment without aiming at quantification or claiming the absence of other potentially influential factors (Bardhan 2005a: 528; George and Bennett 2005: 67n).

As Harriss (2008: 323) notes with regard to institution-related research, "[m]ethodologically, there seems to be no substitute for substantive historical analysis." Therefore and similarly to the original *developmental state* literature, the present study traces processes over time (Haggard 2015: 40). It follows that the present study—mostly for reasons of practicability—provides a broad overview instead of exploring one aspect of the Philippines' development dilemma in depth (see Kang 2002b: 7). At the same time, attention to detail is indispensable particularly with regard to actor constellations and the multifaceted nature of these actors (Scharpf 2000: 775n; Evans 1995: 19n). In the context of the present study, the latter especially refers to "the state" and "the private sector." In terms of situation in time, for the reasons outlined above, the present study focuses on the Marcos era while extending its temporal reach—both backwards and forwards—whenever necessary. In assessing the Philippines' initial conditions for postwar development, for instance, the colonial period starting in the sixteenth century plays an elevated role, whereas the account of the Philippines' development performance starts with the 1940s and extends into the post-Marcos decades in order to capture longer-term trends and effects.

In analyzing the Marcos era's industrial policies and related development planning, the focus is narrower—on the late 1960s up to the late 1970s—as to acknowledge the importance of early policy provisions for (potential) later development and the martial law period.

Apart from employing systematic and contextualized comparisons and tracing processes over time, comparative-historical analyses typically include matters of causality (Mahoney and Rueschemeyer 2003: 10n). Indeed, as the present study seeks to shed light on the Philippine dilemma of underdevelopment, questions related to causality certainly play an elevated role. However, as Woo-Cumings (1999: 3) remarks, "[t]he boundaries of the general and the particular and of the predictable and the contingent are far from clear, and the interaction among them is so profoundly complex that we cannot, in the end, apportion the totality of a historical experience into neat causal categories." Moreover, especially state action cannot simply be treated as an independent variable due to issues of historicity, duration, perspective, etc. (Johnson 1987: 146). In this context, Evans (1985b: 348) maintains that "[c]omparisons across countries and time periods and an emphasis on historical depth, the tracing out of processes over time, are optimal strategies for research on states." Such a comparative-historical approach is then also in line with historical institutionalism as the study's major theoretical point of reference (Mahoney and Rueschemeyer 2003: 10n).

The study sets out with theoretical considerations regarding economic development, institutions and states—both succeeding and failing in the promotion of sustainable and inclusive economic development—, the literature for which was obtained through library catalogue and database searches (section 2). The pertinent academic literature with regard to institutions, states and economic development includes publications by Douglass C. North (1981, 1990, 2005), Peter B. Evans (1992, 1995, 2004), Pranab K. Bardhan (2000, 2005a, 2005b), Ha-Joon Chang (2003, 2007b, 2011), Dani Rodrik (2007), Richard F. Doner (2009) and Daron Acemoglu, Simon Johnson and James A. Robinson (Acemoglu et al. 2005; Acemoglu 2006; Robinson 2009; Acemoglu and Robinson 2012). The main contributions to the *developmental state* field are Chalmers A. Johnson's (1982) *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*, Alice H. Amsden's (1989) *Asia's Next Giant: South Korea and Late Industrialization* and Robert H. Wade's (1990a) *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* employing the examples of Japan, South Korea and Taiwan, respectively. Apart from that, Peter B. Evans (1989, 1995, 1998), Adrian Leftwich (1995) and Linda Weiss (1998) made significant contributions particularly focusing on the relations between the public

and the private sector in *developmental states*. Among the most prominent scholars in the field of industrial policy are Ha-Joon Chang (2003, 2006) and Dani Rodrik (2004, 2007, 2009). In the arena of state capacity, the most pertinent works are the contributions in *Bringing the State Back In* edited by Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol (1985a), Linda Weiss's (1998) *The Myth of the Powerless State: Governing the Economy in a Global Era* and selected parts of *Economy and Society* by Max Weber (1978[1922]). More recent advances in the field include an article by Antonio Savoia and Kunal Sen (2015) and selected chapters in Francis Fukuyama's (2015) *Political Order and Political Decay: From the Industrial Revolution to the Globalisation of Democracy*. The pertinent scholarly works in the area of private sector organization and public–private cooperation are the contributions in Sylvia Maxfield's and Ben R. Schneider's (1997) *Business and the State in Developing Countries* and Dirk Willem te Velde's (2013) *State–Business Relations and Industrial Policy: Current Policy and Research Debates*, selected chapters of José E. L. Campos's and Hilton L. Root's (1996) *The Key to the Asian Miracle: Making Shared Growth Credible* and *Designing Industrial Policy in Latin America: Business-State Relations and the New Developmentalism* by Ben R. Schneider (2015). John Lucas (1997) and Richard F. Doner and Ben R. Schneider (2000) offer additional insights on business associations. The core contributions regarding internal and external (initial) conditions in the *developmental states* are three papers authored by Bruce Cumings (1984), Richard F. Doner, Bryan K. Ritchie and Dan Slater (2005) and Wonik Kim (2009), respectively. Finally, the pertinent academic literature in the field of state failure contains the aforementioned scholarly works by Douglass C. North, Peter B. Evans and Pranab K. Bardhan as well as a publication by Atul Kohli (2004), amongst others. This basic literature is enriched and updated by drawing on other scholarly contributions pertinent to the respective (sub)field.

Against this theoretical background, in subsection 2.3., the study derives the concept of the *underdevelopmental state*, combining institutionalist approaches to political economy with pragmatic approaches to industrial policy in the form of the concept of the *developmental state*. By explicitly including matters of historicity, the present study addresses Doner's (2009: 66, italics added) concern that "early *developmental state* writings […] failed to provide a coherent explanation of institutional origins." At the same time, however, the concept of the *underdevelopmental state* was developed with the Philippines already in mind, thereby paralleling the inductive nature of the concept of the *developmental state* which emerged in the Japanese context. Relatedly, the present study does not aim at introducing a general theory but rather "middle range theory" (Harriss 2008: 325; see also Thelen and Steinmo 1992: 11n). In terms of generalizability, such an approach then offers "contingent generalization[…]" (George and

Bennett 2005: 171), i.e. potential generalizability under the condition of similar time frames, geographic locations or institutional set-ups including informal institutions and embeddedness. Indeed, "comparative historical analyses yield also other results that constitute real theoretical gains, even if they do not constitute directly testable and substantively powerful propositions. Perhaps the most important of these are the theoretical frameworks that guide analytic historical work and are in turn revised by it" (Rueschemeyer 2003: 333).

The empirical part of the present study (sections 3, 4 and 5) uses a variety of sources and methods. As aforementioned, the Philippines' development performance and institutional set-up during the Marcos era are assessed along the characteristics of the *developmental states* serving as a benchmark. In so doing, the method of document analysis is employed, a research method well suited for the qualitative analysis of cases (Bowen 2009: 29). "Documents" are, for example, books, memoranda, newspapers, reports, data and public records (ibid.: 27n). Generally, in terms of sources, the present study draws on both primary documents and secondary literature (see, e.g., Yin 2018: 12 or Beach and Pedersen 2013: 132n). Vital for the effective and sense-making employment of document analysis are both the compatibility of the respective research questions and hypotheses with the method and the actual availability of pertinent documents (Schmidt 2017: 446; Noetzel et al. 2009: 327). Both conditions are satisfied in the present study since the research questions and hypotheses referring to matters of industrial policy and government–business relations may well be answered and confirmed or refuted drawing on documents and such documents are—as found out in the course of the actual research—available. In fact, owing to the fact that the present study is mostly concerned with the Marcos era from the mid-1960s to the mid-1980s, i.e. an historical case, and sensitivity issues related to the martial law period both call for a document-based approach rather than, for instance, interviews as main sources. The latter, however, adds to the problem of uncaptured oral and informal agreements already inherent to document analysis (Noetzel et al. 2009: 333n). Other limitations of document analysis include the related inability to capture decision-making *processes* as well as potentially missing details and problematic retrievability and related "biased selectivity" (Yin 2018: 114; Bowen 2009: 31n; Noetzel et al. 2009: 333). At the same time, document analysis is usually more efficient, less costly and not subject to reactivity issues, amongst others, in comparison with other research methods (Bowen 2009: 31; Noetzel et al. 2009: 333).

Document analysis entails a sequence of different steps (see, for instance, Bowen 2009: 32n or Noetzel et al. 2009: 327n). The first phase—the explorative phase—includes gaining both an initial overview of the pertinent and accessible documents as well as a preliminary sighting of these documents and the acquisition of additionally necessary knowledge (Noetzel et al. 2009: 327n). During the second phase—the main phase—the selection of gathered materials is then narrowed down and the respective documents are assessed, amongst others, regarding their credibility (ibid.: 328n). The third and final phase—the evaluation phase—then draws conclusions about the documents' ability to answer and confirm or refute the respective research questions and hypotheses including dealing with conflicting documents (ibid.: 329). However, the different phases of document analysis do not neatly follow one another but rather constitute an "iterative process" (Bowen 2009: 32).

Most of the empirical material was collected during the fieldwork phase of this study from January through April 2016 during which the author was based at the Department of Economics at the *Ateneo de Manila University's* School of Social Sciences and which was funded by the German Academic Exchange Service. Apart from the *Ateneo de Manila University's* library, the libraries of the *University of the Philippines Diliman* and the *De la Salle University* were consulted as well as the *Lopez Library*, the library of the *Asian Development Bank* (ADB) and the library of the *ISEAS – Yusof Ishak Institute* in Singapore. Moreover, the archives and libraries of the *National Economic and Development Authority* (NEDA) and the *Board of Investments* (BOI) were searched and additional data obtained from the staff of these organizations. Additional information was retrieved from websites of government agencies, research bodies, business associations and companies.

In order to learn about further potential sources of information, explorative expert interviews were conducted. Experts are people who possess specific knowledge about a certain topic and are interviewed particularly because of that knowledge as opposed to being interviewed solely as a private person (Helfferich 2011: 163). The experts interviewed in the course of the present study were chosen according to their individual knowledge, their ability to provide accurate information, their willingness to provide that information and their individual availability (Gläser and Laudel 2010: 117n; see also Gläser and Laudel 2009). Between February and April of 2016 21 experts were interviewed in 20 interviews, among them academics, government employees and private sector representatives (see appendix).

Due to the historical approach of the study and the sensitivity of martial law-related subjects, interviews with contemporary witnesses were not planned initially. However, one such interview was conducted nonetheless. Additionally, the complete transcripts of interviews with some of the Marcos era's technocrats carried out in the course of the "Economic Policymaking and the Philippine Development Experience, 1960–1985: An Oral History" project funded by the *Japan Society for the Promotion of Science* (JSPS) through *Kobe University* in Japan were obtained from the *Third World Studies Center* (TWSC) in following up on information obtained in one of the expert interviews.

Primary materials gathered in the course of the present study include but are not limited to articles published in newspapers and periodicals, government documents and publications, legal texts, transcripts of speeches and private sector documents and publications (see appendix). In addition to these primary materials, secondary literature is used especially due to extensive government control and censorship during martial law, resulting in the questionable validity of primary materials—in particular data—from this era (Celoza 1997: 40n, 88; Rodriguez 1985: 213n; President of the Philippines 1972c, 1972d). For instance, some Presidential Decrees—out of which Nos. 1449, 1464, 1469 and 1584 referenced in the empirical part of this study might be affected—were backdated to circumvent new legislatorial procedures (Celoza 1997: 65). With regard to data, instead of drawing on the NEDA's development reports, i.e. national statistical accounts, the present study rather consults international databases such as the *World Bank's World Development Indicators* (WDIs) or *World Bank* reports—at least whenever possible. Generally, the wide scope of the research endeavor necessitates the use of such secondary sources for reasons of practicability alone (Bowen 2009: 29 drawing on Merriam 1988). Similar to the theoretical literature, the secondary empirical literature was gathered by searching library catalogues and (academic) databases.

The content which was looked for and the respective specific additional methods employed naturally differ from (sub)field to (sub)field. Indeed, document analysis may be fruitfully combined with other research methods such as, e.g., content analysis (Bowen 2009: 32n; Noetzel et al. 2009: 333). Since industrial policy is one of the focal points of the present study, in this context, particularly policy analysis is of importance. Policy analysis concerns the investigation of actions by governments, the reasons for these actions and their consequences (Lauth and Thiery 2012: 363). In Dye's (1976 quoted in Wenzelburger and Zohlnhöfer 2015: 15) words, "[p]olicy analysis is finding out what governments do, why they do it and what

difference it makes." Policies generally consist of various stages which may be broadly categorized into defining the problem, setting the agenda, formulating and implementing the respective policy (Schneider and Janning 2006: 50). Moreover, monitoring and evaluation of a policy's impact are part of the so-called "policy cycle" as well as political learning (Lauth and Thiery 2016: 276n; see also Howlett et al. 2009: 92n; for an overview of different variants of the policy cycle model see Blum and Schubert 2018: 154n). In this context, the distinction between policy outputs, impacts and outcomes is indispensable (Wenzelburger and Zohlnhöfer 2015: 20n). While the simplicity of the policy cycle heuristic has been criticized since, for instance, the different phases usually overlap, it is still an influential concept frequently used in policy research (Blum and Schubert 2018: 202n; Lauth and Thiery 2016: 278n; Gellner and Hammer 2010: 69n). In addition to the respective policies themselves, policy analysis brings the different actors involved to the fore (Blum and Schubert 2018: 74n; Knoepfel et al. 2011: 60n). Public policies usually engage three types of actors: administrative actors who formulate and implement the respective policy, the policy's beneficiaries and other affected individuals or groups, e.g. those responsible for the underlying problem which is being tackled by the policy (Knoepfel et al. 2011: 77n). Public actors include government agencies and international organizations, while private actors can be individuals such as business owners, managers and workers or collective actors such as business associations and chambers of commerce. In this manner, in its intent to shed light on precisely the government–business relations underlying the industrial policies in the Philippines during the Marcos presidency, the present study fundamentally employs the method of policy analysis (see also Wenzelburger and Zohlnhöfer 2015: 16). The explicit consideration of actor constellations in policy analysis then also allows for the identification of interests influencing the respective policy-making process (Wenzelburger and Zohlnhöfer 2015: 19; Schneider 2014).

In order to further explore the various aspects of Philippine underdevelopment during the Marcos era, two industry sectors are studied more closely: textile/garments and electronics. In so doing and in accordance with the *developmental states'* export-oriented development strategy, the focus is on exports. These particular industry sectors were chosen due to their (potential) developmental impact, on the one hand, and their lack of contribution to Philippine development, on the other hand. Indeed, economies in the early stages of development tend to possess a comparative advantage in the production of textiles and particularly garments due to the industry sector's labor intensity and developing economies' general labor abundance (Chang et al. 2013: 18; Brenton and Hoppe 2007: 3; Anderson 1992: 6). By generating much needed

capital, the textile and garments industry sector then holds significant potential for leverage (Chang et al. 2013: 18; Brenton and Hoppe 2007: 3n). In this manner, the textile and garments industry sector constituted a jumping-off point for several economies' development processes, among them the *developmental states* (Fukunishi and Yamagata 2014; Brenton and Hoppe 2007: 3n; Gereffi 1999: 40; Cumings 1984: 2). Subsequently, the electronics industry sector—which is, to begin with, also labor-intensive—may then lead an economy into a more knowledge-intensive phase of economic development, i.e. induce progress in line with the three-sector hypothesis (Cumings 1984: 2). Indeed, as Evans (1997: 63) puts it, "[t]hroughout the Third World, achieving sustained growth has meant first complementing agriculture with industrial capacity and then moving from simple, low value-added manufacturing to more sophisticated, higher-return kinds of industrial activities." Both the textile and garments and the electronics industry sector hence seem worthy of government intervention (Evans 1995: 11 for the electronics industry sector). And indeed, in South Korea and Taiwan, for example, the electronics industry sector was created intentionally—and successfully so—by means of industry policy (Mathews and Cho 2000: 31).

In the Philippines, however, despite their (potential) developmental impact and accounting for the majority of the Philippines' manufactured exports since the 1970s, the textile and garments and electronics industry sectors have failed to generate as advantageous trajectories as their equivalents in neighboring economies including the *developmental states* where they significantly contributed to stimulating economic development (Frederick and Staritz 2012: 67; Usui 2012: 20n; Rasiah 2009; Weiss 1998: 56; WB 1993a: 304n). Instead, in the Philippines, both industry sectors have been characterized by low local value added and weak backward linkages as well as a lack of strategic industry policies, thereby being "most similar" in terms of case selection and "typical," i.e. exemplary, with regard to the Philippines' general lack of development and competitiveness (Aldaba 2013: 2, 2014: 28n; Gerring 2007: 91n, 131n). This is particularly puzzling since the Philippines was, in fact, one of the first large textile manufacturers in the region (Ofreneo 2009: 544; Yamagata 1998: 35). The methods employed in scrutinizing the different industry (sub)sectors then correspond to the methods utilized in studying the development performance, industrial policies and government–business relations in the Philippines in general. Due to the fact that materials on the electronics industry sector during the Marcos era are comparatively scarce, the industry sector study on textiles and garments is more detailed than the one on the electronics industry sector (see U 2005: 17).

1.4. Structure of the Study

The study consists of four main sections apart from this introduction (section 1), the conclusions (section 6), the bibliography and the appendix. Section 2 lays the theoretical foundation by discussing matters of industrial policy and economic development and emphasizing the different roles of the state in such development. Drawing on institutional approaches to political economy and the concept of the *developmental state*, the concept of the *underdevelopmental state* is derived. On this theoretical basis, the subsequent sections of the study employ the Philippines as an illustrative case of such an *underdevelopmental state*. Section 3 comparatively analyzes the Philippines' development performance (subsection 3.1.), its industrial policies (subsection 3.2.), government–business relations (subsection 3.3.) and (initial) conditions (subsection 3.4.) in general. In order to further explore these matters, sections 4 and 5 closely examine the Philippines' textile and garments industry sector and its electronics industry sector, respectively. Section 6 concludes and is followed by the bibliography and the appendix.

2. Industrial Policy and Economic Development

According to the *United Nations Development Programme* (UNDP) (2015: 1), "the true aim of development is not only to boost incomes, but also to maximize human choices—by enhancing human rights, freedoms, capabilities and opportunities and by enabling people to lead long, healthy and creative lives." In other words, "development" does not only refer to economic measures but includes political and social aspects as well. This is reflected in the growing importance of the UNDP's *Human Development Index* (HDI) as one of the key indicators to measure a country's level of development (see ibid.: 203n). However, *economic* development plays an important role in eliciting development on the whole as, for instance, increasing incomes frequently lead to improved health, education and participation (see, e.g., ibid.: 1n). In this context, Fukuyama (2015: 50) notes that the different dimensions of development, i.e. its economic, political and social aspects, do not necessarily develop in the same direction or at similar speeds. Accordingly, "underdevelopment" refers to a *lack* of development in one or several of these dimensions (see, e.g., Shirley 2008: 611 or Deaton 2006). In studying development, countries can roughly be labeled as "developed" or "developing." While this dichotomy is certainly not unproblematic, neither are more detailed distinctions offered by international organizations concerned with matters of development (see, e.g., IMF 2016: 205n, WB 2016: xiii or OECD 2019 and Nielsen 2011 for a critique).

The goal of development studies is then not to simply contrast these seemingly two different kinds of countries but rather to scrutinize "the process at the root of this contrast […] whose rhythm differs in the two sets of countries and which transforms them […] in ways that cannot be reversed" (Rist 2014: 12). On this note, it is important to point out that the level of development currently found in the advanced economies world is not the norm but rather the exception when comparing levels of development across the world (Shirley 2008: 611; see also Todaro and Smith 2015: 40n or UNDP 2015: 208n). Indeed, developing countries feature development trajectories and outcomes inherently different from those of more advanced economies. For example, developing countries tend to rank lower with regard to socioeconomic indicators such as the HDI (see UNDP 2015: 208n). Economically speaking, developing countries generally exhibit lower levels of income combined with higher levels of inequality and absolute poverty (Todaro and Smith 2015: 41). Another important economic feature distinguishing developing from developed countries is their level of industrialization (ibid.: 66n). While developed countries are characterized by comparatively high levels of industrialization

and an increasingly important service sector, developing countries are frequently rather agrarian-based economies, additionally displaying lower levels of agricultural productivity (ibid.). Such structural change in the course of a nation's development is reflected in the notion of the three-sector hypothesis going back to contributions by William Petty (1992[1690]), Allan G. B. Fisher (1939), Colin Clark (1940) and Jean Fourastié (1954) (see, e.g., Wolfe 1955). The concept broadly identifies agriculture as the *primary*, industry—including manufacturing—as the *secondary* and services as the *tertiary* sector of an economy and witnesses a shift over time in a given economy from the primary over the secondary to the tertiary sector in terms of value added, employment and final consumption expenditure shares (Herrendorf et al. 2014: 859). Such structural transformation is generally accompanied by productivity gains in all sectors and is driven by technological progress (Herrendorf et al. 2014: 902; Acemoglu and Robinson 2012: 77; Felipe et al. 2010: 4). In this context, Kay (2002: 1098) remarks that "the critical factor for securing continuous growth is the achievement of greater productivity in resource use throughout the economy rather than the transfer of resources from one sector to another." Still, particularly the secondary sector is of importance due to its ability to generate mass employment resulting in increased productivity and demand and, by that, initializing a "virtuous cycle" (Felipe et al. 2019: 141; see also Kohli 2004: 2n). In fact, developed countries are frequently referred to as "*industrial* countries" (Felipe et al. 2019: 139; Todaro and Smith 2015: 66). In order to foster such structural change, both developed and developing states have been employing industrial policy (Felipe et al. 2019: 139n; Chang 2002: 2n). Ensuring long-term economic success then additionally requires subsequent upgrading, i.e. enhancing productivity and moving up the (global) value chain in pursuance of higher-value activities (Doner 2009: 7n). This implies that states ought to take into account the international division of labor and the resulting opportunities and constraints when designing developmental strategies (Evans 1995: 6n). However, while such government intervention may affect economic development, an economy's development is not determined by the respective state's policies alone but also by institutions in a more general sense. "Institutions," in this context, are "the rules of the game" (North 1990: 3) which shape human behavior and, eventually, economic development by structuring the incentives in a society. Since institutions are largely subject to inertia and path dependence, they may decisively contribute to blocking development.

In order to explore these matters of industrial policy and economic development, the remainder of this section proceeds as follows: subsection 2.1. lays out the theoretical groundwork and elaborates on the interdependencies between economic development, institutions and states.

Against this background, subsection 2.2. elaborates on the concept of the *developmental state* as a prominent approach to industrial policy particularly relevant in the Asian context. On this basis, subsection 2.3. derives the concept of the *underdevelopmental state*. In contrast to the *developmental state*, the *underdevelopmental state* blocks economic development through a lack of industrial policy and rather disadvantageous institutional structures including both internal and external blockades. Instead of furthering economic development, the *underdevelopment state* then continuously reproduces a certain level of underdevelopment through its institutional specificities subject to inertia and path dependence. The remainder of the study then utilizes the Philippines to illustrate the concept of the *underdevelopmental state* in the Asian context.

2.1. Economic Development, Institutions and States

In theorizing economic development, institutionalist approaches have been gaining prominence and recent publications such as *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* by Daron Acemoglu and James A. Robinson (2012) or *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy* by Francis Fukuyama (2015) concur in that "institutions matter." "Institutions" are "the rules of the game" (North 1990: 3) shaping individual behavior and, eventually, economic development. As it is mostly the state's task to both design and enforce a country's economic institutions which, in turn, enable economic exchanges and cooperation, states may influence economic development decisively. Generally, states can opt for providing and enforcing basic institutions merely leveling the playing field or intervening in the economy more actively by employing industrial policy. Since states may fail in accomplishing either one of these tasks, states may also block economic development rather than fostering it. In this context, Ebner (2018: 117, translation by author) speaks of a "paradox," i.e. the state as both potentially furthering and hindering development.

The following elaborates on the interplay between economic development and institutions (subsection 2.1.1.) and in how far the state may facilitate or, in fact, blocks economic development (subsection 2.1.2.).

2.1.1. The Role of Institutions in Economic Development

Even though economies around the world differ decisively in their respective development, to date, no commonly accepted explanation for these inequalities has been found (Acemoglu and

Robinson 2012: 48). However, geographical differences between countries including natural resource endowments and climate have largely been dismissed as primary cause for differences in economic development levels (Acemoglu and Robinson 2012: 48n; Engerman and Sokoloff 2008b: 641n; Acemoglu et al. 2001: 1387, 1389, 2002, 2006; Rodrik et al. 2004: 149n; Easterly and Levine 2003: 32n; see Diamond 1997 and Sachs 2005 for opposing views). Easterly and Levine (2003: 26n), Rodrik et al. (2004: 141n) and Acemoglu et al. (2006: 33), however, maintain that geography does indirectly influence development through partly shaping a country's institutions. Also ignorance has mostly been rejected as causal for underdevelopment since political leaders typically do not make decisions based on their knowledge but rather based on the respective underlying incentive structures (Acemoglu and Robinson 2012: 63n). While culture and economy certainly mutually influence each other, culture has been dismissed as the main reason for economic development or the lack thereof in the long run as well (Acemoglu and Robinson 2012: 56n; Chang 2011: 491n; Engerman and Sokoloff 2008a: 122, 2008b: 643; Chang 2007a: 167n; Acemoglu et al. 2001: 1388n). "Culture," in this context, means "shared habits of thought and behaviour that are prevalent in an entire group, community or society" (Hodgson 2001: 296). While matters such as religion or national or regional ethics, values or attitudes are not deemed causal regarding economic development, social institutions *related* to culture such as trust or ideology do, in fact, influence an economy's performance by both shaping its (formal) institutions and potentially lowering transaction costs (Acemoglu and Robinson 2012: 57). Finally, economic factors such as innovation or factor accumulation are not *causes* of development but *are* development as the question of *why* some societies innovate and accumulate while others do not—or at least not to the same degree—remains (Engerman and Sokoloff 2008a: 120n; North and Thomas 1973: 2; see also Rodrik et al. 2004: 132n; for a critical account stressing the importance of human capital see Glaeser et al. 2004).

The result of these hypotheses' failure to explain differences in development between different economies gave rise to explanations emphasizing *institutional* differences (see, e.g., Acemoglu and Robinson 2012, Acemoglu et al. 2001, 2002, 2005, North 1981, 1990, 2005, Rodrik et al. 2004, Keefer and Knack 1997, Knack and Keefer 1995 or North and Thomas 1973). "Institutions" are the "rules of the game" (North 1990: 3) which "shape, limit and channel human behavior" (Fukuyama 2015: 6). The beginnings of institutionalist concepts to political economy date back to publications by, amongst others, Thorstein B. Veblen (1899) and John R. Commons (1924, 1934, 1950) representing the so-called "old institutionalism" of the early twentieth century and mostly focusing on describing formal political institutions and matters of

power distribution (Engerman and Sokoloff 2008a: 120n; see also Hodgson 2004 or Mitchell 1967, 1969). Since then, different branches of institutionalism have emerged.

In their seminal publication *Political Science and the Three New Institutionalisms*, Peter A. Hall and Rosemary C. R. Taylor (1996) identify three "new institutionalisms": (1) historical institutionalism, (2) rational choice institutionalism and (3) sociological institutionalism. The latter views institutions as "socially constructed" and, by that, does not allow for individual agency but is of a rather deterministic nature (ibid.: 950, 954). Rational choice institutionalism, on the other hand, is based on the concept of methodological individualism and presupposes comprehensive knowledge and capacities to act on the part of the respective individual actors (ibid.: 952). Drawing on Tsebelis (1990: 40), Hay and Wincott (1998: 952) note, however, that rational choice institutionalism is structuralist in the sense that, in the end, all rational actors adapt their behavior to the respective context. In any case, rational choice institutionalism is of an "equilibrium character" (Hall and Taylor 1996: 953), thereby failing to explain institutional inefficiencies and change. Moreover, it undervalues the importance of power asymmetries between actors (ibid.: 952n). Historical institutionalism, on the contrary, particularly takes these issues into account. For one, historical institutionalism emphasizes differences in power between actors as explanations for the rise and change of a society's institutions (Mahoney and Thelen 2010: 7). Apart from that, historical institutionalism views a society's contemporary institutional framework as "the legacy of concrete historical processes" (Thelen 1999: 382), thereby incorporating evolutionary aspects of institutional change (Ebner 2008b: 7). Indeed, understanding current political and economic events requires "[putting] them in the context of the long-term story of the underlying institutional structure" (Fukuyama 2015: 7). Such an explicitly *historical* perspective is then able to explain institutional inertia and path dependence while acknowledging the possibility of "critical junctures," i.e. coincidental events disrupting the current institutional order (Hall and Taylor 1996: 941n). Additionally, historical institutionalism recognizes the importance of agency as actors are perceived as "strategic, seeking to realize complex, contingent and often changing goals" (Hay and Wincott 1998: 954), thereby influencing the respective institutions. Since these actors are, at the same time, *embedded* in the respective institutional structures and *perceive* them through individual cognitive filters, a complex relationship between structure and agency emerges (Hay and Wincott 1998: 954n; see also Thelen and Steinmo 1992: 7n; on the agency–structure problem in general see Hodgson 2004: 12n). As Hodgson (2001: 296) puts it, "[a]ctor and structure, although distinct, are […] connected in a circle of mutual interaction and interdependence." In this sense, actors are both

"objects and […] agents of history" (Thelen and Steinmo 1992: 10). By mainly proceeding inductively and thoroughly comparing historical facets of different countries' development trajectories, historical institutionalism then enables the development of "middle range theory" (Harriss 2008: 325; see also Thelen and Steinmo 1992: 11n).

Alongside these three new institutionalisms rooted in the academic traditions of political science and sociology, in economics, the so-called "new institutional economics" emerged over the past decades. The term "new institutional economics" was coined by Oliver E. Williamson (1975: 1) who used it as a "generic term for a diverse group of already existing modern economic studies of institutions" (Richter 2015: 11). While Williamson (1975: 1) emphasizes the eclectic nature of the new institutional economists, he identifies two commonalities among their approaches: (1) the perception that conventional microeconomic theory is too abstract for the analysis of real-life phenomena and (2) the notion that "transactions" are a key issue in economic studies. New institutional economics—unlike old institutionalism—is thus rather a complement to than a substitute for traditional economic theory (Williamson 1975: 1; see also Engerman and Sokoloff 2008a: 121 and Harriss 2008: 315). But, as Harriss (2008: 314n) points out, new institutional economists typically struggle with the roles played by politics and culture when it comes to institutional and, eventually, developmental outcomes. However, one of the most prominent scholars in the field, Douglass C. North, offers a theory of economic development based on institutional considerations *and* particularly taking into account the roles played by the state, ideology and history in economic development, in this manner allowing for the microfoundation of historical analyses (North 1990: 111n). In Harriss's (2008: 325) words, "North seems to have joined hands with the historical institutionalists," thereby addressing the shortcomings of the new institutional economics (see also Evans 1995: 33n).

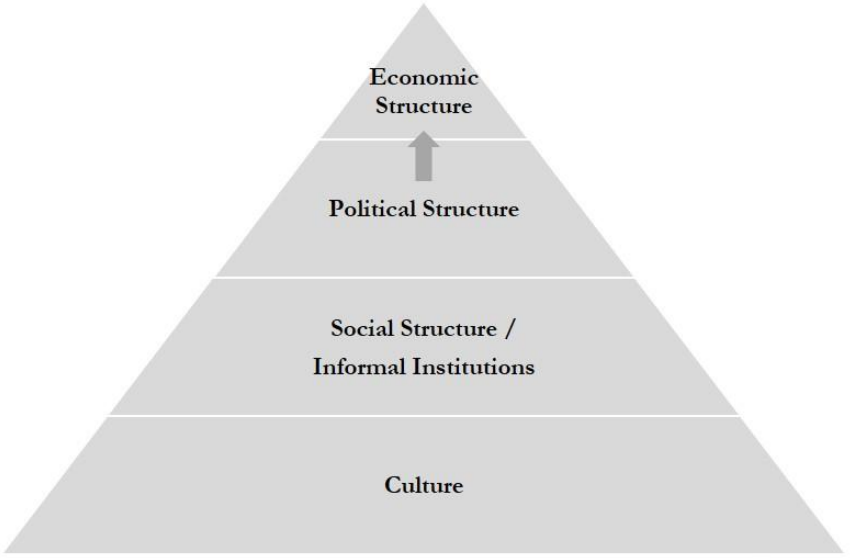
According to North (1990: 12), modern economies are characterized by sophisticated specialization (of knowledge) and division of labor (North 2005: 121; see also Lin and Nugent 1995: 2313). In such a world, complex situations of exchange frequently need solving in order to realize the gains from trade and further economic development (North 1990: 12). The underlying problem is one of human cooperation under the assumption of wealth-maximizing behavior—or utility-maximizing behavior as an actor's utility function, i.e. motivation, may include aspects such as altruism, fairness and free riding (ibid.: 12n, 21n). Fundamentally, this behavior might not lead to socially desirable outcomes, i.e. economic development, especially if an exchange is not repeated or finite, information is incomplete or numerous actors are involved

(ibid.: 12). Indeed, "[a]ll instances of successful development are ultimately the collective result of individual decisions by entrepreneurs to invest in risky new ventures and try out new things" (Rodrik 2007: 153; see also North 1990: 104). This relates to the problem of collective action advanced by Mancur Olson (1965: 2n) stressing that the interests of small groups might outplay those of society on the whole due to the larger groups' failure to organize themselves in the face of individual rational behavior. Stable and functioning institutions are then the key to enabling (favorable) exchanges in modern economies despite supposed adverse circumstances by allowing individuals to predict the behavior of others—at least to a certain extent (Hodgson 2001: 294; North 1990: 34). At the same time, however, institutions should remain somewhat flexible in order to be able to accommodate changing conditions, i.e. they should reach *adaptive* rather than mere *allocative* efficiency (Engerman and Sokoloff 2008a: 125n; North 1990: 80n, 2005: 123n). Institutions—or the incentives they are providing—both *limit* and *facilitate* human action at the same time (Hodgson 2006: 2). The latter is due to their potential ability to reduce uncertainty in situations of exchange, thereby lowering the respective costs (North 1990: 5). In short, "when it is costly to transact, institutions matter" (ibid.: 12). Transaction costs arise because the information needed before an exchange and the realization of the exchange itself are costly (ibid.: 27; see also Coase 1937 and Williamson 1981, 1985). Institutions potentially lower these costs, thereby inducing cooperative behavior and, by that, decisively impacting the performance of economies (North 1990: 3, 27, 2005: 117n). According to Hodgson (2003: 383), "[w]ithout such institutions all human activity would be hopeless."

An economy's institutional framework contains a political structure, an economic—or property rights—structure and a social structure (see figure 1) (North 2005: 49; see also Lin and Nugent 1995: 2307). Institutions can be informal or formal even though the distinction is "one of degree" (North 1990: 46). Informal constraints are, for instance, norms, conventions or codes of behavior whereas formal constraints refer to written rules such as constitutions or laws (North 1981: 204n, 1990: 36, 47; for a critique of this distinction see Sindzingre 2004, 2010: 10n or Hodgson 2006: 11n). Informal constraints originate in the fact that information is transferred socially from one generation to the next and, therefore, belongs to a society's culture (North 1990: 37). As mentioned above, a society's culture includes shared beliefs, values, preferences and practices (Mokyr 2017: 8n; Hodgson 2001: 296). In the short run, culture serves as a "conceptual framework for encoding and interpreting […] information" (North 1990: 37) and, by that, reduces transaction costs. Ideologies, for instance, serve to both explain how the world—subjectively—*should be* and how it—supposedly—*is* and may hence lower transaction

costs (North 1992: 485). However, as Ebner (2015: 33) points out, "it is not entirely clear in how far ideology belongs to the structural features of society and in how far it is an autonomous subject to human agency." In any case, apart from an actor's "own sense of the way the world *ought* to be" (North 1990: 21, italics added), the way in which individuals *perceive and decode* that world is decisive for explaining their behavior (ibid.: 22n). Precisely, information is not only complex and incomplete but also processed "based upon subjective perceptions of reality" (ibid.: 23). These mental models are derived from cultural heritage, local everyday problems and non-local learning where the former determines individual actors' beliefs, thereby functioning as a "scaffolding that shapes human interaction" (North 2005: 48, 61; on mental models see also Denzau and North 1994).

Figure 1: An Economy's Institutional Framework



Source: own illustration.

A society's institutional framework then reflects its accumulated beliefs over time, meaning that belief systems and institutional structures are closely interrelated—this is especially true for informal institutions (North 2005: 49n). In fact, institutions are oftentimes "little more than the 'codification' of beliefs" (Mokyr 2017: 10 drawing on Szostak 2009: 234). Yet, as Hodgson (2001: 294) rightly points out, "[institutions] depend upon the thoughts and activities of individuals but are not reducible to them." Rather, "[i]nstitutions are simultaneously both objective structures 'out there', and subjective springs of human agency 'in the human head'" (2001: 296). The difference between institutions and culture is that "culture [is] something *entirely of the mind*" while "[i]nstitutions are socially determined conditional incentives and consequences to actions" (Mokyr 2017: 9, italics in original). But since institutions are "embedded in deep,

informal social strata, […] culture re-enters the story as a secondary criterion of classification and explanation" (Hodgson 2001: 303). In a way, all institutions are thus based on culture (see figure 1) (Mokyr 2017: 10n; Alesina and Giuliano 2015: 916n; Hodgson 2001: 296n). Or, as Dietl (1993: 71n) puts it, informal institutions are "fundamental" while formal institutions are "secondary." It follows that informal—or social—institutions play a more important role in determining a given society's long-run economic development than the respective formal constraints (North 1990: 36n). Especially when formal rules are lacking—as in most countries around the world—, the necessary framework enabling exchanges is frequently provided by informal institutions (Fukuyama 2015: 8; Hodgson 2015: 114; North 1990: 38n).

Formal institutions or rules can be of a political or economic nature depending on if they structure political or economic exchanges (North 1990: 47). Political rules comprise the hierarchy of a polity, its decision-making structure and means of agenda control (ibid.). Essentially, political institutions specify "how the government is chosen and which part of the government has the right to do what" (Acemoglu and Robinson 2012: 79n). In this manner, political institutions pose ex-ante arrangements among political actors needed to reduce uncertainty in political exchanges, thereby enabling cooperation, and limit their scope of action at the same time (Acemoglu et al. 2005: 390n; North 1990: 50). In addition to formal constraints, e.g. constitutions, such arrangements frequently include informal political institutions (North 1990: 50, 2005: 107). Economic rules, on the other hand, facilitate *economic* exchanges and cooperation (Acemoglu 2006: 342). In market economies, these exchanges are of a "specific, contractual form" (Hodgson 2015: 125) and include a transfer of rights (ibid.: 113). Economic institutions mainly specify property rights, i.e. the "bundle of rights over the use and the income to be derived from property and the ability to alienate an asset or a resource" (North 1990: 47). This does not only include individuals' or groups' rights over goods and services in their possession but also their rights over their own labor (Lin and Nugent 1995: 2310; North 1990: 33). A society's property rights structure includes a wide array of different institutions, among them land, contract and intellectual property rights law and practices concerning shared property (Chang 2007c: 22). Such a structure potentially furthers economic development by facilitating both investment and trade (Haggard et al. 2008: 207).

However, property rights have to be *secure* in order to actually lower transaction costs and facilitate economic exchanges. If property rights are not secure, economic actors simply do "not have the incentive to accumulate and innovate" since they might be randomly expropriated in

the future (Haggard et al. 2008: 207; Rodrik 2007: 156). Consequently, well-defined property rights are not enough by themselves but it is indispensable to effectively *enforce* them (Haggard et al. 2008: 207; North 1990: 54). Enforcement, in this context, is "the credible threat to induce compliance" (Barzel 2002: 35). A proper enforcement mechanism solves commitment problems between the contracting parties, thereby enabling economic exchanges and cooperation (North 1993: 12n; see also Williamson 2000: 99n). Effective enforcement is not only necessary in the case of *economic* institutions, however, but crucial for all kinds of institutions if they are to actually shape human behavior since, obviously, "the mere codification or proclamation of a rule is insufficient" (Hodgson 2015: 89; Engerman and Sokoloff 2008a: 123). While some rules, both formal and informal, are mostly self-enforcing—social constraints, for instance, are enforced endogenously by the respective community—, others call for enforcement by a third party due to their restrictive character (Kingston and Caballero 2009: 154; Hodgson 2006: 14n; Knight 1992: 3). North (1990: 58) defines "third-party enforcement" as entailing a "neutral party with the ability, costlessly, to be able to measure the attributes of a contract and, costlessly, to enforce agreements such that the offending party always had to compensate the injured party to a degree that made it costly to violate the contract." In fact, the distinction between mere "possession," on the one hand, and "property," on the other hand, is precisely that the latter "involves socially acknowledged and enforced rights" (Hodgson 2003: 381) and is, therefore, naturally in need of an enforcement mechanism. In other words, "property" is "institutionalized possession with third-party mechanisms of adjudication and enforcement" (Hodgson 2015: 102). Effective enforcement is particularly critical in order to enable *complex* exchanges taking place in economies characterized by extensive specialization and division of labor (North 1990: 33). At the same time, too strongly protected property rights might hinder desirable (institutional) innovation and, in consequence, economic development (Chang 2007c: 24n). Generally, "[t]hird-party enforcement is never ideal, never perfect, and the parties to exchange still devote immense resources to attempting to clientize exchange relationships" (North 1990: 35). Moreover, even if formal constraints are well-defined and, in principle, enforceable, matters of compliance such as different interpretations of the respective rule might lessen its effectiveness (Mahoney and Thelen 2010: 10n). Apart from proper design and enforcement, formal institutions need to be accompanied by the appropriate informal institutions in order to be effective (Rodrik 2007: 156; Lin and Nugent 1995: 2310; North 1993: 20). Finally, property rights may be secure but "favor an inefficient allocation of resources" (Haggard et al. 2008: 212; see also North 1990: 83n).

Indeed, a society's incentive structure may lead to *productive* behavior furthering economic development or encourage the opposite in the form of *unproductive or redistributive* activities (North 1990: 9; see also Baumol 1990). Institutions achieving the former are typically labeled "efficient" (North 1990: 92). "Inefficient" institutions, on the other hand, are those "not maximiz[ing] the growth potential of a society" (Acemoglu 2006: 341). In order to be efficient and facilitate long-run economic development, both political and economic institutions generally need to be *inclusive*, i.e. accessible to the majority of the respective society (Acemoglu and Robinson 2012: 74n; Acemoglu et al. 2005: 395).

Inclusive *economic* institutions typically entail private property rights—even though Chang (2007c: 23) emphasizes the success of state-owned enterprises (SOEs) in countries such as South Korea and Taiwan—and an impartial rule of law reducing enforcement costs as well as regulatory bodies (Acemoglu and Robinson 2012: 74n; Haggard et al. 2008: 211; Rodrik 2007: 157n; North 1993: 20, 2005: 159). Indeed, advanced economies generally exhibit such third-party enforcement while developing economies do not (North 1990: 33n). The incapacity of a society to develop an effective enforcement mechanism thus tends to result in economic stagnation and underdevelopment (ibid.: 54). In short, "[w]here customary law is prevalent, it is generally associated with politicoeconomic underdevelopment." (Hodgson 2015: 77).

Political institutions are generally thought of as efficient when they are pluralistic and—at least to a certain degree—centralized (Acemoglu and Robinson 2012: 80n; North 1993: 20). While the causal connection between democracy and economic development has not been established conclusively, a number of scholars stress democracy's positive effects on economic development (see, e.g., Acemoglu et al. 2019, Knutsen 2013, Papaioannou and Siourounis 2008, Rodrik 2007: 168n, Persson and Tabellini 2006 or Olson 2000; for an opposing view see Przeworski et al. 2000). Rodrik (2007: 166n), for instance, refers to democracy as a "metainstitution" facilitating the improvement of other institutions. Political inclusiveness can then bring about more efficient property rights as high transaction costs in political markets usually stand in the way of efficient economic rules (North 1990: 52). Democracy, however, is not a prerequisite for economic growth. Rather, "various institutional forms or structures are reasonable substitutes for each other and may lead to similar economic performance" (Engerman and Sokoloff 2008a: 127). Apart from that, democracies may be subject to capture by particularly powerful groups (Acemoglu and Robinson 2008: 282n; Bardhan 2005b: 129n).

In this context, it is useful to distinguish between "forms" (e.g. democracy) and "functions" (e.g. secure property rights) of institutions where "it is the functions that the rules perform that make institutions matter" (Lin and Nugent 1995: 2307). While institutions usually perform more than one function, the same function can be performed by different institutions (Chang 2007c: 18n). Property rights, for example, may not only be secured by a rule of law but also through appropriate "micro-institutions" (Rock 2017: 233) in authoritarian states—and, of course, the sheer use of force which stresses the potential costliness of authoritarian structures (Mokyr 2017: 11n). Moreover, *which* particular institutions are efficient, i.e. development-inducing, in a given society depends on the respective circumstances including its stage of development, so that originally efficient institutions may turn out to be inefficient at a later stage in the development process (Chang 2011: 481n; Acemoglu et al. 2005: 428). Apart from that, complementarity between different formal institutions is usually necessary in order to make them beneficial to a society (Chang 2009: 487n, 2011: 490). Still, sustainable and inclusive economic development generally requires the "establishment of institutions of impersonal exchange that constrain the players and limit political rule making" (North 2005: 107).

Social institutions supportive of economic development include ideologies containing, amongst others, values of industriousness, integrity and public-mindedness and positive attitudes towards innovation, education and economic success (Ebner 2018: 120; Mokyr 2014: 167n, 2017: 17n). In particular, it is of importance for an economy's success in how far its formal institutions are perceived as legitimate since legitimacy reduces transaction costs (Greif 2006: 147n; North 1981: 53n). In essence, "without a meta-rule (or ethic) that rules should be respected and followed, rules and laws may well be empty and unenforced suggestions" (Mokyr 2017: 10 drawing on Greif 2006: 7n). Rule compliance on the whole is then reached by a "mixture of norm internalization and coercive enforcement" (North 2005: 105). This points to the complementarity of formal and informal institutions needed for generating economic development (North 2005: 157; Ahrens 2002: 52). Institutions genuinely developed from shared cultural beliefs are typically perceived as legitimate while illegitimate institutions may only be upheld by force (Mokyr 2017: 11; North 2005: 104). Apart from potentially providing legitimacy, shared cultural beliefs may result in trust which, in turn, enables exchanges by reducing uncertainty (Harriss 2008: 318n). However, while higher degrees of trust among *all* members of a given society tend to elicit higher levels of society-wide economic development, trust among only small groups may inhibit such development (Harriss 2008: 319n; on trust and economic

development in general see, e.g., Algan and Cahuc 2014, Granovetter 2005, Zak and Knack 2001 or Fukuyama 1995).

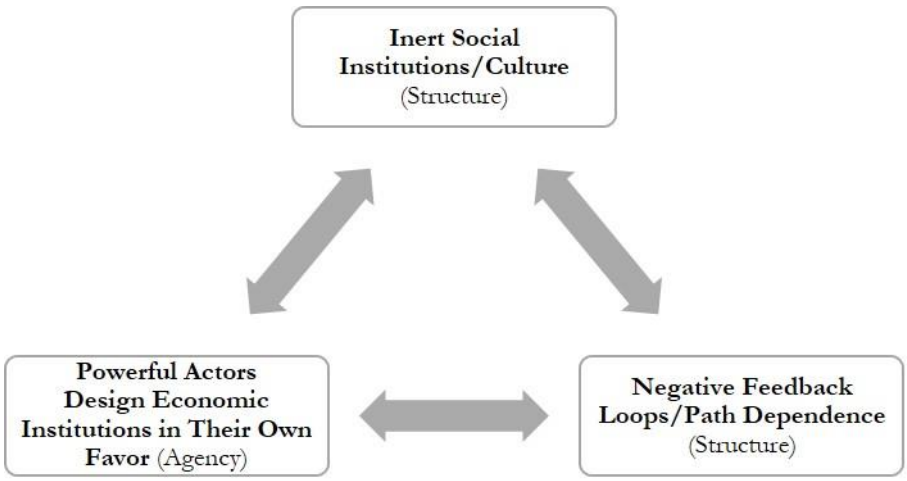
Inefficient institutions, on the other hand, do not sustainably promote economic development since they do not provide secure property rights for the majority of the respective constituents and/or do not allow for broad participation in sufficiently centralized political processes (Acemoglu and Robinson 2012: 76, 81, 150). Such institutions are consequently *extractive* rather than inclusive as they provide opportunities for the few to take advantage of the many—with regard to both political and economic matters (ibid.: 76). In such an institutional environment, long-term investment is then unlikely and entrepreneurs instead focus on short-term profits and rent-seeking, i.e. predominantly unproductive activities (Shirley 2008: 611). While extractive institutions may also generate economic development—at least up to a certain degree—, this growth mostly relies on existing technologies rather than encouraging technological change, thereby making it unsustainable (Acemoglu and Robinson 2012: 150).

Generally, each society consists of a "mixed bag of institutions," i.e. features both efficient and inefficient institutions, and it is the balance between them which is decisive for a society's economic development (North 1990: 69, 78). Whereas this balance is leaning towards mostly inclusive institutions in, for example, today's US economy, it does not do so in many less developed countries (ibid.: 78). Indeed, economic development and the types of institutions such development necessitates are not the norm but have rather been the exception throughout economic history—making the success of the now-advanced economies the exceptional case compared to the majority of nonperforming or not-so-well-performing economies (Shirley 2008: 616; North 1990: 96, 125). In fact, in developing countries, transaction costs can be so high as to inhibit investment and trade entirely—especially when formal institutions are missing (Shirley 2008: 613; North 1990: 67). Informal institutions frequently serve to make up for this lack of formal institutions but, as these do not offer third-party enforcement, transaction costs remain high (Shirley 2008: 612; Hodgson 2001: 302n; North 1990: 66). In other words, while advanced economies have been prospering despite the existence of incentives and disincentives at the same time, this is not the case in developing countries where inefficient institutions outweigh efficient ones and, by that, block economic development (North 1990: 78). However, the causal connection between institutions and economic development seems to run both ways as economic development frequently leads to more efficient institutions (see, e.g., Chang 2011: 476n or Lin and Nugent 1995: 2303). Still, economies differ from each other with regard to their

development performance due to the differences in their institutional frameworks and poor countries are poor because their institutional frameworks encourage unproductive rather than productive activities (Acemoglu and Robinson 2012: 73; Rodrik 2007: 184; North 1990: 110). As Acemoglu and Robinson (2012: 398) put it, "[n]ations fail economically because of extractive institutions."

Additionally, these institutions are generally quite persistent which is "puzzling because disorder [characterized by unstable and inefficient institutions] increases uncertainty and typically the great majority of players are losers" (North 2005: 103). The answer to the question of *why* so many societies are stuck with mostly inefficient institutions has to do with institutional inertia and path dependence originating from matters related to both agency and structure (see figure 2) (Chang 2011: 493n; Leftwich 2010: 109; Shirley 2008: 612).

Figure 2: Sources of Enduring Institutional Inefficiencies



Source: own illustration.

Agency is important in this context because the relation between political and economic institutions is such that political institutions define economic rules (see figure 1) (Acemoglu and Robinson 2012: 79; Acemoglu et al. 2005: 428; Bates 1995: 41n, 46n; North 1990: 48, 1993: 13; Knight 1992: 189). The respective institutional outcome is thus shaped by the relative bargaining power of the different players involved and for economic institutions to become (more) efficient, bargaining power must be in the hands of those actors interested in such change (North 1990: 68, 101). The distribution of (political) power in a society is hence crucial with regard to its economic institutions and, ultimately, development success (Engerman and Sokoloff 2008a: 127n; Harriss 2008: 313n; Acemoglu et al. 2005: 390n). Due to this "primacy

of politics" (Leftwich 2000), politics is not only key for *promoting* but also for *understanding* economic development in the first place (ibid.: 4). Relating back to the importance of belief systems, essentially, "the way humans structure the decision-making process determines whose beliefs matter" (North 2005: 74). Acemoglu et al. (2005: 390n) distinguish between "*de jure* political power" allocated by political institutions and "*de facto* political power" originating from a group's ability to act collectively and the resources at its disposal. The latter implies that those individuals controlling a society's resources may exert tremendous influence over that society's economic institutions through influencing its political institutions. Accordingly, Reis and Moore (2005: 2) define a country's "elite" as "the people who occupy commanding positions within the set of institutions that are most salient to national political influence and policy-making within [that] country." In this setting, the *political* elite's members hold offices and "regulate property but do not own it" while the *economic* elite "hold[s] a controlling interest in property" and thus possesses *de facto* political power (Amsden 2012: 19). If the elite's power is comparatively unconstrained, i.e. political institutions are *extractive*, economic institutions tend to be extractive as well as to maximize the respective elite's own benefits since "[r]uling elites generally pursue the easiest avenues for generating resources" (Whitfield and Buur 2014: 129 partly drawing on Doner et al. 2005; Acemoglu and Robinson 2012: 81; Acemoglu 2006: 342n; Doner et al. 2005: 329). In this manner, institutions function primarily as "distributional instruments" (Mahoney and Thelen 2010: 8; Lin and Nugent 1995: 2310). *Inclusive political* institutions, in contrast, tend to be accompanied by *inclusive economic* institutions benefiting the many (Acemoglu and Robinson 2012: 81). Insofar, democracy really is a "metainstitution" (Rodrik 2007: 166n). Elites hence play an elevated role when it comes to explaining institutional inertia and "poor countries are poor because those who have power make choices that create poverty" (Acemoglu and Robinson 2012: 68)—even if they know about the inefficiency of the respective economic institutions (Savoia and Sen 2015: 454n; Leftwich 2010: 104; Acemoglu et al. 2005: 428; Lin and Nugent 1995: 2314n). On the part of an elite's constituency, efforts to induce institutional change may be impeded by collective action problems which highlights the "differential capacity of different social groups in mobilization and coordination" (Bardhan 2005a: 522; North 1981: 31n; Olson 1965: 2n). Moreover, nonelites might be unable to correctly perceive their own interests (Fukuyama 2015: 28).

Hence, from an agency perspective, "equilibrium economic institutions will not be those that maximize the size of the overall pie, but the slice of the pie taken by the powerful groups" (Acemoglu et al. 2005: 427). Indeed, "all sides are really interested in *relative*, rather than absolute,

gain or loss" (Bardhan 2005a: 525). Moreover, by structuring the respective economic institutions in a way which increases their own resources, elites secure future political power which, in turn, allows them to also keep economic institutions extractive (Acemoglu and Robinson 2012: 365; Acemoglu et al. 2005: 392, 432). Even if an extractive regime is overthrown, the new rulers are hence likely to establish extractive economic institutions as well (Acemoglu and Robinson 2012: 365n). Such negative feedback loops "reproduc[ing] the initial relative wealth disparity in the future" (Acemoglu et al. 2005: 392) point to the path dependence of institutions indicating that not only *agency* determines institutional outcomes and, in consequence, economic development but also the preexisting institutional *structure*.

"Path dependence" means that "history matters" in the sense that "the constraints on the choice set in the present […] are derived from historical experiences of the past" (North 2005: 52)—understanding today's actions and events therefore requires analyzing yesterday's actions and events (North 1990: 100). In North's (1990: 112) view, "[p]ath dependence is the key to an analytical understanding of long-run economic change" as it is "an approach that offers the promise of connecting microlevel economic activity with the macrolevel incentives provided by the institutional framework." The concept of path dependence goes back to the works of W. Brian Arthur (1989, 1994) and Paul A. David (1985) who showed that it is not necessarily the most efficient technologies that will prevail in a competitive setting (see, e.g., Beyer 2015: 150n). David (1985) gained prominence especially through his elaborations on the persistence of the comparatively inefficient QWERTY keyboard even after the reason for its initial development—the need to reduce clashes of typewriter bars—ceased to apply (see also Boas 2007: 35n). The two main characteristics of path dependence are an *endogenous cause* meaning that this cause depends on the respective institution itself while influencing the institution's further development at the same time and *increasing returns to scale*, i.e. an increase in the players' cooperative payoffs over time (Rixen and Viola 2015: 308n). In short, path-dependent institutions are self-reinforcing (ibid.: 312). Drawing on Arthur (1994), Rixen and Viola (2015: 305n) pinpoint three consequences of endogeneity and increasing returns: (1) unpredictability and contingency, (2) nonergodicity meaning that the sequence of choices and events decisively influences institutional outcomes and (3) the possibility of institutional lock-in due to nonergodicity. The fact that sequence matters points to the significance of the respective initial conditions in a given society regarding its future development (North 1990: 130). In this context, it is important to recognize "critical junctures" as potential starting points for path-dependent processes (Rixen and Viola 2015: 316n). While generally deemed exogenous to the respective

institutions, "critical junctures" are "crucial founding moments of institutional formation" (Thelen 1999: 387) such as, for example, wars, revolutions or natural disasters during which regular institutional constraints are relaxed (Rixen and Viola 2015: 316n; see also Capoccia 2015; for an example see Acemoglu and Robinson 2012: 96n). The potential influence of such events becomes evident when considering a Polya urn experiment where after each draw out of an urn initially containing two differently colored balls, the drawn ball is returned together with another ball of that color before the next draw (Pierson 2004: 17n). While each draw for itself is a random event, early draws have a significant effect on the long-term outcome as the process generates positive feedback (ibid.: 17). However, processes of institutional development are neither cumulative nor predetermined by history and "[f]or reasons of complexity and the number of variables to be considered, any predictive value regarding the origin and impact of institutions can be rather uncertain" (Engerman and Sokoloff 2008a: 132; Acemoglu and Robinson 2012: 157, 180). Indeed, path dependence does *not* mean that "the past neatly predicts the future" (North 1990: 98n).

Generally, both political and economic rules stretch from general to very specific provisions with more general rules typically being more costly, i.e. unlikely, to change than more specific ones (ibid.: 47). While such difficult-to-change general rules may grant the needed and oftentimes—for example in the case of democratic constitutions—explicitly wanted institutional stability, inertia and path dependence of such fundamental institutions may also result in institutions designed in the context of agrarian-based economies extending into the industrial era and—with regard to *political* institutions—"political decay" (Fukuyama 2015: 28) including increased corruption and civil unrest (Fukuyama 2015: 47; Chang 2011: 490). This logic extends to social institutions as the "most general" kind of institutions since culture, due to its internal nature, changes only incrementally over time and cannot be changed at will, including the respective enforcement mechanisms (North 1990: 44n, 86n, 2005: 156n; Roland 2004: 116n; Dietl 1993: 71n). Since all institutions are "socially embedded" (Hodgson 2003: 383), all institutions are then—at least to some degree—affected by such cultural inertia. In this context, Fukuyama (2015: 9) notes that "[d]ue to the intrinsic value with which they are typically endowed, institutions tend to be highly conservative, that is, resistant to change" and Kohli (2004: 16) maintains that "institutions are social patterns that gel only over time; and once gelled, they often endure beyond the forces that brought them into being."

Moreover, while formal institutions can technically be changed more easily, these changes may not have the intended effects as the underlying informal constraints endure (North 1990: 45, 47). Accordingly, the success of institutional transfers from one society to another is at least questionable and may well lead to "political and economic failure" (North 1994: 390; Mokyr 2017: 12; Roland 2004: 119n). In North's (2005: 77, 161) terms, "the belief system underlying the institutional matrix will deter radical change" and, therefore, "simply putting in place the formal rules is a recipe for disappointment, not to say disaster" (see also ibid.: 118). This relates back to the needed complementarity of formal and informal institutions in the generation of economic development. Adding on to this, culture and institutions mutually reinforce each other. Precisely, the interplay between culture and institutions is such that not only culture influences institutions but, at the same time, institutions influence culture (Alesina and Giuliano 2015: 928n). Indeed, institutions usually generate actors preferring the existing institutional structure over a different framework (Thelen 1999: 392n; North 1990: 99). As Hodgson (2001: 295) puts it, "[b]y reproducing shared habits of thought, institutions create strong mechanisms of conformism and normative agreement." It follows that efficient institutions and the respective underlying cultural framework tend to produce positive feedback effects while inefficient institutions and the related cultural underpinnings may get stuck in negative feedback loops (Mokyr 2017: 10n; Hodgson 2001: 295). In short, institutions and culture coevolve, eliciting a path-dependent process (Mokyr 2017: 10; North 1993: 21).

In this sense, institutional change can be understood as evolutionary, i.e. "unguided pattern[s] of change that arise[…] from a combination of variation, competition, and retention" (Lustick 2011: 6). In fact, North (1990: vii, italics added) himself states that "the past can only be made intelligible as a story of institutional *evolution*." In this analogy, human behavior is the phenotype, culture the genotype and institutions are the environment in which culture leads to behavior (Mokyr 2014: 152). As culture and institutions mutually reconstitute each other, the system's outcome is both indeterminate and irreversible (Mokyr 2017: 11n; Ebner 2008a: 293 drawing on North 2005: 155; Ebner 2008b: 10). Since, "like all evolutionary systems, culture is resistant to change" (Mokyr 2017: 30), such a system is characterized by institutional inertia and path dependence (Lustick 2011: 20n). At the same time, evolutionary approaches to institutional change stress the possibility of accessing "other counterfactual worlds" (ibid.: 22) through agency and choice (Mokyr 2017: 12; Lewis and Steinmo 2012: 320n; North 2005: viii). In this way, "an evolutionary perspective that represents the matter of [institutional] innovation in an adequate manner reaches beyond the concepts of path-dependence and embeddedness" (Ebner

2008b: 9). Finally, North (2005: 116n) notes that also cognitive limitations may impede institutional change on a structural level since human beings might not correctly perceive and/or process environmental changes due to "outdated" mental models. In fact, in the course of his "cognitive turn" (Ebner 2015: 12), North (1990, 2005) stresses the primacy of such cognitive issues when it comes to explaining institutional change or the lack thereof. However, such an overemphasis of cognitive aspects, i.e. individual structures, runs the risk of ignoring social aggregates and structures as sources—or impediments—of institutional change (Ebner 2018: 129n).

Notwithstanding these tendencies for persistence, there can be "openings" (Thelen 1999: 397) enabling gradual change at the margins or even, such as in the case of critical junctures, disruptive change—both with regard to formal and informal institutions (Acemoglu and Robinson 2012: 364n; Kingston and Caballero 2009: 155; Acemoglu et al. 2005: 392n; North 1990: 68). Apart from that, "[i]nstitutional structures […] may be stickier than what they do and what is done through them" (Streeck and Thelen 2005: 18) which emphasizes the potential influence of matters of actual implementation of and compliance with existing institutions—offering further opportunities for change (Mahoney and Thelen 2010: 10n; Streeck and Thelen 2005: 18). Last but not least, elites may change their views and attitudes, thereby enabling institutional change (Hay 2008: Note 7; Rodrik 2007: 191; Wade 1990a: 296). In a nutshell, "[h]istory is not destiny" (Acemoglu and Robinson 2012: 365) and feedback loops are not *categorically* unescapable.

To sum up, inert and path-dependent political, economic and social institutions are responsible for the economic development—or lack thereof—of a society in the long run (North 2005: 156n). Indeed, "[o]nce a development path is set on a particular course, the network externalities, the learning process of organizations, and the historically derived subjective modeling of the issues reinforce the course" (North 1990: 99). Accordingly, in the case of underdevelopment, inefficient institutions continuously reproduce this underdevelopment through their self-reinforcing nature (ibid.: 66).

2.1.2. The Role of the State in Economic Development

Apart from institutions as determinants of economic development, from a political economy perspective, the question of the state's role in such development is of key interest. The "state,"

in this context, is defined as "a hierarchical, centralized organization that holds a monopoly on legitimate force over a defined territory" (Fukuyama 2015: 23) and the "people and organizations juridically located in [that] particular territory" (Rueschemeyer and Evans 1985: 46n). Of course, however, the state is not a unitary actor but rather consists of a multitude of individuals and groups each with their own preferences and motives, implicating potential problems related to agency, collective action and coordination (Levi 2002: 53; Evans 1995: 19). State volition—and action—is hence "the result of internal political conflict and flux" (Evans 1995: 19). While it has been widely acknowledged that the state is indispensable in the process of economic development, the supposedly "best" role of the state has been changing over time (see, e.g., Sen 2013: 1, Rodrik 2007: 161n or Önis 1991: 110). In the decades following World War II, the need to develop *economically* was particularly urgent in developing countries in order to complement the mostly newly found *political* independence from the former colonizers with *economic* independence (Chang 2003: 21). In order to achieve such development, the respective state basically *had* to take the lead due to the lack of private entrepreneurship at the time (ibid.: 22). The theoretical debate concerning economic development during this period was dominated by two opposing paradigms: modernization theory, on the one hand, and dependency theory, on the other hand, essentially reflecting the opposing economic ideologies during the Cold War. Indeed, "ideologies help to define leadership priorities" (Kohli 2004: 21).

Modernization theory views underdevelopment as economic backwardness in the sense that developing countries are merely *behind* in their development and both *can* and *will* catch up with more advanced economies over time—with the goal of becoming similarly modern and industrialized economies (Menzel 2010: 78n). The reasons for the lack of development, in this case, are thus endogenous (ibid.). According to Walt W. Rostow (1960: 4n), in order to modernize, a society ought to pass through "five stages of growth" from (1) the traditional society to (2) the preconditions for take-off, (3) the take-off, (4) the drive to maturity and, eventually, (5) the age of high mass-consumption. In this process, an "effective centralized national state" (ibid.: 7) is crucial for providing public goods such as transport infrastructure and education needed for taking off (Rostow 1960: 24n, 30; see also Peet and Hartwick 2015: 146). While sharing the viewpoint that underdevelopment has endogenous causes, development economists argue in favor of a more interventionist state. Paul N. Rosenstein-Rodan (1943), for instance, propagates a (balanced) "big push" by the state in order to solve problems of coordination, Albert O. Hirschman (1958) calls for (unbalanced) public support of the most promising industry sectors and Alexander Gerschenkron (1962) regards the state's role in

financing industry sectors with significant backward linkages as crucial (see Payne and Phillips 2010: 61n, Chang 2003: 21n or Evans 1995: 31n). Such developmental strategies oftentimes include import substitution industrialization (ISI), i.e. the replacement of imports with domestically manufactured products (Menzel 2010: 80).

While dependency theorists partly come to similar conclusions concerning strategic matters, their reasoning differs in that they primarily regard *exogenous* factors—particularly international trade relations—as decisive when it comes to explaining underdevelopment (Peet and Hartwick 2015: 78n; Rist 2014: 115; Menzel 2010: 106n). Drawing on the hypothesis by Hans Singer (1949, 1950) and Raúl Prebisch (1950) maintaining that the terms of trade between primary and manufactured products are continuously deteriorating, resulting in structural disadvantages for developing countries, scholars such as André Gunder Frank (2014[1969]), Fernando H. Cardoso and Enzo Faletto (1979), Celso Furtado (1964, 1965, 1970) and Samir Amin (1976) argue that underdevelopment stems from the developing countries' dependence on more advanced economies. Whereas the latter are the independent center of the global economy, developing economies are merely the world's economic periphery at whose costs the center develops (Peet and Hartwick 2015: 188n). This structural dependency is mirrored at the national level in developing countries, thereby extending exploitative and dependent tendencies (Menzel 2010: 106n). Only "dissociation" (Senghaas 1977) from the world economy and establishing a local industrial sector can then potentially generate economic development in the long run. In other words, imports ought to be substituted (Payne and Phillips 2010: 74; Hirschman 1968).

When it comes to facilitating economic development, apart from redistributive efforts, states may hence engage in two distinct tasks: (1) *providing and enforcing basic institutions* first and foremost leveling the playing field and (2) *pursuing more interventionist development strategies* such as the employment of industrial policy (Clark and Chan 2004: 42n; Reinert 1999: 279n; see also Chang and Rowthorn 1995). Since the respective "degree of intervention" differs decisively between these two tasks, they require different justifications.

North (1981: 37) develops the rationale of the state based on its functions regarding the provision and enforcement of *basic institutions*. "Basic institutions," in this context, are institutions merely creating and maintaining a level playing field for the respective private economic actors rather than preferring selected actors over others. The intended effect is the reduction of transaction costs and subsequent enabling of economic exchanges between

different parties in complex societies (ibid.: 24). Since the state holds the comparative advantage in violence, the state is able to define and enforce property rights (ibid.: 21). This comparative advantage stems from the fact that services such as protection and justice are subject to scale economies and it is therefore advantageous for all individuals of a given society that these services are provided by a single entity only—which typically receives tax revenues in exchange (Barzel 2002: 45n; North 1981: 23; North and Thomas 1973: 6n). Essentially, law as well as property rights and their enforcement are public goods characterized by nonrivalry and nonexcludability in their consumption leading to nonprovision by private entrepreneurs since social utility by far exceeds private utility, thus producing a positive external effect (Donges and Freytag 2009: 172n; North 1981: 37; North and Thomas 1973: 7). Such an external effect indicates "market failure," i.e. a situation in which the market does not reach an efficient allocation of goods and services by itself (Donges and Freytag 2009: 170). The state is thus the neutral third party needed not only for the *provision* of basic institutions but especially for *enforcing* them through its punitive capacity, in this manner solving commitment problems between private economic actors and, by that, ultimately enabling exchanges (Acemoglu and Robinson 2012: 75n, 428n; Engerman and Sokoloff 2008a: 123; Lange and Rueschemeyer 2005: 5; North 2005: 119). A state focused on providing and enforcing basic institutions hence secures property rights through a rule of law—with the judiciary actually only "coming into play when serious disputes arise" (Hodgson 2015: 117). Indeed, since executing power is costly, "[p]ower is most useful to its owner when the threat of its use suffices to achieve the desired end" (Barzel 2002: 18). In this way, the state does not only facilitate market exchanges but is rather constitutive for the market's existence in the first place (Hodgson 2003: 382). However, there are limits to the law due to the many complexities and uncertainties found in modern societies (Hodgson 2015: 114n). Therefore, in order to fulfill their purpose, formal legal rules need to be complemented by appropriate informal institutions (Hodgson 2003: 382n, 2015: 115n). In short, "[i]n any well-functioning legal system, law and culture sustain each other" (Hodgson 2015: 116). This relates back to the "meta-rule" to follow the law needed for rule compliance. In fact, in many cases, laws were actually derived from customs or rather the need to sanction the violation of these customs (ibid.: 91n). Indeed, without such violations, the involvement of the state would not be necessary in the first place (ibid.: 98). Thus, "the evolution of a market system […] depends fundamentally on the state as an enforcement organ" (Ebner 2008a: 292). While acknowledging that the existence of the state is necessary but not sufficient in securing property rights Hodgson (2006: 15) raises the question if an institution *different* from the state yet powerful enough to enforce the respective constraints can actually exist and Fukuyama (2015: 37) asserts that "[f]or

better or worse, there is no alternative to a modern, impersonal state as guarantor of order and security, and as a source of necessary public goods" (Hodgson 2003: 381; see also Acemoglu and Robinson 2012: 76). However, in order for property rights to actually be secure, the state needs to *credibly commit* to respecting these rights by, for instance, allowing for a sufficient separation of powers and a strong civil society, i.e. inclusive political institutions, and an *independent* rule of law (Doner 2009: 72n; Bardhan 2005b: 58n; North 1990: 58n, 2005: 108; Hodgson 2003: 381; Barzel 2002: 143n). Such credible commitment can then, in turn, further increase a state's legitimacy as the monopolist on violence (Hodgson 2015: 76n). In sum, if the state is responsible for both providing and enforcing a property rights structure, i.e. the respective country's economic institutions, the state is "the primary source of economic performance" (North 2005: 57).

In terms of types of state, a state focusing on providing and enforcing such basic institutions primarily concerned with leveling the playing field for private actors without preferring selected actors over others is a "*regulatory state*" (Levi-Faur 2013a, 2013b; Majone 1994, 1997). *Regulatory states* are typically characterized by the existence of independent regulatory agencies (IRAs) governing the respective markets for goods, labor and services as well as for (intangible) assets, financial products and money in general (Rodrik 2007: 157n). Essentially, *regulatory states* set the "rules" for private competition rather than deciding about "substantive matters" in the form of particular social or economic objectives (Johnson 1982: 19). In order to be economically successful, *regulatory states* need to be "strong but limited" (North 2005: 119; Bardhan 2000: 253).

The rise of institutionalist approaches to political economy in general and the economic success of predominantly *regulatory states* such as the US or the UK in particular has led to the emergence of a liberal development paradigm which is associated with organizations such as the *World Bank* (WB) and the *International Monetary Fund* (IMF) and reflected in the so-called "Washington Consensus." The term "Washington Consensus" was coined by John Williamson in 1990 referring to ten major policy reforms demanded from several Latin American countries by the Washington-based international financial institutions, the US executive branch and others as conditions for further loans (Williamson 1990). Amongst others, the Washington Consensus included policies aimed at liberalization, privatization and deregulation (ibid.: 13n). However, the problems associated with such institutional transfers—dubbed as "institutional monocropping" by Evans (2004)—from one society to another are manifold. For one, as indicated above, formal institutions require complementary informal and formal institutions as

well as proper enforcement mechanisms if they are to be effective (Chang 2007c: 29, 2011: 490; Williamson 2009: 384; Lin and Nugent 1995: 2312; North 1993: 20n; on transplanting legal institutions see Berkowitz et al. 2003). It follows that "the same economic institutions can have different consequences in distinct [political] contexts" (Harriss et al. 1995: 12). In this context, Chang (2007c: 20n) speaks of "form-fetish", i.e. an overemphasis of institutional *forms* at the expense of the respective institutions' *functions*. Moreover, introducing and maintaining new institutions requires both capital and manpower which may withdraw resources from other, potentially more essential, areas of public service (Chang 2011: 488). Consequently, the primacy of the concept of the *regulatory state* in the development debate of the 1990s has increasingly been questioned (Chang 2006: 17). Rodrik (2007: 162n), for instance, maintains that "imported blueprints are useless" and "[i]nstitutions need to be developed locally, relying on hands-on experience, local knowledge, and experimentation" without assuming that one "best" institutional framework for development exists. Adding on to this, Chang (2011: 486n) demands that policies are designed in accordance with the respective existing institutions rather than changing the institutions themselves. Indeed, "[u]nderstanding the cultural heritage of a society is a necessary condition for making 'doable' change" (North 2005: 163). Still, North (1990: 137) points out that knowing the nature and developmental impact of institutions in well-performing economies might actually induce desirable institutional change in developing countries and also Seidler (2011, 2014) stresses the feasibility of institutional transfers in certain settings (see also Chang 2007c: 28). However, efficient institutions are not actually a prerequisite for economic development but rather the identification—and subsequent removal—of "the binding constraint on economic growth at the relevant moment in time" (Rodrik 2007: 190n). *Initializing* economic development hence seems to necessitate a more active state.

The justification for more active state intervention in the economy is related to the notion that structural transformation is an essential part of economic development and that such transformation is "too important to be left to the natural workings of market forces" (Kuan 2016: 24; see also Whitfield and Buur 2014: 126). In order to foster structural change, states may employ strategic industrial policy. However, defining "industrial policy" is not straightforward. One important difference between different definitions is its perceived scope. While some authors include *all* policy measures facilitating economic exchanges, others specifically distinguish between industrial policy and broader economic policies (see Chang 2003: 109n for an overview). As Chang (2003: 110n) rightly points out, including general economic policies in the definition of industrial policy, however, would render the concept unnecessary as such

broader policies are merely prerequisites for industrial policy to be fruitful rather than a part of the concept itself. Similar to Chang (2003: 111), the *World Bank* (1993a: 23, 10) regards "getting the fundamentals right" as a first step which can then be followed by "selective interventions." Johnson (1984: 7) also stresses that industrial policy complements a government's monetary and fiscal policy and is hence different from them. Likewise, Wade (1990b: 233) distinguishes industrial policy from demand-oriented macroeconomic policies. However, industrial policy frequently overlaps with other government policies such as, for instance, trade and competition policy or education policy which is due to the fact that a wide array of policy measures may, in fact, influence the industrial sector (Altenburg et al. 2008: 135). This also becomes apparent when considering the specific instruments of industrial policy. For the purposes of the present study, such areas are therefore included in "industrial policy" while general macroeconomic policies are not included. In fact, general macroeconomic policies rather belong to the *basic* institutions leveling the economic playing field.

Another distinguishing attribute between different definitions of industrial policy is if industrial policy is solely aimed at *industrial* development, i.e. industrialization, or if it can also target the development of the agricultural or the service sector. In Rodrik's (2009: 3) view, for instance, industrial policy includes measures regarding nontraditional agricultural products or services. In his own words, "industrial policy is not about *industry* per se" (ibid.). However, since the purpose of the present study is to shed light on the Philippines' failure to generate *industrial* development, the definition adopted here only includes policy measures targeted at the *industrial* sector—this corresponds with the perspective of most of the development literature (Warwick 2013: 14). One could even be more specific and further zoom in on "manufacturing" as the oftentimes most studied component of the industrial sector when it comes to explaining economic development. While "industry" includes mining and quarrying, manufacturing and utilities, "manufacturing" refers to the "physical or chemical transformation of materials, substances, or components into new products" (UN 2008: 85; OECD 2008: 265 drawing on UN 1990). In other words, "manufacturing" is much narrower than "industry." While quarrying and mining as well as utilities may be important for economic development in light of their potential influence on downstream industry sectors and generally supportive role, in the present study, "industrial policy" refers to measures rather targeting the manufacturing sector in particular than the industrial sector on the whole since manufacturing is assumed to generate the much-needed employment and value added. Such industrial policy aimed at *altering a nation's economic structure in favor of the industrial sector*, i.e. targeting *all* (or most) industry—or, better, manufacturing—sectors,

is commonly referred to as functional, generic/general or horizontal industrial policy (Chang 2006: 35; Wade 1990b: 234).

This kind of industrial policy decisively differs from industrial policies targeting *particular industry sectors* seeking to *internally restructure the industrial sector* in favor of industry sectors believed by the state to be more beneficial to the entire economy than others. Such industrial policy is referred to as industry sector-specific, selective, sectoral or vertical industrial policy or "industrial targeting" (Wade 1990b: 234; Johnson 1984: 9). In fact, a number of authors narrowly define industrial policy as only including such selective measures (see, e.g., Pack and Saggi 2006: 267n or Chang 2003: 112). In this context, drawing on Landesmann (1992: 245), Chang (2003: 111) stresses the "particularistic, or discriminatory, nature of [this type of] industrial policy." Indeed, selectivity can go as far as promoting "national champions" (Warwick 2013: 27). As such selective state intervention distorts market signals, general industrial policy is much more accepted by mainstream economists than industrial targeting which additionally bears informational difficulties and might open up opportunities for corruption and rent-seeking (Altenburg et al. 2008: 136; Haque 2007: 7; Chang 2006: 35n; see also Schneider 2015: 12). Rodrik (2007: 101), however, notes that viewing industrial policy as a process of discovery rather than "picking winners" weakens such objections and Chang (2006: 36n) argues that a certain level of selectivity is unavoidable and explicitly conferring options might be preferable to denying selectivity and risking increased overall policy incoherence. Still, "[t]he strategic allocation of economic policy and benefits is an important political resource" (Kang 2002b: 7).

In terms of strategic considerations, selective industrial policy may be market-*conforming* or market-*defying*, i.e. following an economy's static comparative advantage or challenging it (Lin and Chang 2009). In Wade's (1990a: 303n, 1990b: 234) terms, selective industrial policy can *follow* or *lead* the market with the latter being directed at industry sectors identified as an economy's potential future—or dynamic—comparative advantage. In addition to selectively promoting promising industry sectors, scholars frequently include the phasing out of ailing industry sectors in their definitions of selective industrial policy. Johnson (1982: 27n, 1984: 7), for instance, points to the need for reorientation, retrenchment or even abolition of unsuccessful firms and industry sectors, thus alluding to the state's need to credibly commit to threats related to discontinuance of support in case of nonperformance.

To sum up, in the present study, the term "industrial policy" refers to nonmacroeconomic policies aimed at industrial development through changing the structure of the economy on the whole in favor of the industrial sector and the industrial sector in itself towards potentially more promising areas of industrial activity with the overall goal of generating sustainable and inclusive economic development. Since such a definition implies strategic considerations on the part of the respective state, the study, at times, also refers to "strategic industrial policy" or "strategic industrial policies."

The pursuit of strategic industrial policy thus clearly reaches beyond providing and enforcing basic institutions merely establishing and maintaining a level playing field. Indeed, in mainstream economics, only instances endangering free competition are regarded as market failure and hence justify state intervention (Donges and Freytag 2009: 169n). State intervention eliciting economic and industrial structures *different* from those that would be reached by "unguided, unstimulated market agents on their own" (Wade 1990a: 13) hence requires a different kind of justification. This is particularly true for industry sector-specific or selective industrial policy (ibid.: 12n).

Three different kinds of market failure in particular may justify the pursuit of strategic industrial policy: positive technological externalities—or external effects—, information externalities and coordination externalities in credit, labor, products and knowledge markets (Rodrik 2007: 102, 2009: 3). Such market failures are especially prevalent in developing economies where they can go as far as causing the nonexistence of a particular market (Rodrik 2007: 158; Stiglitz 1996: 158; Rueschemeyer and Evans 1985: 44). Positive externalities—oftentimes called "spillovers"—might spring from increased manufacturing, exporting, foreign direct investment (FDI) or innovation (Warwick 2013: 20). Additionally, information externalities might be present in the sense that information is asymmetric and private entrepreneurs are frequently neither aware of an economy's (potential) comparative advantage nor do they know about profitable business opportunities in the first place (Pack and Saggi 2006: 277). Apart from that, the presence of economies of scale in or between industry sectors may cause coordination externalities as large, coordinated investments are not made independently by private entrepreneurs but require concerted actions (Rodrik 2007: 107). An example is the necessity to simultaneously develop upstream and downstream industry sectors—the steel-*making* industry sector, for instance, needs steel-*using* industry sectors and vice versa in order to be profitable in the long run (Stiglitz 1996: 160). Such coordination failures are especially grave in areas requiring

large investments, i.e. where returns to scale are high, such as in steel (ibid.). States may then solve these problems of coordination and collective action by employing industrial policy (Bardhan 2000: 252n; Weiss 1998: 5n). Since states are "multipurpose institutions that can directly provide solutions or activate collective action once a goal has been determined," states are actually by nature "prefabricated problem solvers" (Lange and Rueschemeyer 2005: 6).

These different kinds of market failure all play a role in the most basic rationale for industrial policy: infant industry protection, a concept first established by international trade theorists (see, e.g., Bardhan 1971 or Baldwin 1969). Here, the key argument is that venturing into previously neglected areas of economic activity requires both high initial investment and a comparatively extended time frame in order to eventually become internationally competitive (Bartlett 1984: 163). While such an endeavor might be lucrative in the long run, in the short run, these factors naturally discourage private entrepreneurs from entering the respective market. Therefore, initial, i.e. temporary, protection of the industry sector is justified (ibid.). Furthermore, capital market failure excluding infant industrialists from securing the needed financial resources justifies subsidization of the respective industry sector (Pack and Saggi 2006: 269). In addition to protecting and financially supporting infant industry sectors, policy measures directed at increasing productivity and exports are needed in order to make them internationally competitive which highlights the need for complementary institutions for economic development (Chang 2006: 40). In strategic terms, infant industry protection disregards an economy's static comparative advantage in favor of dynamic considerations (ibid.: 33n). In this sense, states employing industrial policy engage in "deliberately creating market failure" by "getting the prices wrong" (Naudé 2010: 16; Amsden 1989: 139n). Otherwise, private enterprises tend to "buy[…] cheap and sell[…] dear", thereby "gravitat[ing] toward activities that have low risk and maximize short-run returns" (Evans 1997: 66n).

All in all, Rodrik (2009: 4) refers to industrial policy's theoretical rationale as its "strong case." In contrast, the *empirical* evidence supporting the use of industrial policy is deemed "ambiguous" by Rodrik (ibid.: 7) and even regarded as an argument *against* industrial policy by Naudé (2010: 18). Indeed, while in some countries the employment of industrial policy and economic development concur, this has not been the case in others (Pack and Saggi 2006: 268). The basic problem in determining the actual effects of industrial policy is the lack of counterfactuals—a difficulty faced by "virtually all interesting social science questions" (Wade 1990a: 30)—even though, as Altenburg (2013: 359) contends, "[i]n many cases […] failure was obvious" (Pack

and Saggi 2006: 268). Accordingly, researchers have had to rely on indirect evidence such as how protective trade policies, subsidies and credit affected structure, productivity and growth of a given economy and in how far the respective government employed appropriate industrial policy and if the respective economy exhibits the underlying institutional requirements (Pack and Saggi 2006: 283; Wade 1990a: 32n). However, "attempts to formally model the impact of industrial policy interventions uniformly uncover little, if any, positive impact on productivity, growth, or welfare" (Noland and Pack 2005: 7n). In general, the precise outcome of particular policies can never be predicted with absolute certainty (North 1990: 104). Therefore, Johnson's (1982: 26) statement that "industrial policy […] remains highly controversial" holds true to this day. However, state intervention is usually not doubted in policy areas such as education or health even though these areas exhibit some of the same problems as industrial policy when it comes to the question of state intervention or no state intervention (Rodrik 2009: 1n). Instead, the discussions surrounding these policy areas focus on *how* state intervention should take place rather than *if* the state should intervene at all (ibid.: 2). If the question is therefore not *if* the state should employ industrial policy aimed at structural change but *how* it should go about it, the focus shifts towards the specific policy instruments available to the respective government in attempting to remedy—or at least reduce—market failure and the necessary underlying institutional structures (Rodrik 2009: 2n; Chang 2006: 37; Johnson 1982: 28).

The perception of industrial policy as enhancing economic performance is reflected in the widespread pursuit of import substitution industrialization (ISI) strategies by developing countries post-World War II (Chang 2003: 21n). Generally, in the postwar era, state intervention in the economy was both common and successful which led to the notion of "the state as an important and often the leading actor in the functioning of the economy" (ibid.: 18)—in particular in those economies attempting to catch up with more advanced ones (Chang 2003: 21n; Weiss 1998: 23). Moreover, even now predominantly *regulatory states* employed strategic industrial policy in their initial phases of economic development (Chang 2002: 19n).

The notion that industrial policy can contribute to furthering economic development not least emanates from the "Asian economic miracle" (WB 1993a: 1), i.e. the economic success of Japan, South Korea, Taiwan and Singapore in most of the second half of the twentieth century (see also Chang 2003: 105). However, in trying to explain their developmental success, the literature offers different explanations. Johnson (1982: 6n), for instance, distinguishes between the projectionist, the socioeconomic and the *developmental state* school in explaining Japan's economic

success and, in so doing, actually pioneers the concept of the "*developmental state*." In the case of the *developmental state*, the state takes on an explicitly *developmental* role by employing industrial policy concerned with fostering that industry structure which promises the greatest international competitiveness (ibid.: 19). Also Wade (1990a: 22n) refers to three different explanations for Asia's development success: the "free market", the "simulated free market" and the "governed market" theory with the latter being his own contribution and sharing with Johnson's *developmental state* approach its emphasis on the need to "govern the market" through implementing appropriate policies supplemented by specific organizational arrangements. In its seminal publication *The East Asian Miracle: Economic Growth and Public Policy*—which actually popularized the term "miracle" in this context—, the *World Bank* (1993a: 84n) takes on a more market-friendly view stating that "[t]he appropriate role of government […] is to ensure adequate investments in people, provision of a competitive climate for enterprise, openness to international trade, and stable macroeconomic management." This view is contrasted with the neoclassical and revisionist views with the former reducing the role of the state to providing a favorable and stable macroeconomic environment and Johnson (1982) and Wade (1990a) and their emphasis on more interventionist government policy belonging to the latter (WB 1993a: 82n). However, as Stark (2012: 45) points out, the simultaneous acknowledgment of the usefulness of more selective policies (WB 1993a: 89n) makes the *World Bank's* view rather inconsistent (see also Amsden 1994 and Fishlow et al. 1994). In this context, Johnson (1999: 35) generally questions the *World Bank's* integrity by stating that "[t]he Japanese aid-giving authorities forced the ideological conservatives of the bank to write this study as a condition for further Japanese funding. The study does not actually say anything new and is intentionally misleading on fundamentals […]" and Rodrik (1994: 48, italics added) concludes that "[the *World Bank's* report] does not acknowledge ignorance often enough" but rather "provides too many easy but misleading answers." In any case, Krugman (1994: 76) and Rodrik (1995: 97) firmly maintain that Asia's economic success was not a "miracle" at all but can easily be explained with increased inputs and investment and favorable initial conditions. This view coincides with the no-miracle-occurred school belonging to Johnson's (1982: 9n) socioeconomic explanations of Japanese economic growth, Wade's (1990a: 22n) free market theory and the *World Bank's* (1993a: 82n) account of the neoclassical view. Also the application of Akamatsu's (1961, 1962) "flying geese paradigm" to the Asian case stresses the role of market forces in that the followers were able to gradually take over certain (parts of) industry sectors from Japan and benefit from Japanese foreign direct investment (FDI) as the region's leading economy moved to higher-value activities (Kasahara 2013: 8n). However, the follower states

still had to have created domestic capabilities and a favorable business environment including political stability in the first place (ibid.: 19n). In this sense, a flying geese setting may be seen as following a *developmental state* in the process of national development with the latter being particularly important during the early development stages (ibid.: 2). Indeed, it is widely acknowledged that Japan and the "dragon states" did, in fact, pursue strategic industrial policies and that these—in combination with favorable underlying institutional structures—did, in fact, positively affect their economic development (Wade 1990a; Amsden 1989; Johnson 1982; see also Stark 2012: 47n). As Evans (1995: 5) puts it, "states have become responsible for economic transformation."

In this context, the concept of the *developmental state* is particularly relevant because it precisely allows for the consideration of industrial policies and their institutional embeddedness at the same time. Furthermore, due to its inductive nature, the concept naturally takes into account historical specificities and, by that, acknowledges the premises of historical institutionalism including path dependence and institutional inertia (Haggard 2015: 41; Woo-Cumings 1999: 5n). In short, pertinent scholarly contributions "[take] history seriously" (Haggard 2015: 41). However, as Doner (2009: 66) points out, early scholarly contributions to the *developmental state* literature neglected issues of institutional provenance. As aforementioned, *developmental states* actively intervene in the economy in order to foster the industry structure most likely to lead to economic success. It follows that *developmental states* are certainly not free-market economies or *regulatory states*. They do, however, share important capitalist characteristics with them such as the reliance on private property and the private sector in eliciting economic development (Vartiainen 1995: 150n; Önis 1991: 111). This distinguishes *developmental states* from socialist or—to use Johnson's (1982: 18) term—plan-ideological states characterized by state ownership of production means and central planning (Johnson 1999: 53). Indeed, the Japanese *developmental state* did not act anything like socialist states basically prescribing specified actions to their constituency (ibid.: 34). However, *developmental states* share with socialist states the rather interventionist approach when it comes to steering the economy into a—more or less—predetermined direction (Johnson 1995: 10). In Kohli's (2004: 13) words, *developmental states* are rather "procapitalist" than "promarket." In a way, the *developmental state's* rather unique approach to economic development may well have been its "idiosyncratic response to a world dominated by the West" (Woo-Cumings 1999: 1). The private sector is hence essential for the *developmental state* as its "logic […] derives from the *interaction* of two subsystems, one public and geared to developmental goals and the other private and geared to profit maximization" with "[t]he

interaction between the two affect[ing] the nature of the decisions made in both systems" (Johnson 1987: 141n, italics in original; see also Kohli 2004: 21). As Evans (1997: 70) puts it, "the state needs business as much as business needs the state." Indeed, if the state alone were enough, socialist economies such as those of the former Soviet Union would have been more successful (ibid.: 73). Instead, in *developmental states*, the public and the private sector form "growth coalitions" (Chingaipe and Leftwich 2007: 13 drawing on Bräutigam et al. 2002: 540) jointly fostering economic growth. Still, in *developmental states*, the state "governs the market" (Wade 1990a) in order to connect private profit seeking with more encompassing socioeconomic goals (Evans 1997: 71). The state hence augments the market rather than replacing it (Bardhan 2005a: 518). Accordingly, *developmental states* do not govern by mere rule making such as *regulatory states* but by setting specific (socio)economic goals and effectively cooperating with the private sector in pursuing them (Haggard 2015: 52; Johnson 1982: 19). In this manner, *developmental states* "can be seen as both the rule maker and the first player in a multistage game, whose moves influence the credible options of the other players" (Wade 1990b: 232n). In short, *developmental states* are "states whose *politics* have concentrated sufficient power, autonomy, capacity and legitimacy at the centre to shape, pursue and encourage the achievement of explicit developmental objectives" (Leftwich 2000: 155, italics in original). It follows that "[t]he *developmental state* is strong not because it owns and controls, but because it has the capacity to make credible commitments (promises as well as threats), to change property rights and to provide incentives for both private and public agents, albeit in a coercive manner" (Sindzingre 2007: 618, italics added). In this way socializing risks and solving collective action problems, *developmental states* such as Japan, South Korea, Taiwan and Singapore have been extraordinarily successful at furthering economic development (Weiss 1998: 48). These Asian *developmental states* were characterized by the pursuit of strategic industrial policy and effective government–business relations including a capable state closely cooperating with an organized private sector while maintaining a certain degree of autonomy. Regarding these characteristics, Leftwich (2000: 169, italics added) notes that, in fact, "it seems unlikely that it is possible in the modern world for any society to make a speedy and successful transition from poverty without a state that in some respects corresponds to this model of a *developmental state*." This notion is reflected in the prominent role of pragmatic approaches to industrial policy in the current development paradigm (see, amongst others, Lin and Monga 2017, Haggard 2015, Stiglitz and Lin 2013, Lin 2012 or Wade 2012). Essentially, the state was brought "back in" (Evans et al. 1985a).

To sum up, the state may decisively influence a nation's (economic) development by defining and enforcing basic institutions leveling the playing field and/or intervening in the economy more actively by employing strategic industrial policy. However, the state should neither be glorified nor overestimated as both "degrees of intervention" bear the danger of state failure resulting from unwillingness to and/or incapacity of promoting economic development (Evans et al. 1985b: 365). The state is thus in an ambiguous position—both able to foster and hinder economic development (Levi 2002: 54n). In short, "there are states and states" (Harriss et al. 1995: 10). Ebner (2018: 117, translation by author) hence speaks of a "paradox" and Evans (1992) maintains that the state can be both the *problem* and the *solution*. Put less optimistically, "the state is the source of man-made economic decline" (North 1981: 20). However, "[i]n reality, states are neither universally benign nor universally malignant" (Evans 1997: 68). Empirically, especially developing countries frequently feature a state *blocking* economic development (Hall 2010: 594n; North 1990: 110). The comparatively weak transformative capacity in a few *advanced* economies, Weiss (1998: 20n) notes, is usually due to their general skepticism regarding state interventions in the economy rather than collusive practices. Accordingly, Fukuyama (2015: 52) concludes that "part of the reason many countries are poor is precisely that they don't have effective states." Understanding the defining characteristics of economically successful states then offers the possibility to pinpoint the reasons for failure in other cases more clearly. Indeed, "to discuss failure implies an understanding of success" (Hall 2010: 587). Therefore, the following subsection further explores the key characteristics of the Asian *developmental states* in order to serve as a benchmark for analyzing state failure in greater detail.

2.2. Industrial Policies and Government–Business Relations in *Developmental States*

As just shown, creating a *developmental state* is one strategy of promoting economic development available to states and, in order to be successful in the pursuit of this strategy, states have to be both willing and capable. In *developmental states*, the former is inherent in the explicitly developmentally-oriented political elite "instrumental in establishing the developmental regime and its culture" (Leftwich 1995: 405; Johnson 1982: 305). Subsequently, this "developmental elite" guarantees stable political conditions over time, ensures an appropriate level of equality among its constituents and establishes nationwide objectives and standards (Johnson 1987: 142). Indeed, since only the state is able to comprehensively represent the interests of the *entire* constituency, the state is responsible for providing a national development vision, thereby partly taking on the role of an "entrepreneur" (Chang 1999: 193n; see also Chang and Rowthorn 1995).

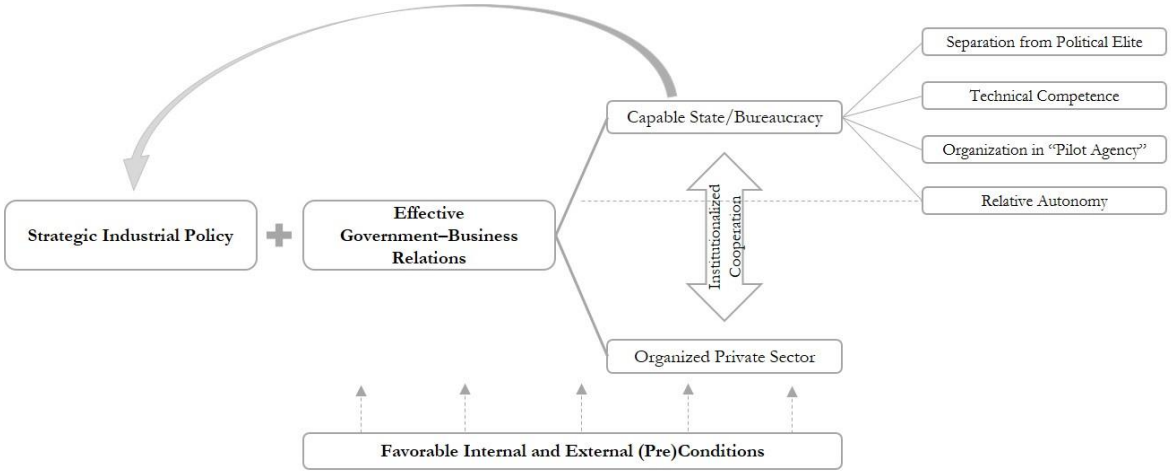
The *developmental state* then gains legitimacy through its ideological orientation towards economic success and related nationalist endeavors (Kohli 2004: 10n, 22; Weiss 1998: 54n; Evans 1995: 5n). While such commitment to development is, of course, only a necessary rather than a sufficient condition for actual development, in particular the use of industrial policy as well as the design and maintenance of the appropriate government–business relations reflect the developmental elite's commitment to promoting economic development (Kohli 2004: 13; Johnson 1982: 306). In Johnson's (1982: 19) words, "[t]he very existence of an industrial policy implies a strategic, or goal-oriented, approach to the economy." Accordingly, developmental elites are not further elaborated upon in this part of the present study except for when discussing the internal and external pressures on these elites, thereby suggesting that not all elite action in the Asian *developmental states* may have been deliberate (see Kang 2002b: 6). The issue is picked up, however, in the empirical part of the study in order to reveal the discrepancies between the Philippine state's communicated commitment to development, on the one hand, and the lack of developmental policies and structures, on the other hand.

Apart from a general genuine commitment to development embodied by a developmental elite, the successful employment of strategic industrial policy requires effective relations between the public and the private sector in the form of a capable state working closely with an organized private sector while maintaining a certain autonomy. In this context, Haggard (2015: 41) points out that "any given factor [is] conditional on other features of the model." In other words, all components of the *developmental state*, i.e. the existence of transformative goals expressed through strategic industrial policy and effective relations between the public and the private sector, are of crucial importance when it comes to inducing and sustaining economic development by creating a *developmental state*. In any case, the pertinent characteristics of *developmental states* are thus (1) the use of strategic industrial policy and (2) effective government–business relations including a capable and relatively autonomous state, an organized private sector and institutionalized interactions between the two (see figure 3). Particularly the latter are, in turn, contingent upon the respective (initial) circumstances and, therefore, subject to path dependence and inertia.

In order to shed light on the theoretical underpinnings of the *developmental state*, each of its defining features, i.e. strategic industrial policies (subsection 2.2.1.) and effective government–business relations (subsection 2.2.2.), is elaborated upon separately. Completing the exploration of the concept, subsection 2.2.3. delineates the origins of the Asian *developmental states*, taking

into account both the internal and external (pre)conditions under which they emerged. However, the empirical cases naturally reveal—at least somewhat—differing institutional structures as "the vision of a uniform […] *developmental state* is misleading" (Önis 1991: 118, italics added; Haggard 2015: 52).

Figure 3: Key Characteristics of *Developmental States*



Source: own illustration.

2.2.1. Industrial Policies in *Developmental States*

As detailed above, in the present study, "(strategic) industrial policy" refers to nonmacroeconomic policies directed at changing the structure of the economy on the whole in favor of the industrial sector and the industrial sector in itself towards potentially more promising areas of industrial activity with the overall goal of generating sustainable and inclusive economic development. According to the distinction between general and targeted industrial policy, industrial policy *instruments* can be horizontal or selective—even though, in many cases, horizontal policies can be made selective by only applying them to a specific industry sector or even just a single firm (Warwick 2013: 25). Predominantly horizontal industrial policies include the reduction of regulations in financial, labor and product markets and skills and education policies aimed at the entire industrial sector (ibid.: 27). Moreover, providing and/or improving antitrust legislation as well as establishing a functioning intellectual property rights and patent regime may benefit the industrial sector on the whole (ibid.). The same applies to supporting research and development endeavors through, for instance, subsidies or state-run research centers (Naudé 2010: 8). Examples of the latter in the Asian *developmental states* were the research institute of the *Ministry of International Trade and Industry* (MITI) in Japan, the *Korea Institute of Science and Technology* (KIST) in South Korea and the *Industrial Technology Research Institute* (ITRI)

in Taiwan (Lall 2000: 22n; Weiss 1998: 50). Such research centers can, however, also be industry sector-specific such as the *Electronics Research and Service Organization* (ERSO) in Taiwan (Weiss 1998: 51n).

With regard to more selective industrial policy instruments, Johnson (1982: 29) distinguishes between *protective* and *developmental* measures. According to Johnson (ibid.), *protective* industrial policy instruments in Japan were "discriminatory tariffs, preferential commodity taxes on national products, import restrictions based on foreign currency allocations and foreign currency controls" and Felipe and Rhee (2015: 45) cite "tariffs, export rebates and currency undervaluation" as policy instruments traditionally employed in protecting infant industry sectors. Generally, capital and foreign exchange controls played an important role in the *developmental states* (Chang 2006: 21; Johnson 1982: 25, 217, 220). Indeed, as Chang (2006: 21) puts it, "capital flight has to be prevented." Apart from such tariff and nontariff barriers to international trade, industry sectors can be protected through entry and exit regulations and orchestrated mergers and segmentation of markets in industry sectors with too many perceived producers (Naudé 2010: 8; Chang 2006: 39).

Developmental—or promotional—industrial policy instruments, on the other hand, are concerned with *actively supporting* selected industry sectors. Generally, in the *developmental states*, the provision of financial resources by the state has been a powerful tool in furthering industrialization in general and promoting specific industry sectors in particular. Because of capital markets' failure to provide the funding needed for envisioned industrial endeavors, the *developmental states* created state-run banks promoting savings and extending long-term loans (Stiglitz 1996: 158). In Japan's credit-based and price-administered financial system, for instance, financial resources were allocated by the state through selectively keeping lending rates artificially low in long-term money markets (Zysman 1983: 234, 248). In particular, funds were channeled to the private sector from the Bank of Japan through city banks and directly by the *Japanese Development Bank* (JDB)—which, in turn, borrowed from the *Fiscal Investment and Loan Plan* (FILP) containing the Japanese people's postal savings (Johnson 1982: 200n). While this practice bore dangers of moral hazard and risk socialization, "state control of finance was the most important, if not the defining aspect of the *developmental state*" (Woo-Cumings 1999: 11 drawing on Johnson 1987: 147n, italics added; Chang 2006: 28; Woo-Cumings 1999: 12n). Comparing Japan, South Korea, Taiwan and Singapore in this respect reveals that the former two indeed made extensive use of subsidized credit while Taiwan and Singapore mostly relied on other industrial policy

instruments (Kasahara 2013: 6; Stiglitz and Uy 1996: 271; Wade 1990a: 296; Johnson 1987: 147n). As suggested in discussing coordination failure, in Japan and South Korea, especially capital-intensive industry sectors were financed through subsidized loans (Amsden 1989: 85; Johnson 1982: 211). Further industrial policy instruments increasing the availability of capital for industrial development are the restriction of consumer credit and luxury consumption and public guarantees for private loans (Naudé 2010: 8; Chang 2006: 24n; Stiglitz and Uy 1996: 252). Apart from that, the *developmental states* oftentimes subsidized the industrial sector by providing infrastructural support regarding transportation, energy and telecommunications (Felipe and Rhee 2015: 46; Noland and Pack 2003: 10; Stiglitz 1996: 170; Johnson 1982: 218). Fiscal industrial policy measures include tax holidays and exemptions on profits and imported intermediate products and capital equipment and special regulations regarding depreciating such equipment (Noland and Pack 2003: 10, 40n, 52). The Taiwanese government, for instance, made extensive use of tax incentives (Rodrik 1995: 87n). Apart from providing fiscal and financial incentives to private firms, states can create demand for certain goods or services through public procurement or the imposition of local content requirements on private enterprises (Felipe and Rhee 2015: 46; Warwick 2013: 39n). In the case of complete market failure resulting in the nonprovision of a certain product or if control over the respective industry sector or the economy in general is crucial, states may even resort to establishing state-owned enterprises (SOEs) (Cheng et al. 1998: 89; Wade 1990b: 235; Amsden 1985: 92; Rueschemeyer and Evans 1985: 57). Moreover, SOEs can serve as competition for "otherwise too comfortable oligopolists" (Rueschemeyer and Evans 1985: 57). Empirically, SOEs are primarily created in capital-intensive industry sectors with an extended timeframe until amortization, i.e. large economies of scale (ibid.). Examples are *Pohang Iron and Steel Company* (POSCO) in South Korea and Taiwan's intense public engagement in a wide array of industry sectors (Rodrik 1995: 91; Wade 1990a: 110n).

In addition to supporting *domestic* firms, attracting foreign direct investment (FDI) is frequently a part of industrial policy strategies. FDI is defined as "a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy" (IMF 2009: 100). FDI contains equity investments, reinvested profits and financial transactions between the parent company and its subsidiaries (UNCTAD 2017: 3n). Such investments are frequently made especially by multinational enterprises (MNEs) in order to gain access to markets or raw materials or to take advantage of low production costs in the host economy (Sjöholm 2013:

17n). Potential benefits of FDI for the receiving economy are improved access to export markets and spillover effects such as technology transfer, backward linkages or generally increased productivity, efficiency and wages (Sjöholm 2013: 25n; Görg and Strobl 2005; Lin and Saggi 2005; Lipsey and Sjöholm 2005: 25n). In this way, FDI can be particularly important for increasing manufactured exports and industrialization in general (Thomsen 1999: 25n; WB 1997: 22; Alburo et al. 1992: 293n). However, such benefits are by no means guaranteed as they are contingent upon the respective government policies under which foreign investors operate—and their stability (Thomsen 1999: 5). In this manner, the (internal) determinants of FDI are both of economic and political nature (see also Lucas 1993 and Schneider and Frey 1985). At the same time, the conditions in the respective country of origin are of importance, so that, in conjunction with "pull" factors inherent to the respective host country, "push" factors also influence FDI flows (Thee 2010: 198n; Thomsen 1999: 12). On the part of the hosting economy, the state, in particular, has to be able to control both capital inflows and outflows in order to influence the structure of inward investment and prevent capital flight (Chang 2006: 21n). Moreover, potential negative effects of MNE presence such as social or environmental dumping or crowding out of local firms have to be acknowledged and addressed (Moran 1998: 20n). Policy instruments to attract foreign capital include fiscal incentives such as tax exemptions, financial incentives in the form of grants or subsidies and other incentives such as infrastructural provisions (Faeth 2009: 184 cited in Warwick 2013: 37). These incentives are frequently bundled in so-called export processing zones (EPZs) or special economic zones (SEZs)—which are generally also open to domestic firms (Naudé 2010: 14). Engman et al. (2007: 11) define EPZ programs as "offering a more competitive business environment through provision of special incentives including in particular tariff exemptions to inputs either in a geographically defined area or through a specification process." A prominent example is *Hsinchu Science Park* (HSP) in Taiwan (Haggard and Zheng 2013: 458n). Out of the four economies considered here, Japan has relied on FDI the least which is partly due to the larger domestic savings potential, while Singapore's main economic development strategy was, in fact, the attraction of FDI (Kasahara 2013: 17; Chang 2006: 44; Johnson 1987: 163).

Industrial policy instruments specifically aimed at *technological* catch-up include regulating certain machinery imports, licensing technology and bundling FDI with the provision of technology, management skills and other competencies (Chang 2006: 43n). Additionally, governments can subsidize research and development activities and distribute targeted information on favorable technologies to the respective industry sector through (partly) state-run organizations (Chang

2006: 39; Noland and Pack 2003: 10). Such technology policy measures, however, need to be accompanied by policies improving the corresponding domestic capabilities as to ensure the actual absorption of the respective foreign technology, thus indicating the needed complementarity of institutions (Chang 2006: 45n). In order to lessen market failure stemming from information asymmetries, states may provide information on export markets through public trading agencies, e.g. *Japan External Trade Organization* (JETRO) in Japan or *Korea Trade Promotion Corporation* (KOTRA) in South Korea, or organize visits to these markets for domestic entrepreneurs (Chang 2006: 33; Stiglitz 1996: 171; Johnson 1982: 230n).

A further industrial policy tool is "administrative guidance" which is, according to Johnson (1987: 159), "a euphemism for governmental orders." Administrative guidance encompasses legally nonbinding "directives […], requests […], warnings […], suggestions […] and encouragements […]" issued to the private sector (Johnson 1982: 265n). In this manner, the Japanese state enforced "tailor-made, verbal, ad hoc agreements" (Johnson 1987: 159)—a practice which became particularly important after the liberalization of trade and capital starting as early as the 1960s and the government's subsequent loss of control over the foreign exchange budget (Johnson 1982: 266, 272n). Administrative guidance was also practiced in South Korea and Taiwan, even though little evidence exists in the case of Taiwan (Önis 1991: 112n; Wade 1990a: 207; Amsden 1989: 145n; Johnson 1987: 159). Problems in using administrative guidance can arise from bias or capture (Johnson 1982: 267). Moreover, administrative guidance can usually only be used with single firms since collective punishment for noncompliance of an entire industry sector by means of, e.g., license withdrawal would impair rather than further economic development (Campos and Root 1996: 163n).

On the underlying institutional level, the Asian *developmental states* engaged in planning—including the identification of strategic industry sectors (Warwick 2013: 27). In so doing, they typically closely cooperated with the private sector. According to Wade (1990b: 234), selective industrial policy leading the market includes, amongst others, "a larger before-the-fact plan or strategy" which may include industry sector-specific plans (Önis 1991: 122). Such plans are frequently not only indicative but define specific criteria and should generally be overfulfilled unless the context in which they were drawn up changes (Johnson 1987: 142). Generally, in economic development planning, the government holds an advantage over the private sector due to the state's presumed preference of long-term development over short-term gains and its ability to view the bigger picture as well as including external considerations (Amsden 1989: 84;

Rueschemeyer and Evans 1985: 53; see also Devlin and Moguillansky 2011: 54). As such, long-term planning may enhance a state's credibility and legitimacy since the *developmental state's* legitimacy is generally based on its economic success (Devlin and Moguillansky 2011: 54). In Japan, a number of differently focused development plans were prepared following World War II by the *Economic Planning Agency* (EPA) (Shinohara et al. 1983: 10n; Komiya 1975: 11). Even though general economic development planning in postwar Japan was not particularly well-coordinated and merely indicative, it was nonetheless successful in communicating the government's priorities to its constituents including the private sector and, by that, indicating future economic policies, thereby justifying its existence and actions (Ozaki 1984: 53; Shinohara et al. 1983: 6; Johnson 1982: 76). With regard to general *industrial* development planning, the Japanese state engaged in "vision-making" organized by the MITI and taking place in so-called "deliberation councils," i.e. including the private sector's views (Ozaki 1984: 55). In South Korea, starting in the early 1960s, five five-year plans were rolled out until the mid-1980s (Johnson 1987: 142; on the first four see Kim 2011: 210n). Generally, development planning in South Korea was much more stringent and top-down than, for instance, in Japan and included matters of budgeting and implementation (Shinohara et al. 1983: 45). Fittingly, in South Korea, planning was in the hands of the same agency which was responsible for the plans' implementation—the *Economic Planning Board* (EPB) (Kim 2011: 206n; Shinohara et al. 1983: 45). As such, development planning in South Korea was "substantially more than 'indicative'" (Mason et al. 1980: 254 quoted in Johnson 1987: 141) which may have led Amsden (1989: 84) to the conclusion that "[t]he five-year plan is practically a general property of late industrialization." While the Taiwanese government also engaged in explicit development planning, its eight development plans of different individual lengths prepared by the *Council for Economic Planning and Development* (CEPD) and its predecessors from the early 1950s until the late 1980s were merely indicative (Wade 1990a: 196n; Johnson 1987: 142; Amsden 1985: 94). Still, Taiwan's industrial policies emphasizing heavy industry sectors and inducing export-led growth were, in fact, laid out in the country's third and fourth four-year development plans (Wade 1990a: 87). In Singapore, formal development planning has played a less important role and until the early 1980s only one formal development plan (1961–1965)—the elaboration of which had been insisted on by the *World Bank*—was published (Huff 1995a: 1430, 1995b: 748; Lim 1988: 66). Instead, the government engaged in ad hoc planning better suited to such a small, centralized and financially independent economy dominated by a powerful single party and frequently exposed to exogenous influences—while, at the same time, never losing sight of their long-term economic strategy (Schein 1996: 196; Lim 1988: 66n). Hence, while not much formal

or obvious development planning was conducted in Singapore, such planning was undertaken nonetheless and, in fact, played a decisive role in the country's developmental success—this is especially true for the financial and business services industry sector but also applies to manufacturing (Huff 1994: 341, 1995a: 1433n).

Which specific industrial policy instruments a state chooses depends on its general strategy of industrial development reflected in these development plans and the respective international conditions or restraints. In particular, factors such as "size, structure, capabilities, and politics of existing firms" have to be considered in developing and implementing industrial policies (Schneider 2015: 7). While the Asian high performers shared a similar vision emphasizing industrial development, their respective approach to achieving rapid economic development differed from each other. Japan and South Korea, for instance, featured large diversified business groups—*keiretsus* and *chaebols*, respectively—which serve to bundle scarce capital for developmental endeavors and reduce market failures related to information especially pervasive in developing countries (Johnson 1982: 206; Lim 1981: 46 cited in Johnson 1987: 161). In essence, conglomerates are a "compromise between the inefficiencies of purely state enterprise and the indifference to developmental goals of purely private enterprise" (ibid.). In contrast, Taiwan relied on large SOEs and small- and medium-sized enterprises (SMEs) at the same time and, in Singapore, foreign direct investment (FDI) played a major role in generating economic development (Kasahara 2013: 6).

At the same time, the Asian *developmental states* all shared a focus on exports while simultaneously protecting infant industry sectors, i.e. substituting imports with domestically manufactured products (Chang 2006: 34; see also Amsden 1985: 88n). In fact, these two policies are mutually dependent on each other as, to be successful, infant industry sectors necessitate exports guaranteeing the continuous availability of state-of-the-art technology while an export focus requires the support of domestic industry sectors producing such exports (Chang 2006: 34). While some argue that import and export incentives in the *developmental states* canceled out each other which led to "virtual free trade," Chang (2006: 30) stresses the differences between Asia's high performers and economies with free-trade regimes as differences in relative prices and the former's need to—at least temporarily—disregard the notion of comparative advantage and protect infant industry sectors. Consequently, the failure to simultaneously pursue infant industry protection and export promotion tends to result in unsuccessful infant industry protection schemes as experienced by many developing countries (ibid.: 31n). Indeed, the

explicit pursuit of export promotion is what decisively distinguishes Japan and the "dragon states" from other developing countries including the Southeast Asian underperformers (Noland and Pack 2003: 4; Lim 1988: 275). The fact that export promotion necessitates state intervention not only with regard to industrial but also, for instance, monetary policy reemphasizes the need for complementary institutions if development is actually to be induced (Chang 2006: 33). The industry sectors identified as strategic by Japan, South Korea, Taiwan and Singapore included steel, chemicals, automobiles and electronics (Kuan 2016; Noland and Pack 2003; Okuno-Fujiwara 1991; Wade 1990a). In this manner, Japan, South Korea, Taiwan and Singapore indeed employed *market-leading* industrial policies during their high-growth phases (Kuan 2016: 25n; Chang et al. 2013: 18; Wade 1990b: 256, 247; Ozaki 1984: 56n).

Generally, successful strategies of industrial policy "emerged only through a process of trial and error and learning by doing" (Haggard 2015: 41) and, according to Johnson (1984: 6), industrial policy is "contingent […] rather than set in stone" (see also Woo-Cumings 1999: 31). Consequently, strategies and instruments of industrial policy vary considerably from country to country and over time (Johnson 1984: 6). Moreover, Johnson (1984: 7) notes that "[i]ndustrial policy is first of all an attitude, and only then a matter of technique" and adds that industrial policy entails "the specific recognition that all government measures […] have a significant impact on the well-being and ill-health of whole sectors, industries, and enterprises in a market economy." However, even if a state recognizes the potential effects of its actions and apart from its willingness to promote economic development, it can still be incapable of designing and/or implementing the appropriate industrial policies. Especially industrial targeting is prone to such government failure (Schneider 2015: 12; Chang 2006: 35n). First, the respective state might lack the necessary knowledge and, second, industrial policy might elicit corruption and rent-seeking (Rodrik 2009: 8; Pack and Saggi 2006: 281n). Indeed, governments might not be able to identify market failures in the areas of technological externalities, information and coordination (Pack and Saggi 2006: 281n). With regard to corruption and rent-seeking, governments might act in their own or powerful interest groups' rather than in their constituents' interest, resulting in corruption, and private entrepreneurs may engage in rent-seeking instead of pursuing productive activities (Rodrik 1992: 334n, 2007: 111; Chang 2003: 140n; Weiss 1998: 17n; see also Baumol 1990). Moreover, states may lack the capacity to credibly commit to rewarding and disciplining private actors as well as SOEs (Bardhan 2005a: 518; Rodrik 1992: 335 drawing on Sah and Weitzman 1991). Accordingly, "developmental failure appears to represent institutional failure, and not just policy failure" (Doner et al. 2005: 329). If the necessity to correct market

failures is the case *for* industrial policy, the danger of government failure is an argument *against* it (Naudé 2010: 18n). In this context, Wade (1990a: 9) states that "'government failure' is as pervasive and serious as market failure, if not more so." It does not follow, however, that the state should abstain from employing strategic industrial policy altogether but it rather implies that certain institutional conditions need to be fulfilled in order for such policies to actually succeed (Rodrik 2009: 3). While identifying these conditions is not without problems, broadly speaking, they are effective government–business relations characterized by a capable state cooperating closely with an organized private sector while maintaining a certain degree of autonomy (te Velde 2006: 6n; Rueschemeyer and Evans 1985: 46; see also Chingaipe and Leftwich 2007: 14n, Weiss 1998: 34 drawing on Hall 1986, Schneider and Maxfield 1997: 25, Doner 1992: 399 and Önis 1991: 112).

2.2.2. Government–Business Relations in *Developmental States*

As just outlined, the success of industrial policy in the Asian *developmental states* depended on effective government–business relations. "Effective," in this context, means that the relations between the public and the private sector are cooperative rather than collusive while lowering both market and government failure. In essence, effective government–business relations reduce transaction costs stemming from information asymmetries, uncertainty and potential corruption or rent-seeking by providing an appropriate institutional framework (see, e.g., Schneider and Maxfield 1997: 7). This institutional framework includes both informal and formal institutions (see Haggard 2015: 51). Regarding the former, credible commitment by and trust in the state are particularly important since the private sector tends to only respond to incentives unlikely to be changed arbitrarily by the respective government (Sen 2013: 4; Harriss 2006: 2; Schneider and Maxfield 1997: 11n). This relates to the reciprocity between the public and the private sector and is especially critical in authoritarian states where "the dictator is above the law [and] his promises are unenforceable" (Campos and Root 1996: 76n; Schneider and Maxfield 1997: 10n). In this manner, "informal trust substitutes for formal property rights" (Schneider and Maxfield 1997: 14). However, formalizing—or institutionalizing—government–business interactions is likely to further facilitate information exchange and cooperation by, amongst others, ensuring transparency and extending the respective time horizon through guaranteed repetitions of the interaction (Sen 2013: 12; Evans 2004: 39; Schneider and Maxfield 1997: 9; WB 1993a: 187). Indeed, the degree of institutionalization is one of the key differences between advanced and developing economies (Weiss 1998: 18). *Effective* relations between the

public and the private sector as in *developmental states* thus entail *institutionalized* interactions between the two.

Apart from that, in order for government–business relations to be effective, the respective state ought to be capable and relatively autonomous from particularistic interests and the respective private sector needs to be organized (Sen 2013: 4; te Velde 2006: 7). If this were not the case, neither the state nor the private sector would be able to carry out their respective tasks in generating economic development and their relations would most likely be collusive rather than cooperative (Sen 2013: 4). After all, "[i]ndustrialization is not a fail-proof strategy—it must be implemented successfully" (Noland and Pack 2003: 83). In this manner, not the sheer size of the state or the degree of state intervention determine an economy's developmental success but rather their respective quality (Fukuyama 2015: 39, 57; Bardhan 1990: 4). While the potential benefits of effective government–business relations are hence quite straightforward, the related "institutional challenges are formidable" (Schneider 2015: 3; Bardhan 2000: 254; see also Johnson 1982: 311).

"State capacity" is defined as "the institutional capability of the state to carry out various policies that deliver benefits and services to households and firms" (Savoia and Sen 2015: 442 drawing on Besley and Persson 2011: 6). In this context, Savoia and Sen (2015: 455) note that the use of the term *capacity* instead of *capability* has become customary. The benefits and services delivered should then actually increase a society's welfare rather than simply reallocate already existing resources (Weiss 1998: 5). As such, state capacity is merely one component of "governance"—defined by Kaufmann et al. (2010: 3) as "the traditions and institutions by which authority in a country is exercised" including constitutive matters regarding governments, their capacity to devise and carry out policies and the state's and its constituents' respect for the country's institutions. However, as the present study particularly addresses issues of industrial policy, the concept of state capacity is more pertinent than the broader concept of governance. Moreover, state capacity is one of governance's "key aspects" and decisively contributes to its effectiveness (Savoia and Sen 2015: 441n). Including international aspects and specifically referring to *industrial* policy, Weiss (1998: 7) speaks even more narrowly of "*transformative* capacity" as "the ability to coordinate industrial change to meet the changing context of international competition" and adds that transformative capacity does not equal a specific collection of policies but is a more encompassing concept. Weiss (1998: 5) emphasizes that such capacity is not only about a state's ability to *carry out* a certain policy but also to *formulate* it in the first place—

insofar Weiss coincides with Kaufmann et al.'s (2010: 3) suggested scope of state capacity. In this context, Altenburg (2013: 350) distinguishes between *strategic* and *implementing* capability and Hall (1986: 232) notes that "[g]overnments are frequently prevented from adopting a policy by the absence of any means to implement it." Apart from showing different degrees of capacity regarding the formulation and implementation of policies, a state may be more or less capable in different policy areas—the critical policy area being industrial policy in the context of the present study (Weiss 1998: 16n). Still, such a general concept of state capacity remains rather abstract and it is therefore essential to break it down into several subcapacities (ibid.: 4). It follows that states can exhibit different levels of capacity regarding different aspects of state capacity (Skocpol 1985: 17). Breaking down state capacity into different subcapacities also allows for more accurate measurement of state capacity itself (Savoia and Sen 2015: 442n). Savoia and Sen (2015: 442n) offer a nonexhaustive list of five distinct areas of state capacity: (1) bureaucratic and administrative capacity, (2) legal capacity, (3) infrastructural capacity, (4) fiscal capacity and (5) military capacity. These subcapacities are all important in their own right and—at least up to a certain point—interdependent (ibid.: 443). The availability of ample financial resources partly raised through tax collection, for example, is deemed indispensable for a state's capacity in other areas (Bates 2008: 5; Skocpol 1985: 16n; on the correlation of fiscal and legal capacity, e.g., see Besley and Persson 2009, 2010, 2011: 6n). Naturally, a state's inability to collect taxes also directly results in the undersupply of public goods (Acemoglu 2005: 1223). Apart from sufficient financial resources, the key component of a capable state is a small and capable bureaucracy since "[e]ven the smartest policies cannot implement themselves" (Doner et al. 2005: 341; Fukuyama 2015: 51; Savoia and Sen 2015: 442). As Evans (1997: 70) puts it, "bureaucratic organizations are uniquely designed for the universalistic application of stable sets of rules." Indeed, as Evans and Rauch (1999: 760) show, Weberian bureaucracies with their core principles of meritocracy and long-term rewards are positively related to economic growth (see also Weber 1978[1922]: 956n). In *developmental states*, such a Weberian bureaucracy is at the core of economic decision making and successfully engages in "planning, intervening, and guiding of the economy" (Johnson 1987: 152) including the management of the state's relations with the private sector (Evans 1997: 71n; Leftwich 1995: 411n; Rueschemeyer and Evans 1985: 50). Its main features are its pronounced separation from the political elite, its technical competence ensured through meritocratic hiring policies and competitive rewards, its organization in a so-called "pilot agency" and its relative autonomy from private economic interests (see figure 3). However, the specific bureaucratic set-up varied both across and within the different Asian *developmental states* (Evans 1998: 70n).

Regarding the separation of political and bureaucratic elites, Johnson (1982: 316) contends that "the politicians reign and the bureaucrats rule." This separation is indispensable since political elites typically strive for short-run support to stay in power and consequently might be tempted to serve particularistic private interests and resort to "pork-barrel politics" (Bardhan 2000: 256; Johnson 1987: 151n). The principle–agent problems resulting from the respective ruler's inability to perfectly monitor the bureaucrats who might pursue their own instead of the ruler's interests may be alleviated by granting adequate rewards or instilling an ideology of integrity and selflessness (Lin and Nugent 1995: 2335n, 2339n). Transferring the main decisions concerning economic development to a—at least mostly—separate bureaucratic elite then allows for the independent implementation of strategic industrial policies in the long run and makes the politicians' commitment to development credible (Johnson 1987: 152; see also Acemoglu and Robinson 2006b: 133). In Singapore, the resulting "disadvantages" for politicians were evened out by granting them wide-ranging competencies inside the *political* system instead of awarding them *economic* privileges (Root 1996: 42n). At the same time, Leftwich (2000: 160) still observes "dense traffic" between political and bureaucratic elites in *developmental states* and Önis (1991: 114) notes that such "intraelite circulation" in fact greatly helped cooperation among the mostly small core developmental elites jointly promoting development (Johnson 1987: 140). The empirical evidence reveals that Japan's high-ranking politicians have had less influence on economic policy making than Taiwan's presidents and premiers (Wade 1990a: 195n). In South Korea, the president was even more powerful with regard to economic policy making than in Taiwan (Cheng et al. 1998: 90, 102n; see also Kim 2011 and Kang 2002b: 3n). For instance, South Korea's elite economic bureaucracy and its pilot agency were bypassed by the government in formulating and implementing the *Heavy and Chemical Industry Plan* during the 1970s (Kang 2002b: 92n; Cheng et al. 1998: 106n). Indeed, Haggard (2015: 49) points out that in the case of *authoritarian developmental states* the focus was not so much on the bureaucracy's independence from the respective political elite but rather on its loyalty to that regime. In these cases, credibility issues were, for example, instead resolved through institutionalized government–business cooperation or microinstitutions.

Apart from its relative independence from the political elite, the bureaucracy in the *developmental states* stood out in terms of technical competence. The emphasis on *technical* knowledge has led to the frequent use of the term "technocracy" instead of "bureaucracy" (see, e.g., Kang 2002b, Cheng et al. 1998: 97, Root 1996: 42 or WB 1993a: 167). Johnson (1982: 315, 1987: 152) calls for the recruitment of the "best managerial talent available" educated in the leading domestic

public policy and management schools, thereby stressing the importance of high quality educational institutions. Leftwich (1995: 414) adds that many elite bureaucrats were actually educated abroad and some were, in fact, expatriates (see also Wade 1990a: 211n). While Johnson (1982: 315) emphasizes the importance of generalists trained in law and economics, Wade (1990a: 219n) and Cheng et al. (1998: 97) note the ubiquity of engineers in Taiwan's economic decision making. Technical competence of the bureaucracy in the *developmental states* was ensured through meritocratic hiring policies and competitive rewards (Evans 1998: 70; Weber 1978[1922]: 958n). In Japan, for instance, out of 53,000 applicants taking the *Higher-Level Public Officials Examination* in 1977 only about 1,300 passed and, in Singapore, recruitment was based on secondary school performance (Evans 1998: 71; Johnson 1982: 57). In addition to guaranteeing high levels of competence, such high barriers to entry also contributed to a "sense of unity and common identity" (Önis 1991: 114) among elite bureaucrats which, in turn, lead to enhanced perceived responsibility for societal goals. In Japan, this orientation towards public service was reinforced through ethical standards related to sacrificing oneself for the greater, i.e. common, good going back to samurai times (Johnson 1982: 39). Generally, bureaucracies are, of course, embedded in particular institutional structures which have developed over long stretches of time and include not only formal but especially informal rules to which they tend to adhere (Evans 1995: 28). Another factor causing such an "*esprit de corps*" (Cheng et al. 1998: 96) is the fact that many elite bureaucrats graduated from the same universities—*Tokyo University* and *Kyoto University* in Japan, for example, *Seoul National University* in South Korea and *National Taiwan University* in Taiwan (Kang 2002b: 61; Cheng et al. 1998: 98; Johnson 1982: 58). In this context, Weiss (1998: 50) notes that in South Korea and Taiwan shared military and ethnic backgrounds, respectively, also contributed to this collective spirit while, at the same time, being a selection criterion, thereby indicating that recruitment processes were not entirely meritocratic. The rewards received by those who did pass the entry examinations included high salaries and long-term careers typically characterized by early retirement and subsequent reemployment in both the private and the public sector (Evans 1998: 70; Johnson 1995: 141n; Weber 1978[1922]: 958n). It is noteworthy, however, that members of the elite bureaucracy in South Korea and Taiwan earned well only in comparison with other public employees while earning substantially less than private sector employees while this differential was significantly smaller in Japan and the Singaporean government matched or even outmatched private sector salaries (Cheng et al. 1998: 99, 105; Evans 1998: 71n; Campos and Root 1996: 143n). And while governments in Japan, South Korea and Singapore did indeed reemploy former bureaucrats in the private or quasi-public sector, this was not the case in Taiwan (Cheng et al. 1998: 105; Campos and Root

1996: 147; Johnson 1982: 69n). Yet, the elite bureaucracy in the Asian *developmental states* held a very prestigious and privileged position (Wade 1990a: 218n; Rueschemeyer and Evans 1985: 51; Johnson 1982: 20). In sum, it is then the "overall combination of incentives" (Evans 1997: 69) which is responsible for a particular bureaucracy's competence. In addition to attracting competent personnel, thereby reducing government failure related to knowledge deficits, these incentives—plus sanctioning noncompliance—tended to contribute to reducing corruption and rent-seeking since a lack in performance would result in large financial damages on the part of the bureaucrats (Quah 2010b: 117n; Bardhan 2005b: 164n; Schneider and Maxfield 1997: 20n; Campos and Root 1996: 139, 150). In this manner, "pursuing collective goals becomes the best way to maximize individual self-interest" (Evans 1997: 69).

In addition to its marked separation from the political elite and its technical competence, the elite economic bureaucracy in the Asian *developmental states* was organized in so-called "pilot agencies." Their extraordinary significance immediately becomes apparent given that Johnson's (1982) monograph on Japan's development success actually carries the acronym of its pilot agency—the *Ministry of International Trade and Industry* (MITI)—in its title. According to Wade (1990a: 195), a "pilot agency performs think tank functions, charts the route for economic development, decides which industries ought to exist and which industries are no longer needed […], obtains a consensus for its plans from the private sector, acts as gatekeeper for contacts with foreign markets and investors, and provides positive government supports for private economic initiative." In short, a pilot agency is "charged with the task of coordinating economic change" (Weiss 1998: 52). In this context, Johnson (1982: 320) adds that a pilot agency's areas of responsibilities can and should be adjusted if deemed necessary. Generally, a pilot agency can be a ministry or a specialized agency (Haggard 2015: 49). In Japan, the MITI emerged in 1949 as a result of merging the *Ministry of Commerce and Industry* and the *Board of Trade* (Johnson 1982: 191n). In consequence, the "MITI came to possess weapons of industrial management and control that rivaled anything its predecessors had ever known during the prewar and wartime periods" (ibid.: 194). While it did not have control over matters such as transportation, construction or labor, it had significant influence over finance—especially capital supply and tax policy—, industrial structure planning, domestic production including the development of new industry sectors and guaranteeing the availability of energy and raw materials and international trade (Ozaki 1984: 54; Johnson 1982: 320). As seen above, *general* economic planning was in the hands of the EPA which was, however, largely dominated by the MITI (Johnson 1982: 76, 220, 230; Komiya 1975: 11). In addition to its indirect budget control

through solely being in charge of the foreign exchange budget and credit allocations in general—at least until trade and capital were liberalized—, the MITI's main features were its small size, its research activities, its vertically set up implementation bureaus and its democratic internal structure (Johnson 1982: 25, 79n, 320). Moreover, the MITI generally included the private sector and other actors in its decision-making process through so-called "deliberation councils" (Ozaki 1984: 55). The MITI's process of developing new industry sectors exemplifies the ministry's vast authority: (1) research and planning, (2) authorizing foreign currency allocations by the MITI and funding by the JDB, (3) granting licenses for foreign technology imports, (4) granting special depreciation rates, (5) providing better low-cost or free-of-charge land, (6) granting tax breaks and (7) creating an "administrative guidance cartel" to control competition and coordinate investment in the respective industry sector (Johnson 1982: 236n). All in all, the MITI assumed "many roles ranging from that of broad policy architect to ad hoc working-level problem-solver, and from formal regulator to regional policy arbiter or informational administrative guide" (Ozaki 1984: 54). In so doing, the MITI was successful in many cases while—naturally—not being infallible (ibid.: 63n). In South Korea, the *Economic Planning Board* (EPB) spearheaded the process of economic development. Founded in 1961 after the military takeover led by Park Chung Hee, the EPB was responsible for planning, preparing and coordinating the budget, collecting and analyzing data and overseeing incoming foreign capital and technology (Campos and Root 1996: 164n; Haggard 1990: 64n). In a nutshell, the EPB was a "superministry" (Kim 2011: 206) led by a deputy prime minister and "mandated with broad oversight over the entire economy" (Kang 2002b: 92; see also Leftwich 1995: 412). As this included the allocation of credit and enormous power over and great independence from other ministries, the EPB decisively advanced the country's economy despite the "primacy of politics" (Kim 2011: 201; Cheng et al. 1998: 101n; Haggard 1990: 64n; see also Shinohara et al. 1983: 75n). In Taiwan, the *Industrial Development Bureau* (IDB) was the core agency for the promotion of industrial development (Cheng et al. 1998: 95; Wade 1990a: 201). While the aforementioned CEPD formulated the national economic development plans, translating these plans into comprehensive industry sector-specific plans, deciding on the extent and targets of fiscal incentives and tariff and nontariff barriers to trade and maintaining relations to international enterprises was among the tasks of the IDB (Wade 1990a: 201n). Staffed mostly with engineers, the IDB was in charge of both domestic industrial policy and matters of trade and foreign capital and, by that, has had a significant influence on Taiwan's industrialization process (ibid.: 203n). However, its counterparts' influence in Japan and South Korea might have been greater due to their authority regarding credit allocation (ibid.: 226n). Singapore's pilot agency, the *Economic*

Development Board (EDB), was established in 1961 in order to tackle unemployment and attract FDI (Quah 2010b: 41). Its status as a "statutory board" and the resulting nonaccountability to the legislative ensured independence from the political elite while, at the same time, enjoying the politicians' support (Quah 2010b: 41; Haggard 1990: 113). As such, the EDB has played a major role in Singapore's economic ascent which led to the establishment of further institutions concerned with economic development such as the *Development Bank of Singapore* (Huff 1994: 309). Over the years, the EDB has set up offices abroad while fostering long-term relations with MNEs, facilitating matches between foreign and domestic enterprises and building backward linkages through supporting local sourcing at home (Schein 1996: 34, 83, 195n; Lim 1988: 266n). In Leftwich's (2000: 162, italics added) words, "what differentiates these economic high commands […] in *developmental states* from the generality of planning institutions in so many developing countries appears to be their real power, authority, technical competence and insulation in shaping the fundamental thrusts of development policy."

Indeed, in addition to being relatively separated from the political elite, technically competent and organized in a pilot agency, bureaucrats have to be autonomous from particularistic private interests to a certain degree in order to be able to actually implement the respective industrial policies. In this context, since South Korea, Taiwan and Singapore were at least temporarily ruled by authoritarian regimes while experiencing rapid economic development and Japan's formal democracy has been referred to as "soft authoritarianism" (Johnson 1987: 143), the notion of *developmental states* as necessarily authoritarian has come up (Hayashi 2010: 56; Johnson 1987: 143n). In particular, Park Chung Hee ruled in South Korea, the *Kuomintang Nationalist Party* (KMT) in Taiwan, Lee Kuan Yew's *People Action Party* (PAP) in Singapore and the *Liberal Democratic Party* (LDP) in Japan (Haggard 2004: 58; Root 1996: 42; Johnson 1987: 144n). The causal connection between the *developmental states*' authoritarian set-up and their development success is discussed controversially, however (see, e.g., Hayashi 2010: 56n or Haggard 2004: 58n). For one, authoritarian regimes may be better able to solve problems of collective action and resist particularistic interests than democratic governments and, by that, spur economic development more effectively (ibid.: 58). Moreover, authoritarian governments may guarantee "political stability and long-term predictability" (Johnson 1987: 143) contributing to increased manufacturing instead of commercial activities which tend to be preferred in the short run (Johnson 1987: 143 quoting Mason et al. 1980: 267). Additionally, the exceptional concentration of power in the *developmental states* and the resulting privileges for particular groups might have been difficult to defend in a more democratic set-up (Önis 1991: 119). The regime following

authoritarianism in South Korea, for example, tried to establish a one-party system similar to the one in Japan in order to maintain its capacity in terms of promoting economic development (White 2006: 66). At the same time, the region's democracies such as India or—at least initially—the Philippines have not developed as quickly and inclusively as they lacked developmental capacity and were corruption-ridden (Root 1996: 169n). Indeed, democracy does neither necessarily entail accountability or good procedures nor do "good procedures […] inevitably produce proper substantive results" (Fukuyama 2015: 24; Root 1996: 14). Still, most authoritarian states have not fared as well economically as the Asian *developmental states* (Evans 1997: 43). In particular, authoritarian governments may lack legitimacy and commitment to coherent development goals—let alone potential human rights abuse (Evans 1997: 143; Önis 1991: 116). Moreover, authoritarian regimes may not be able to convincingly secure property rights and guarantee stability since they possess the authority to change policies at random (Cheng et al. 1998: 88). It has been pointed out, however, that the *developmental states'* authoritarian regimes differed from "typical authoritarian regime[s]" (Johnson 1999: 52). For one, the Asian *developmental states* were "revolutionary regimes" (Johnson 1999: 52) enjoying legitimacy for prospective development success rather than for the way in which their leaders came into power (ibid.: 54). Johnson (1999: 53n) concludes that such "revolutionary legitimacy" can hardly be democratic but that "[t]o think of such a regime as authoritarian is to both miss the point and fail to recognize real authoritarianism when it occurs." Apart from that, the *developmental states* were endowed with a set of specific institutions usually not found in authoritarian states. Not only did Asia's *developmental states*—at least to some extent—delegate policy-making power to a largely independent bureaucracy, they also developed close ties with the private sector which enhanced credibility and trust between public and private entities (Haggard 2004: 60n; Root 1996: 15). It follows that "[w]hether a state is a democracy or an autocracy is not a key criterion for deciding whether it is developmental" (Sindzingre 2007: 618; Lin and Nugent 1995: 2336).

While states hence do *not* necessarily have to be *authoritarian* in order to be developmental, they *do* need to be sufficiently *autonomous* from particularistic private interests. Leftwich (1995: 408, italics added), for instance, notes that "relative state autonomy […] seems common to both democratic and non-democratic *developmental states* alike." A state is regarded as autonomous when it "has been able to achieve relative independence (or insulation) from the demanding clamour of special interests (whether class, regional or sectoral) and that it can and does override these interests in the putative national interest" (Leftwich 2000: 161 drawing on Nordlinger

1987: 369n). Indeed, "true" Weberian bureaucrats do not maintain *personal* relations but rather focus on "*impersonal* and *functional* purposes" (Weber 1978[1922]: 959 quoted in Johnson 1982: 37, italics in original). Unless a state is at least partially autonomous it can actually not be regarded as a valuable actor in a capitalist political economy (Rueschemeyer and Evans 1985: 61; Skocpol 1985: 9). Sufficient insulation from private vested interests, on the other hand, enables states to tackle society-wide developmental issues and introduce sometimes innovative solutions directed at welfare improvements in the long term (Skocpol 1985: 9, 15). With regard to industrial policy, a certain state autonomy is required for both the *formulation* and the *implementation* of a particular policy where the latter may include disciplining the private sector (Rueschemeyer and Evans 1985: 49). Disciplining the private sector, i.e. penalizing unsuccessful firms and rewarding successful ones, was generally an important part of industrial policy in the *developmental states* since the collection of rents created by the state in order to promote economic development may have led to opportunistic behavior and substandard performance by private enterprises otherwise (Rodrik 2007: 106; Chang 2006: 28; Evans 1997: 66; Önis 1991: 113). Rodrik (2008: 28n) refers to this practice as "carrots and sticks" and Amsden (1989: 145n) points to its reciprocal character as the state extends benefits to the private sector while requiring good performance in return (see also Sen 2013: 4 and Schneider and Maxfield 1997: 10). Private sector performance in the Asian *developmental states* was frequently measured in terms of exports due to the comparatively high measurability and reliability of the respective data as well as the world market's ability to further discipline domestic firms through stringent efficiency and productivity requirements (Rodrik 2008: 29; Noland and Pack 2003: 40, 85, 87; Bardhan 2000: 259; Schneider and Maxfield 1997: 10; Amsden 1989: 16, 146). In order to identify high-performing enterprises, particularly the governments of Japan and South Korea created contests between domestic firms relying on exports as performance indicator (Stiglitz 1996: 166n; WB 1993a: 93n). Apart from an unambiguous indicator, contests necessitate well-defined prizes such as loans or foreign currency allocations and clearly appointed referees (Stiglitz 1996: 167; WB 1993a: 99). While such a set-up generally lowers the risk of corrupt behavior on the referees', i.e. the bureaucrats', part, the state should make especially sure not to spare close private allies from potential punishment since such collusive behavior would significantly lower the state's credibility (Stiglitz 1996: 167; Amsden 1989: 15n). In this context, Schneider (2015: 5) contends that the "coercive side to industrial policy" and the related necessary capacity of the state to monitor and sanction the private sector is often overlooked.

Naturally, a state's degree of autonomy is not static but changes over time (Önis 1991: 125; Skocpol 1985: 14). For one, state intervention in the economy itself can result in enhanced or reduced state autonomy (Rueschemeyer and Evans 1985: 68n). While state autonomy and state actions may mutually reinforce each other, interest groups disadvantaged in the course of state intervention may begin to more or less forcefully lobby for their interests and, by that, lower the state's future autonomy (ibid.). Apart from that, the presence of foreign capital in the form of aid or loans plus a state's control over it may enhance state autonomy as well as divided dominant societal groups or pressure from deprived groups (Leftwich 1995: 411; Rueschemeyer and Evans 1985: 63n). At the same time, such cleavages may just as well result in state capture and "balkanization" (Rueschemeyer and Evans 1985: 64). Also pervasive ethnic or religious conflicts may lead to either diminished or enhanced state capacity depending on the respective societal specificities (ibid.: 65). Generally, state autonomy can be reached through not recruiting the respective bureaucracy from dominant landed or economic interest groups, keeping bureaucrats from establishing strong personal or economic ties with these interest groups once recruited and bestowing upon them the aforementioned rewards to keep them from becoming corrupt (Skocpol 1985: 10 drawing on Trimberger 1978: 4). Particularistic private interests may then still benefit from government policies but these benefits tend to be the *result* of such policies rather than their initial purpose (Leftwich 1995: 408). Mostly, it is not necessary to completely suppress policies favoring particularistic private interests but rather to minimize such instances—especially in industry sectors deemed crucial for national economic development (Weiss 1998: 39). In this context, Rueschemeyer and Evans (1985: 62) remark that particularistic interests are likely to exercise a certain influence even in generally highly autonomous states. Apart from the political elite, it is the legislature's and the judiciary's task to shield the bureaucracy from vested interests (Johnson 1982: 315). If states *are*, in fact, relatively autonomous from private vested interests "depends on conjunctures of state structure, the relations of states to societies and transnational environments, and the nature of the challenges faced by given states" (Evans et al. 1985b: 356). Accordingly, different states—including the different *developmental states*—exhibit different levels of autonomy from particularistic private interests (Leftwich 1995: 408; Önis 1991: 125). State *autonomy* does not per se result in state *capacity*, however (Önis 1991: 123; Evans et al. 1985b: 353n). This is due to potential government failure as "autonomous official initiatives can be stupid or misdirected, and autonomous initiatives may be fragmented and partial and work at cross-purposes to one another" (Skocpol 1985: 15; see also Rueschemeyer and Evans 1985: 61). Moreover, in the case of *predatory states* lacking the will to further sustained and inclusive economic development, greater state

autonomy naturally tends to result in lower development levels (Rueschemeyer and Evans 1985: 61). Developmental success hence occurs when a state is both sufficiently capable and autonomous at the same time—which was precisely the case in the Asian *developmental states* (Fukuyama 2013: 360n; Evans 1989: 575).

A further condition for developmental success is the state's embeddedness into favorable wider institutional structures. As Skocpol (1985: 20) puts it, "the implementation of policies is shaped not only by the policy instruments available to the state, but also by the organized support it receives from key societal groups." Hence, *insulation* is not to be confused with *isolation* (see, e.g., Fukuyama 2013: 357 or Leftwich 2000: 161n). Regarding the nature of the relations between the public and the private sector in the *developmental states*, Evans (1989: 574) speaks of "embedded autonomy" as "an apparently contradictory combination of Weberian bureaucratic insulation with intense immersion in the surrounding social structure." This means that both a state's *internal* and *external* networks—both formal and informal—are relevant when it comes to a state's influence on economic development (ibid.: 573). In Önis's (1991: 115, italics added) words, "[t]he logic of the *developmental state* rests precisely on the combination of bureaucratic autonomy with an unusual degree of public–private cooperation." This argument is in line with both Gerschenkron's and Hirschman's conception of state intervention (Evans 1995: 31n). While government–business cooperation is indispensable in order to reduce information asymmetries and, more generally, advance economic development, without a certain degree of autonomy "embeddedness will degenerate into a super-cartel, aimed, like all cartels, at protecting its members from changes in the status quo" (Evans 1995: 57n, 1989: 575, 1997: 74; see also Weiss 1998: 55). Finding the right balance between autonomy from particularistic private interests and cooperation with the private sector is hence fundamental (Rodrik 2007: 111; Haggard et al. 1997b: 60). Adding on to this, Weiss (1998: 36) identifies the relationship between the public and the private sector in the *developmental states* as "selective embeddedness" because, while relations are close, they are extremely discriminatory as they grant state access to some groups while denying it to others. Since the state, in this relationship, "takes a proactive role" defining and monitoring the respective economy's overall developmental objectives—or entrusting the private sector with these decisions—Weiss (1998: 38) speaks of "governed interdependence" (see also Önis 1991: 116). In so doing, Weiss (1998: 38n, 43n) stresses the importance of a strong private sector as mere public dominance would result in "the capacity to act, but not necessarily to act effectively." At the same time, however, the Asian *developmental states* remained skeptical towards the private sector (Evans 1998: 75). Well-balanced relations

between the public and the private sector are thus key to a *developmental state's* success (Johnson 1982: 195).

Apart from an internally capable and relatively autonomous state, effective relations between the public and the private sector consequently need an organized private sector and institutionalized interactions between the two. The organization of the private sector typically occurs in business associations. Business associations are "long-term organizations with formal statutes regulating membership and internal decisionmaking in which the members are individual business people, firms, or other associations (that are not necessarily linked by ownership […] or contractual ties)" (Doner and Schneider 2000: 280). While business associations are often thought to mostly engage in rent-seeking instead of productively furthering economic development, Doner and Schneider (2000: 261n) point out that this is not necessarily the case (see also Haggard et al. 1997b: 51). First of all, business associations may significantly improve the exchange of information between the public and the private sector by relaying valuable information on potentially beneficial investment opportunities to their members and providing the bureaucracy with pertinent, unbiased information on the respective industry (sub)sector (Sen 2013: 5; Doner and Schneider 2000: 267n; Schneider and Maxfield 1997: 9). Moreover, business associations may alleviate collective action problems by facilitating information flows and cooperation between their member firms (Sen 2013: 5; Doner and Schneider 2000: 270; see also Schneider 2015: 2 drawing on Sabel 2012). By monitoring the bureaucracy and ensuring transparency, business associations can also contribute to reducing corruption and rent-seeking and ensuring the proper implementation of policies (Lucas 1997: 73n). Through joint lobbying, business associations may also contribute to more secure property rights, better public administration and improved infrastructure (Doner and Schneider 2000: 263n; see also Sen 2013: 5). Finally, the state can delegate certain tasks such as implementing policies or settling disputes to the private sector which may also positively influence economic development (Haggard et al. 1997b: 52).

However, in order to actually positively contribute to economic development, business associations need to exhibit a certain level of *internal* capacity and, at the same time, be subject to *external* forces ensuring the proper usage of that capacity (Doner and Schneider 2000: 262). According to Doner and Schneider (2000: 271), the crucial—and interdependent—*internal* features comprise high density of membership or "encompassingness," valuable selective incentives provided by the state including access to government and effective mediation of

interests between members plus skilled staff and sufficient material resources (see also Weiss 1998: 60, Haggard et al. 1997b: 51 and Schneider and Maxfield 1997: 21 on "encompassingness" and Chingaipe and Leftwich 2007: 15 on human resources). Schneider and Maxfield (1997: 23) add an association's ability to monitor its own members and ensure their compliance with the respective agreements as key internal feature of capable business associations (see also Doner and Schneider 2000: 270). In fact, internal monitoring and transparency can uncover—and ideally eventually avoid—particularistic endeavors by individual firms and, by that, reduce rent-seeking (Haggard et al. 1997b: 49; Schneider and Maxfield 1997: 24). Business associations are typically stronger the more they are representative and centralized and, by that, able to present government with a unified private sector position, thereby "challeng[ing] the hegemony of the *developmental state*" (Lucas 1997: 75, 82, italics added; Chingaipe and Leftwich 2007: 15; te Velde 2006: 7). Such strong associations, in turn, are less likely to form in economies with a divided private sector—for instance ethnically or religiously (Chingaipe and Leftwich 2007: 15). "Favorable" *external* pressures, i.e. third-party enforcement, are vulnerability to international competition and discipline exercised by the respective state (Doner and Schneider 2000: 275n). In the *developmental states*, the government's role, however, did not only include disciplining the private sector and its associations but also facilitating—or, in some cases, forcing—its organization in the first place (Chang 2006: 33; Haggard et al. 1997b: 50; Leftwich 1995: 417). In this sense, promoting government–business relations can actually be seen as a generic industrial policy instrument (Warwick 2013: 28). However, staffing business associations with former bureaucrats frequently resulted in interwoven public and private sectors and bore dangers of "private sector capture" by the respective government (Schneider and Maxfield 1997: 17n; Deyo 1987: 236). Still, such practices enabled the *developmental states* to obtain the needed information more easily than otherwise (Schneider and Maxfield 1997: 9). Examples for business associations in the Asian *developmental states* are the *Federation of Korean Industries* (FKI) in South Korea and the *Taiwan Textile Federation* (TTF) in Taiwan (Kang 2002b: 90n; Lucas 1997: 82; Wade 1990a: 283).

In order to overcome credibility issues stemming from the state's power to potentially arbitrarily change (industrial) policies, business associations should be granted a certain level of autonomy and consultative mechanisms should be installed (Root 1996: 11n). In the *developmental states*, the public and the private sector therefore came together in so-called "deliberation councils." Deliberation councils are institutional arrangements facilitating consultation and cooperation mainly between the respective state and private sector but may include representatives from the

labor force, the media, the academe and the civil society, depending on the policies in question (Campos and Gonzalez III 1999: 430; Campos and Root 1996: 78n; WB 1993a: 353). Indeed, institutionalizing public–private cooperation in such councils increases a government's credibility as a council's decision is less likely to be altered by the respective government than a government's sole decision because an alteration might jeopardize potential future benefits stemming from institutionalized interactions (Campos and Root 1996: 79n, 89; Root 1996: 12n; WB 1993a: 187; see also Haggard 2015: 51n). In this context, Weiss (1998: 56, italics in original) remarks that "[t]he point is not that conflict is eliminated through such negotiated relationships, but that it is *institutionalized*." Such microinstitutions may then—at least in the short run—make up for the efficiency loss in the case of authoritarian, i.e. inefficient, political institutions. A deliberation council's main activity is supporting the formulation and implementation of development-inducing policies through exchanging information, coordinating the different parties and minimizing rent-seeking opportunities (Doner 2009: 72; Rodrik 2007: 113; Campos and Root 1996: 79, 99n; Root 1996: 12). Indeed, understanding industrial policy as a "discovery process" engaging both the public and the private sector rather than as a top-down affair decisively reduces the risk of government failure (Rodrik 2007: 100n; see also Warwick 2013: 23n and Hausmann and Rodrik 2003). Moreover, such public–private relations facilitate "compromise and rent-sharing *within* the business elite" (Bardhan 2000: 257, italics added). While Schneider (2015: 15n) notes that "there are no sufficient and only a few necessary institutional conditions," desirable institutional features of a deliberation council are small numbers of preferably high-level representatives, a certain but not too great homogeneity among them, a confidentiality clause, a comparatively long time horizon, clear-cut responsibilities, a skilled staff and a certain authority over resource allocation (on the latter see also Campos and Root 1996: 79).

The specificities of cooperation between the public and the private sector in a given economy then partly depend on the structure of the private sector in that economy. During their high-growth periods, both Japan's and South Korea's private sector was dominated by large domestic conglomerates, while Taiwan's economy was characterized by the coexistence of large SOEs and private SMEs and Singapore's private sector mainly consisted of MNEs. Accordingly, deliberation councils facilitating cooperation between the public and the domestic private sector were especially important in Japan and South Korea while the Taiwanese state primarily relied on "tightly knit party organization" (Bardhan 2000: 257; Campos and Root 1996: 82n; see also Haggard 2015: 52). In Japan, in the mid-1970s, over 240 such councils were active—the most

relevant to industrial policy matters being the *Industrial Structure Council* organized by the MITI (Okazaki 2001: 324n; Campos and Root 1996: 83n; Ozaki 1984: 55; Johnson 1982: 47). In Evans's (1998: 76) words: "What does not fly in a deliberation council is unlikely to work in practice. Conversely, when proposals succeed in generating support of deliberation councils, MITI can be confident that the appropriate private sector response will be forthcoming." In fact, the close cooperation between the public and the private sector in Japan has led to the notion of "Japan, Inc." (Stiglitz 1996: 163; Johnson 1982: 272) and Kohli (2004: 13) refers to the *developmental states* as "state-guided corporations of sorts." During South Korea's economic ascent, the most prominent example of institutionalized government–business cooperation were the monthly *Export Promotion Meetings* chaired by Park in which, amongst other activities, export targets were decided upon and monitored (Schneider 2015: 23n; Weiss 1998: 57n; Campos and Root 1996: 89n; WB 1993a: 183). The difference in performance between different industry (sub)sectors within an economy or the same industry (sub)sector in different economies can then be explained by the difference in the respective relationship between the public and the private sector (Whitfield and Buur 2014: 129n).

In addition to being institutionalized, the relations between the public and the private sector in the Asian *developmental states* during their high-growth phases were mostly free from corruption and rent-seeking—with the notable exception of South Korea where developmental and patrimonial structures coexisted (Doner et al. 2005: 334; Noland and Pack 2005: 75; Kang 2002a, 2002b; Leftwich 2000: 161; Amsden 1989: 146). Apart from the above mentioned benefits extended to the bureaucracy, this may have been due to the weakness of the private sector in particular and private interests in general and the fact that corruption in the *developmental states* was largely confined to high politics and industry sectors not directly relevant to industrial development (Doner et al. 2005: 334; Noland and Pack 2003: 72n; Evans 1997: 77). Moreover, Haggard et al. (2008: 212) remark that "centralized systems are capable of creating a stable, predictable, and therefore credible regime for investors even if corruption is a component of the operating environment" and Bardhan (2000: 259) maintains that "centralized corruption (as in South Korea or Taiwan) has less adverse consequences for efficiency than decentralized bribe-taking, since in the former case the bribee will internalize some of the distortionary effects of corruption" (see also Altenburg 2013: 367n and Kang 2002b: 3).

To sum up, the success of strategic industrial policy depends on effective government–business relations, i.e. a capable state cooperating with an organized private sector while enjoying a certain

degree of autonomy. As both the respective industrial policies and the relations between the public and the private sector are largely determined by the state itself, the state can both promote and hinder economic development decisively (see also Evans 1997: 71). However, once in place, the general industrial policy strategy as well as the structure of the state, the private sector and the nature of their cooperation are subject to path dependence and inertia (Chingaipe and Leftwich 2007: 15; Campos and Root 1996: 92; Skocpol 1985: 16n). In this process, "[t]he state and business reshape each other in reciprocal iteration" (Evans 1997: 63) or, as Kohli (2004: 22) puts it, in *developmental states*, "[p]olitical and economic power […] reinforce each other and help to move the society rapidly toward state-defined goals." Moreover, the advantageous institutional set-ups of the *developmental states* have emerged only slowly over time and contained elements of experimentation (Savoia and Sen 2015: 446n; Schneider 2015: 19; Evans 1998: 71n; Johnson 1982: 29, 35n). The fact that the benefits of institution building consequently only manifest in the long run may then result in a lack of, for instance, bureaucratic capacity when it is actually needed (Rueschemeyer and Evans 1985: 48n). In fact, government–business relations tend to be least effective in those countries in which economic development—and development-inducing industrial policies—are needed the most (Weiss 2013: 409). Finally, government–business relations and their degree and nature of institutionalization depend on the underlying socioeconomic, political and societal structures in a given society (Kim 2009: 386n, 390; Haggard 2004: 56, 64, 74; Weiss 1998: 18n). In short, "[t]he *developmental state* is not manna from heaven" (Kim 2009: 390, italics added) and its historical origins therefore deserve closer scrutiny (see also Haggard 2015: 52n).

2.2.3. The Origins of the Asian *Developmental States*

In order to comprehensively explore the origins of the Asian *developmental states*, it is necessary to shed light on both *internal* and *external* (initial) conditions under which they emerged (see, e.g., Kang 2002b: 7, Evans 1998: 80n, Önis 1991: 116n or Evans et al. 1985b: 353). Regarding the *internal* initial conditions, the literature identifies the relative equality of wealth and income as most relevant while favorable educational and infrastructural bases do not seem to have been sufficient conditions for the emergence of a *developmental state* (Quah 2016: 17; Kim 2009: 390n; Chang 2006: 48n; Noland and Pack 2003: 79; Evans 1998: 69; Rodrik 1995: 75n; Önis 1991: 116n; Lim 1988: 18; Johnson 1982: 239). Indeed, "negotiation and enforcement costs for some cooperative arrangements may go up with inequality" (Bardhan 2005a: 527; see also Bardhan 2000: 257n and Olson 1965). Factors related to culture and religion, on the other hand, have

been dismissed as major explanations for the *development states'* success (Chang 2006: 242; Root 1996: 2n, 1998: 60n; Stiglitz and Uy 1996: 272 drawing on Stiglitz 1994; Cumings 1984: 3). The potentially problematic initial lack of resources in the *developmental states*, it has been argued, was partly compensated by US aid or, in the case of Singapore, a favorable geographic location (Stubbs 2018: 11n; Huff 1995b: 736; Lim 1988: 18). Moreover, natural resource scarcity may actually have led to increased efforts at industrialization due to limited rents available from mere resource extraction (Noland and Pack 2003: 79n drawing, amongst others, on Doner et al. 2005, Kay 2002: 1087n and Leamer 1987). Plentiful natural resources may, in fact, constitute a curse rather than a blessing (see, e.g., Ross 1999).

The relative wealth and income equality at the outset of the economic ascent of the *developmental states* was mainly due to land reforms carried out by both the respective colonizers, i.e. the US and Japan, and the countries themselves—obviously, this does not apply to Singapore where an agrarian elite simply did not exist to begin with since Singapore is a city state (Kim 2009: 392n; Noland and Pack 2003: 82; Griffin et al. 2002: 302n; Dorner and Thiesenhusen 1990: 73n; Haggard 1990: 36; Wade 1990a: 73, 76; Amsden 1985: 81, 84n, 1989: 34, 37n). The terms "land reform" and "agrarian reform" are mostly used interchangeably and refer to the redistribution of landed property rights in favor of previously landless or land-poor groups in a given society (Borras, Jr. et al. 2007: 2, 4; Borras, Jr. 2006: 72n; Griffin et al. 2002: 279n). As such, land reforms change the agrarian structure and "develop private property rights further as a key institution in capitalist development" (Borras, Jr. et al. 2007: 4n). Generally, land reforms should not be regarded as sufficient by themselves but ought to be supported by broader agricultural development policies which, once again, highlights the necessary complementarity of institutions in order for them to be development-inducing (WB 2005: 164, 168; Griffin et al. 2002: 315n; Dorner and Thiesenhusen 1990: 65n). Land reforms may then contribute to poverty alleviation through initial transferring and subsequent sharing of wealth, increased government legitimacy and political stability and greater productivity especially of land (Borras, Jr. et al. 2007: 5n; Griffin et al. 2002: 286n; Campos and Root 1996: 50n; for an overview of skeptical views on land reforms see Griffin et al. 2002: 317n). The latter then results in an agricultural surplus, i.e. a portion of agrarian production which is not needed to maintain the sector itself and which can consequently be used to finance initial endeavors in the industrial realm (Kay 2002: 1075). In order to successfully industrialize, a state hence needs to work out how to generate such a surplus, how to extract it and how to use it while, at the same time, finding "the right balance" between the agricultural and the industrial sector (ibid.: 1075, 1098). Indeed, in addition to

achieving their political goals, by "squeezing" the agricultural sector without exhausting it, the governments of South Korea and Taiwan were able to foster industrial development with the help of abundant labor, inexpensive food and raw materials and foreign exchange (Kay 2002: 1079n; Amsden 1985: 84n). Prioritizing the industrial sector, however, came at the expense of harsh conditions for the rural population (Kay 2002: 1081n). In sum, in Japan, South Korea and Taiwan, the agricultural sector significantly contributed to industrial development and the respective state was instrumental in coordinating this process (ibid.: 1077, 1092n). The reasons for the success of the land reforms in Japan, South Korea and Taiwan were, amongst others, their timing and encompassingness, the general scarcity of land and the respective colonizer's or state's ability to confiscate land due to their independence from the landed elite (Griffin et al. 2002: 307n; Kay 2002: 1076).

Apart from carrying out (initial) agrarian reforms, thereby weakening old elites, Japanese colonialism in South Korea and Taiwan left behind a manufacturing base, favorable bureaucratic structures—which, in fact, facilitated subsequent land reforms—and a sense of state intervention as necessary for economic development (Haggard 2015: 53; Kohli 2004: 32n; Kay 2002: 1079; Wade 1990a: 195; Amsden 1985: 82n, 1989: 34; Cumings 1984: 8n; see Haggard et al. 1997a for a critique of this view). In Singapore, British colonial rule left behind favorable bureaucratic structures and Japan benefited from the US occupation in the form of increased state influence and autonomy—most of the Japanese deliberation councils were actually established by the American occupants as a means of enhancing the bureaucracy's accountability (Quah 2010b: 25n, 2016: 17n; Schneider 2015: 9; Lim 1988: 18; Cumings 1984: 21). In sum, the *developmental states'* colonizers left behind mostly favorable institutional conditions enabling subsequent (economic) development with decolonization opening up further windows of opportunity (Kim 2009: 392n; Kohli 2004: 19). In this manner, Asia's *developmental states* set out on a dependent path towards economic success. Indeed, since institutions are, as shown above, generally self-reinforcing, those countries left by their colonizers with less favorable institutions have tended to be less successful economically in comparison (Kohli 2004: 409n; Acemoglu et al. 2001, 2002; for a critical qualification see Rodrik 2007: 185n).

Moreover, internally, a state's capacity depends on its perceived legitimacy which is related to the constituency's norms and beliefs and can thus be undermined if these beliefs differ significantly between different groups within the respective society (Lange and Rueschemeyer 2005: 9). Precisely, "[b]oth state actions and their consequences for development become

contingent on the context in which they are immersed" (Evans 1995: 29) which points to the potential difficulties for states facing "strong societies" (Migdal 1988) as well as those with (ethnically) fragmented constituencies (Bates 2008: 6n; Kohli 2004: 11). On the verge of the *developmental states*, however, their societies were quite homogeneous and both the respective private sector and civil society—especially labor—were weak which made the state "the most powerful player in town" (Leftwich 1995: 417; Haggard 1990: 51n, 76n, 100n, 2015: 53, 55; Kohli 2004: 57n; Amsden 1989: 27, 147; Johnson 1987: 149n; Cumings 1984: 22). Apart from the impact of colonization, this was due to ongoing security threats which points to the relevance of external circumstances (Stubbs 2018: 16n).

The *external* conditions under which the *developmental states* emerged include a geopolitical situation dominated by the Cold War and a pre-WTO trade regime (see, e.g., Evans 1998: 80n and Önis 1991: 116). Moreover, the economies of the three Northeast Asian *developmental states* were closely intertwined as South Korea and Taiwan have typically taken over sunset industry sectors from Japan (Cumings 1984: 2n). However, apart from this advantageous regional economic embeddedness, the *economic* external conditions applied to all then-developing countries. Therefore, especially the geopolitical situation is of interest. During their initial rise, the *developmental states* faced Communist threats from, amongst others, North Korea and China (Zhu 2002: 14; Root 1998: 73; Woo-Cumings 1998: 319n; Önis 1991: 116). These threats greatly increased the respective state's autonomy and legitimized their claims to power as inclusive economic development took off (Kim 2009: 286; Stubbs 1999: 342). In this context, Johnson (1982: 241) remarks that the economy in postwar Japan stayed "on a war footing" with the bureaucracy pursuing economic development just as the military would pursue war (on the general relationship between war and state making see Tilly 1985).

The *developmental states'* exceptional geostrategic position entailed significant support from and control by the US—both politically and economically (Stubbs 1999: 344n, 2018: 50n; Woo-Cumings 1998: 328n; Haggard 1990: 55n, 83n; Cumings 1984: 17, 24n). Apart from much needed capital, this included advice/prescription regarding general economic strategy as well as access to US technology and markets (Woo-Cumings 1998: 329n; Önis 1991: 117; Haggard 1990: 55n, 84n; Amsden 1985: 98; Cumings 1984: 19, 24n). With regard to South Korea, Amsden (1989: 27) remarks that economic development was the country's only option to achieve genuine independence from the US (see also Zhu 2002: 18). In their seminal paper on the origins of the *developmental states*, Richard F. Doner, Bryan K. Ritchie and Dan Slater (2005)

bring together internal and external pressures and emphasize their simultaneous occurrence as necessary for the emergence of a *developmental state*. In their view, the respective political elite only engaged in constructing such a state because they were facing "systemic vulnerability" characterized by (1) internal conflicts requiring broad coalitions beneficial to the many including land reforms, (2) resource scarcity calling for economic expansion and industrial upgrading and (3) external threats contributing to state building and economic development (Doner et al. 2005: 329n, 338n). While once more highlighting the role of the respective political elite, developmental elites thus did not act in the way they did in order to selflessly serve their countries and constituencies but because they were facing particular constraints basically leaving them no other option to secure their power (ibid.: 356). This notion is supported by Acemoglu and Robinson (2006a: 124n) who find that political elites are more likely to promote economic development when facing security threats.

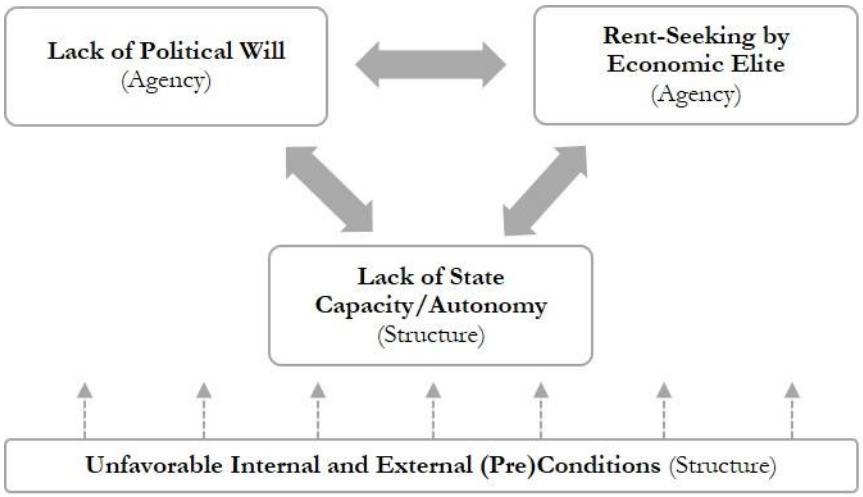
In sum, the characteristic features of the *developmental states* emerged in the face of highly specific internal and external circumstances and, therefore, "[a] nation's industrial policy is inseparable from its history" (Ozaki 1984: 51; see also Evans 1989: 575). This, however, does not render the concept of the *developmental state* moot—even though especially the emulation of the underlying institutional structures would be difficult if the goal was, in fact, *replicating* the *developmental state* (Cheng et al. 1998: 107; Evans 1998: 78; Önis 1991: 122). Potential imitators should instead innovatively and creatively adapt the concept of the *developmental state* to their respective settings and may additionally aim for "second-best" options or prioritize the most pressing issues (Rodrik 2007: 61n; Evans 1998: 72, 79). While path dependence and institutional inertia might lessen a state's ability to construct a *developmental state*, initial conditions including unfavorable informal institutions and external circumstances are not per se deterministic or unchangeable (Chang 2006: 50n; Noland and Pack 2003: 85; Evans 1998: 81n; Weiss 1998: 24; Evans 1997: 81; Root 1996: 2n; Amsden 1985: 98n). Indeed, effective government–business relations can be built in the long but also in the short run as it was frequently the case in the *developmental states* (Chang 2006: 48, 241n; Önis 1991: 122n). State autonomy, for instance, may be partly "engineered" (Rodrik 1992: 335). Moreover, establishing a *regulatory* rather than a *developmental state* might not necessarily be easier as less interventionist set-ups also require a capable state (Chang 2006: 50, 52, 241n; Evans 1992: 142, 1998: 79). As Rodrik (2007: 157) puts it, "the freer are the markets, the greater is the burden on the regulatory institutions" and Leftwich (2000: 169 drawing on Sandbrook 1990: 682) concludes that "development requires not less state but better state action." The recent "renewed focus on state capacity" as noted by

Haggard (2015: 41, 59n) hence seems more than appropriate (see also Fukuyama 2013: 347n). Finally, the concept of the *developmental state* may well serve as a benchmark in evaluating the developmental success or failure of other economies—as done in the present study (Evans 1995: 59n).

2.3. State Failure and the Concept of the *Underdevelopmental State*

In order to actually be able to facilitate economic development, states need to be both *willing* and *capable*. Will without capacity, for instance, may even make economic development less likely than it would be without any intervention by the state (Evans 1995: 10). Essentially, "[s]tates may not only create collective goods; they can also generate public failures" (Lange and Rueschemeyer 2005: 6). In short, states can fail. While conclusively defining "state failure" is difficult, it generally includes both actions *not* taken by the state which could have positively influenced economic development and state actions which actually made a country's economic situation worse (Hall 2010: 588; Khan 2004: 166). Such failure can go as far as states preying on their constituency while being subject to and actively engaged in enduring violent conflicts (Rotberg 2003: 5n). The latter, Brock et al. (2012) observe, are indeed increasingly taking place *intra-* rather than *inter*state. While Rotberg (2003: 25n) points out that the reasons for extreme state failure mostly lie with the respective rulers, the sources of more modest state failure—or weakness—are manifold and include issues related to both agency and structure (see figure 4) (Bardhan 2005a: 512; Rotberg 2003: 4n; Lin and Nugent 1995: 2337n).

Figure 4: Sources of State Failure



Source: own illustration.

For one, those in political power, i.e. the state, may lack the *will* to foster sustainable and inclusive development and instead maximize their own gain (see figure 4). Indeed, the accumulated power emanating from holding the monopoly on violence may lead to the abuse of that power (North 2005: 119; Barzel 2002: 138). North's (1981: 20n) "neoclassical theory of the state" models this scenario by assuming two kinds of players—the state with a single ruler, on the one hand, and the exchanging parties, on the other. Both these political and economic organizations are assumed to exhibit wealth-maximizing behavior in order to take advantage of the gains from trade (ibid.: 18). In providing public goods, the state pursues two goals: (1) devising and enforcing a property rights structure aimed at maximizing the ruler's rent and (2) reducing transaction costs by enabling economic exchanges and, by that, maximizing societal output with the intention to raise tax revenues beneficial to the state (ibid.: 24). In order to receive maximum revenue, the state discriminates between different groups of constituents regarding the design of property rights and is limited by its constituents' opportunity costs as these could—at least in theory—defect to another state or another potential ruler in the same state (ibid.: 23n). Indeed, rulers have to "balance their desire to extract rents with the need to improve domestic welfare in a way that maintains their influence within society" (DiCaprio 2012: 11). In order to lessen such internal pressures, political leaders may, for example, attempt to increase their legitimacy through "ideological education" (Lin and Nugent 1995: 2335) of their respective constituency. Generally, extractive elite behavior is only possible to the extent that the elite is not subject to internal and/or external pressures (Doner 2009: 89n). The resulting property rights structure thus reflects the enduring conflict between the ruler's and the constituency's goals with the latter trying to influence the former (North 1981: 18). This dichotomy between the ruler's and society's interest is then one of the main sources of inefficient economic institutions which are, in turn, responsible for the lack of development of the respective economy (ibid.: 25). In particular, the ruler designs the respective property rights in favor of the powerful economic elite—the *de facto* political power holders—over those of the rest of the society in order not to endanger his or her own position since more inclusive development giving rise to a middle class and participatory claims may well lead to a legitimacy crisis on the part of the (extractive) state (Lin and Nugent 1995: 2336; North 1981: 28). Moreover, rulers generally grant monopoly rights rather than more competitive property rights in order to maximize their own rent (North 1981: 28). As North and Thomas (1973: 7) put it, "a prince may find short-run advantage in selling exclusive monopoly rights which may thwart innovation and factor mobility (and, therefore, growth) because he can obtain more revenue immediately from such a sale than from any other source." Usually, the less related the ruler's

and the entire economy's benefits and the higher the threats to the ruler's power, i.e. the shorter his or her time horizon, the more likely is such extractive behavior (Lin and Nugent 1995: 2337). Empirically, property rights structures usually do not maximize the ruler's rent and the entire economy's welfare at the same time (North 1981: 24n). In other words, states—or political elites—rarely devise and enforce economic institutions fostering productive activities including the pursuit of strategic industrial policy benefiting the many (North 1990: 59, 2005: 67).

While the *political* elite may directly influence economic institutions through designing institutions and policy making, a country's *economic* elite may do so indirectly through exercising their *de facto* political power and engaging in rent-seeking (see figure 4). Essentially, "[i]f the state did not control the richest and most powerful elites in society, the latter would appropriate and misuse the political system at everyone else's expense" (Fukuyama 2015: 56; see also Lange and Rueschemeyer 2005: 9). "Rent-seeking" refers to "resource-wasting activities of individuals and groups seeking wealth transfers" (Pasour 1987: 123). Rents are created by the state and include the (unnecessary) protection of particular industry sectors, the creation of unproductive public employment or excessive public spending (Auty and Gelb 2004: 132n; Kang 2002b: 12n; Hutchcroft 1997: 640). In exchange for obtaining such rents, the economic elite helps secure the political elite's power (Doner 2009: 89). In this manner, different factions of an economy's elite may collude in withdrawing public resources, thus depriving the larger constituency of inclusive economic development. Adding on to this, developing countries' economic elites are usually landed and, therefore, not in need of economic, or industrial, development potentially benefitting the many in the first place (Evans 1997: 76). In any case, in order to obtain rents, bribes—in money or kind, e.g. votes,—have to be paid, i.e. the political elite, in this case, is corrupt (Kang 2002b: 13; Hutchcroft 1997: 644 drawing on Scott 1972: 88). "Corruption" is "the use of public office for private gains, where an official entrusted with carrying out a task by the public engages in some sort of malfeasance for private enrichment" (Bardhan 2005b: 138). Apart from an exchange between *two* actors, corruption may also refer to a *single* public actor embezzling funds or committing fraud (Muno 2013: 36n). As such, corruption can have tremendously ruinous effects on efficiency, investment and economic growth and tends to even negatively impact democracy, equality and the stability of entire societies (Muno 2013: 34; Bardhan 1997: 1327). In particular, corruption is likely to lower the constituency's trust in political institutions and the respective regime's legitimacy (Kubbe 2013: 129n). While the literature distinguishes between high-level "political" or "grand" corruption and low-level "bureaucratic" or "petty" corruption, both typically occur concurrently and, moreover, mutually

reinforce each other (Soest 2013: 63 drawing on Andvig and Fjeldstad 2001: 10n). Certainly, apart from bribing the political elite, thus influencing the *design* of institutions in general and policies in particular, bureaucrats may be bribed, thus influencing their *enforcement* or *implementation*.

Indeed, even if the state is *willing* to further economic development through appropriate institutional design and enforcement and/or strategic industrial policy, it may lack the *capacity* to do so which highlights the structural impediments to developmentally-oriented state action (see figure 4) (Lin and Nugent 1995: 2338n). In regards to state capacity, a capable bureaucracy is particularly important. While *developmental states* feature a Weberian bureaucracy furthering economic development, incapable states are oftentimes characterized by bureaucracies which are mere "collections of individual maximizers masquerading as organizations in pursuit of the common good" (Evans 1997: 66). In other words, the respective bureaucrats are corrupt. Since corrupt agreements cannot be enforced through an impartial third-party, the related enforcement costs tend to be high (Bardhan 2005b: 143). Moreover, corruption and rent-seeking usually crowd out productive activities (Fukuyama 2015: 92; Bardhan 2005b: 148n). This is particularly true for developing economies where returns on (productive) investment tend to be lower than returns to rent-seeking which, in turn, further hampers economic development pointing to the path dependence and inertia of corrupt practices (Bardhan 2005b: 149; Murphy et al. 1993).

If corruption is endemic, the literature also speaks of (neo)patrimonialism, clientelism or cronyism (Muno 2013: 37n). While the former mainly refers to the internal structures of the state, the latter terms particularly specify the relations between the state and its constituency and its political and economic elites (Fukuyama 2015: 26; Aligica and Tarko 2014: 158n; Soest 2013: 64; Erdmann and Engel 2006: 7n; Khatri et al. 2006: 62; Brinkerhoff and Goldsmith 2002: 2n). In (neo)patrimonial systems, bureaucrats' (economic) decisions are predominantly based on personal motivations and relations rather than efficiency considerations (Budd 2004: 1n partly drawing on Weber 1978[1922]: 1041). In this manner, the distinction between the public and the private sphere becomes vague and officials withdraw public funds, resulting in limited capital available to finance economic development (Budd 2004: 2n; Médard 1979, 1991 cited in Gazibo 2012: 1n). Essentially, in such systems, the existing formal and informal rules are incompatible with each other (Médard 1979 cited in Gazibo 2012: 2). Indeed, the term "neopatrimonial" itself refers to states featuring a supposedly independent bureaucracy serving the public good while

actually acting according to private considerations (ibid.). At the same time, (potential) private entrepreneurs lack productive investment incentives since "the route to wealth lies through the state, not in production" (Budd 2004: 3)—this holds true for both elite members and nonmembers (ibid.: 4). *Clientelist* relations are those between a powerful high-status "patron" and a low-status "client" and are thus asymmetrical, reciprocal and particularistic with—at least in (formal) democracies—favors frequently being exchanged for votes (Fukuyama 2015: 90n; Muno 2013: 38n; Kitschelt and Wilkinson 2007: 7n; see also Stegbauer 2011: 120n). *Systemic* clientelism, i.e. "the consequences of attempting to extend personal exchange into larger economic and political markets" (North 2005: 160), is particularly harmful in political markets since political institutions decisively influence economic institutions and, by that, an economy's development (ibid.). In contrast to clientelist relations, *crony* relations typically refer to reciprocal relationships between different parties *belonging to the same social network* at the expense of others (Khatri et al. 2006: 62). If family members are given preference, the literature speaks of "nepotism" (ibid.: 63). Cronyism tends to be systemic if the respective "social networks [are] characterized by complex, indirect, and mutually reinforcing social exchanges" (ibid.).

Political elites may then use such systems "to control the state itself" (Fukuyama 2015: 89) by providing their allies with political or bureaucratic appointments and other benefits, thereby consolidating their own power (ibid.: 87n). At the same time, the state may get captured by particularistic interests due to a lack of insulation and resulting inability to discipline the private sector which may, in turn, result from overwhelmingly important social norms (Rodrik 1992: 333). Indeed, underlying social norms related to gift giving or reciprocity may spur collusive practices because "culture […] defines when and how people are expected to favor significant others" (Khatri et al. 2006: 65). As Bardhan (2005b: 152) notes, in developing countries, informal standards such as giving gifts and being loyal among and between public and private actors are typically very important. Generally, (systemic) corruption tends to be less likely in individualist than in collectivist societies and in societies exhibiting comparatively high levels of *generalized* trust (Jha and Panda 2017; Kubbe 2013: 129; Khatri et al. 2006: 65n). With regard to bureaucratic capacity, Rueschemeyer and Evans (1985: 59) refer to the "non-bureaucratic foundations of bureaucratic functioning" as instrumental in explaining the (in)capacity of the respective bureaucracy. In other words, the "cultural embeddedness" of the state matters. At the same time, corruption may influence a society's culture and individuals' beliefs, resulting in a vicious cycle through mutual reinforcement (Rose-Ackerman and Palifka 2016: 256n). Since the maintenance of personal relationships is part of human nature, when formal political and

economic institutions are dysfunctional or even missing, informal institutions based on personal relations tend to take their place and provide the necessary stability as far as possible (Fukuyama 2015: 88n; Hodgson 2015: 114; Khan 2010: 26n). The fact that also elites behave accordingly then regularly leads to state capture by these elites at the expense of the rest of the society (Fukuyama 2015: 27). Essentially, failing states lack the autonomy necessary to discipline the private sector and, more generally, to credibly commit to implementing and enforcing the respective policies and institutions and instead tend to "systematically over-provide[…] politically-motivated (and economically harmful) interventions" (Rodrik 1992: 334).

Due to institutional inertia and path dependence, such state structures typically persist over long periods of time. For one, individuals usually adapt to the existing institutional framework, thus reinforcing it. Moreover, in collusive settings, both briber and bribee may benefit from such practices, so that it might not be in their interest to deviate from their corrupt and rent-seeking behavior (Bardhan 2005b: 157). Finally, economic development potentially leads to political instability as it might alter the relative bargaining power of the players and—in the most extreme case—result in the ruler's dismissal (North 1981: 29n). Naturally, such instability is to be avoided from the ruler's point of view which results in negative feedback loops, i.e. the reproduction of extractive political and, consequently, economic institutions over time. Unfavorable (pre)conditions also subject to path dependence and inertia may then additionally contribute to state failure (see figure 4).

In the worst case, states are predatory. In sharp contrast to *developmental states*, *predatory states* are those which "extract at the expense of society" (Evans 1995: 12) and, by that, undermine economic development. In other words, *predatory states* do not enjoy autonomy from particularistic interests but rather take advantage of autonomy from societal interests (Evans 1989: 571). It follows that *predatory states* provide comparatively few—if any—public goods and potentially development-inducing policies or at least not those potentially improving the well-being of the majority of the people (Moselle and Polak 2001: 23; Evans 1989: 562, 1997: 69; Rodrik 1992: 334). Instead, the *predatory state* outright neglects its constituents (Chindo et al. 2014: 81). In this sense, the *predatory state* lacks both the will and the capacity to formulate and pursue developmental goals (Kohli 2004: 9, 22; Evans 1989: 571). While enforcing its agenda through coercion and plain violence, at the same time, the *predatory state* runs the risk of losing its monopoly on violence due to political and societal disorder and resulting tendencies towards (civic) militarization (Bates 2008: 2, 9; Barzel 2002: 41). In such an environment, investment

incentives are extremely low as the state and its policies lack credibility and assets may be seized by the state—or other powerful actors—at any point in time, i.e. property rights are very insecure (Evans 1997: 69). Rather, in *predatory states*, a small elite engages in collusive practices at the rest of the society's expense while the domestic private sector remains weak (Kohli 2004: 15). Since only particular groups benefit from these rents, *predatory states* tend to be characterized by striking social inequality and poverty. The Democratic Republic of the Congo—formerly Zaire—is considered the archetype of the *predatory state* (see, e.g., Evans 1995: 45n). This particularly refers to the presidency of Mobutu (1965–1997) during which the president and those close to him continuously appropriated public funds at the expense of the rest of the society (see, e.g., Wedeman 1997: 462n or Evans 1989: 569n). Also potentially economically beneficial grand projects such as infrastructural endeavors were mostly launched merely to create more rents (Wedeman 1997: 464n). Another example of a *predatory state* is Nigeria. The Democratic Republic of the Congo and Nigeria have in common their natural resource abundance, especially crude oil (Chindo et al. 2014: 72; Evans 1989: 569). While Auty and Gelb (2004: 137n) emphasize that resource abundance in itself does not necessarily lead to extractive behavior, such wealth in natural resources may well become a "curse" due to a country's overdependence on it (Chindo et al. 2014: 78n). The particular economic outcome of resource abundance in a particular economy then depends on the developmental strategy, economic policy and capacity of the respective state (Auty 2004: 315; Kohli 2004: 15n). This, in turn, points to the importance of matters of industrial policy and government–business relations—issues which are, to say the least, problematic in *predatory states* and, by that, cannot contribute to generating inclusive and sustainable economic development (Evans 1995: 47).

While not as extreme as in *predatory states*, the same tends to hold true for states located between the two ideal cases, i.e. the willing and capable—or *developmental*—state, on the one hand, and the *predatory state*, on the other hand. In order to emphasize their distinctiveness from *regulatory* and *developmental* as well as *predatory states*, states *partly* unwilling to and/or incapable of enabling economic development are, amongst others, labelled *intermediate* or *fragmented-multiclass states* (Kohli 2004: 9n; Evans 1995: 60n). Such states are characterized by at best intermediate levels of economic development, a lack of strategic industrial policies and generally ineffective government–business relations (Kohli 2004: 9n; Evans 1995: 60n). Moreover, their internal and external (pre)conditions are mostly less conducive to sustainable and inclusive economic development than those of *developmental states* but still allow for at least a certain extent of such development (Kohli 2004: 17n). In Asia, such institutional structures can be found in, amongst

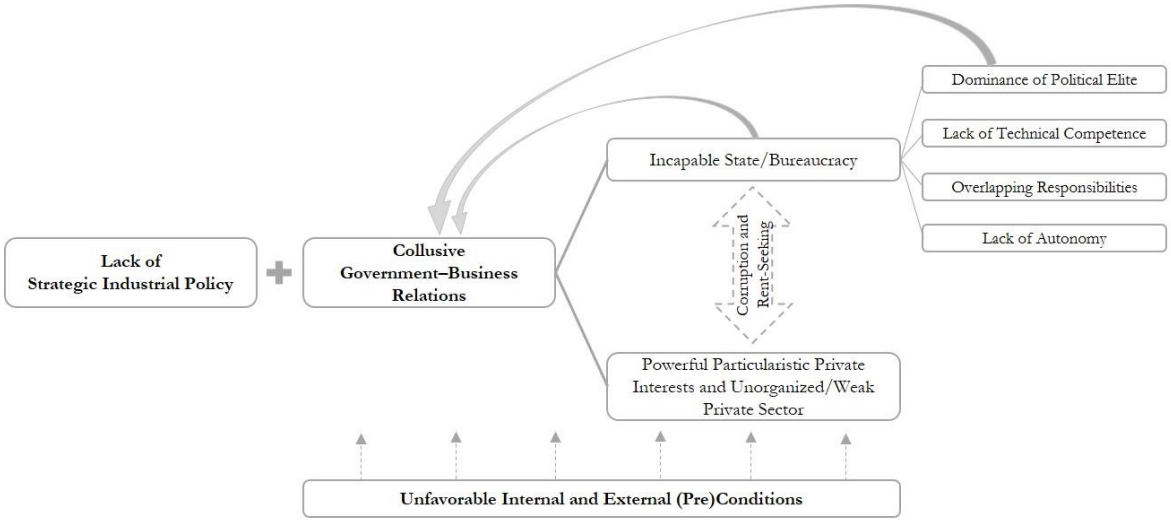
others, Malaysia, Thailand, Indonesia and the Philippines. In order to capture their institutional set-ups, different approaches with different foci have been developed. Extending the varieties of capitalism approach and the approach to internationalizing firms, Frank B. Tipton (2009), for instance, identifies state ineffectiveness, the dominance of (Chinese) conglomerates and a specific kind of nationalism resulting from particular colonial experiences as reasons for economic underperformance in Southeast Asia (for the varieties of capitalism approach see Hall and Soskice 2001). While Richard W. Carney (2016) also draws on the varieties of capitalism framework, he focuses on matters of hierarchical coordination by distinguishing between family market and state market economies and regards differences in financing, employment relations, education and training systems, corruption and the treatment of ethnic minorities as causal for different levels of development in South Korea and Singapore, on the one hand, and the Philippines and Malaysia, on the other hand. Likewise, Kunio Yoshihara (1988) criticizes the discrimination of ethnic Chinese in Southeast Asia—in addition to the technological backwardness of domestic firms and low quality state interventions. While Xiaoke Zhang and Richard Whitley (2013) also examine the role of the state and the organization of the private sector in explaining the development differences between Japan and Taiwan, on the one hand, and Malaysia and Thailand, on the other hand, they additionally stress the respective coalitional dynamics. Similarly, Doner et al. (2005) identify the lack of "systemic vulnerability," i.e. a combination of internal and external pressures, in the aforementioned Southeast Asian countries as causal for their unsatisfactory economic performance.

Combining institutionalist approaches to political economy and pragmatic approaches to industrial policy as exemplified by the concept of the *developmental state*, the present study now puts forth the concept of the *underdevelopmental state*. Apart from taking into account both internal and external blockades to economic development as well as matters of institutional inertia and path dependence, the concept of the *underdevelopmental state* acknowledges the importance of strategic industrial policy, thereby augmenting the institutional approach to political economy with a policy component and bringing together aspects of political science, economics and sociology (see also Balisacan and Hill 2003: 38n). The reasons for the lack of development in *underdevelopmental states* are hence not primarily exogenous as in Andre G. Frank's (2014[1969]) *Development of Underdevelopment* but rather both endogenous and exogenous. Accordingly, the term "underdevelopmental" does not refer to Frank's approach but to the fact that *underdevelopmental states* are neither developmental nor predatory but rather partly block economic

development while constantly reproducing a certain level of underdevelopment through institutional inertia and path dependence.

Indeed, in contrast to *developmental states* successfully promoting economic development, *underdevelopmental states* tend to block economic development for a number of reasons (see figure 5). First, due to a lack of (political) commitment to development, the *underdevelopmental state* rarely devises and implements strategic industrial policies aimed at inclusive and sustainable economic growth. This is particularly true for industry sector-specific policies preferring selected industry sectors over others. Second, the *underdevelopmental state* lacks effective government–business relations, i.e. a capable state cooperating with an organized private sector while maintaining a certain degree of autonomy. Rather, the relations between the public and the private sector are collusive—if the public and the private sector can be clearly distinguished from each other at all. The state, in this scenario, is consequently not autonomous from particularistic (private) interests and at times even congruent with them. In this way, the bureaucracy is dominated by the political elite instead of being relatively independent from it. Moreover, the *underdevelopmental state's* bureaucracy typically lacks technical competence as positions are allocated based on personal considerations instead of merit and different agencies' responsibilities frequently overlap.

Figure 5: Key Characteristics of *Underdevelopmental States*



Source: own illustration.

The *underdevelopmental state* hence does not possess the capacity to successfully formulate and implement industrial policies. At the same time, in *underdevelopmental states*, the private sector is not organized in powerful business associations as in the Asian *developmental states* but rather

fragmented and dominated by the just mentioned particularistic interests. *Institutionalized* relations between the state and private businesses are thus hardly possible. However, the elite in *underdevelopmental states* is not entirely autonomous from societal interests as in the case of *predatory states*. Rather, the elite and the rest of the society mutually depend on each other while the distribution of power remains asymmetric (Muno 2013: 37n; Kalebe-Nyamongo 2012). The fact that the ruling elite tends to benefit from the status quo and, in consequence, does not actively promote potentially development-inducing reforms, e.g. in the industrial sector, results in slow and inequitable economic growth. Indeed, the lack of effective government–business relations then contributes to the reproduction of underdevelopment in *underdevelopmental states* as well as unfavorable yet self-reinforcing underlying institutional structures or (initial) conditions related to colonial heritage, culture and international relations—the third broad reason for underperformance in *underdevelopmental states*. Still, unlike in *predatory states*, an *underdevelopmental state's* constituents are not merely falling prey to the state as certain developmental impulses and economic growth exist nonetheless. These impulses, however, do not persist over long stretches of time as they do in the *developmental states* (Evans 1989: 581).

All in all, the institutional set-up of *underdevelopmental states* is then not conducive to sustainable and inclusive economic growth. Instead, the state is rather a blockade to economic development as it lacks both the commitment to development—reflected in the lack of strategic industrial policies—and effective relations with the private sector. Moreover, the *underdevelopmental state* has to contend with unfavorable wider institutional structures, i.e. problematic (pre)conditions. Since these structures are mostly inert and self-reinforcing, the *underdevelopmental state* constantly reproduces a certain degree of underdevelopment. The remainder of the present study now illustrates the concept of the *underdevelopmental state* by employing the example of the Philippines during the Marcos era.

3. Industrial Policies and Government–Business Relations in the Philippines

The Philippines is an archipelago in Southeast Asia consisting of more than 7,600 islands bordering the Philippine Sea, the South China Sea and the Celebes Sea. In 2017, the Philippines had a population of over 105 million (WB 2018). The Republic of the Philippines is a presidential democracy with two chambers—the Senate and the House of Representatives—and a presidential term of office limited to one term of six years and president and vice president being elected directly yet separately, potentially resulting in president and vice president opposing each other (Republic of the Philippines 1987). Before Ferdinand Magellan landed on the islands in 1521, thus paving the way for Spanish colonization, Philippine families were organized in so-called "barangays" presided over by a "datu" (Croissant 2016: 383). Subsequently, the Philippines were under Spanish rule until 1898 when Spain lost the Philippines to the US in the course of the Spanish–American war (ibid.: 384). American rule ended in 1946 when the Philippines—after three years of Japanese occupation—became independent (ibid.: 385). Ferdinand E. Marcos became president in 1965, was reelected in 1969, declared martial law in 1972 and was ousted in the wake of the "People Power" movement in 1986 (ibid.: 386).

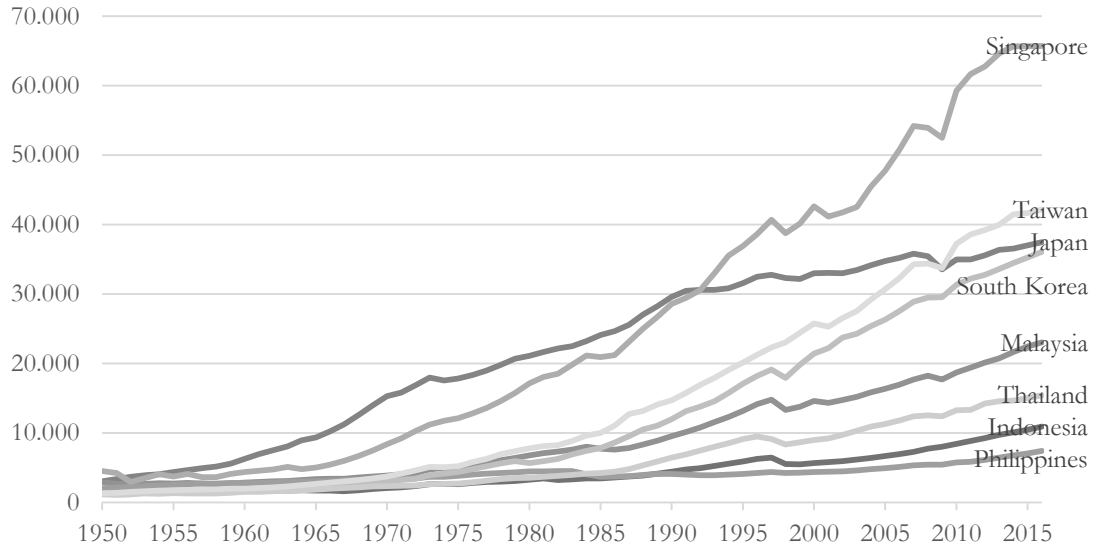
In contrast to the *developmental states*, the Philippines has not been able to generate substantial sustainable and inclusive economic development. In order to shed light on the Philippines' predicament, this section proceeds as follows. Subsection 3.1. provides an overview of the Philippines' development performance with a particular focus on the 1970s and subsequent decades. Subsection 3.2. then traces the industrial policies in the Philippines during the Marcos era including matters of vision and planning. Finally, subsections 3.3. and 3.4. identify both internal and external blockades to sustainable and inclusive economic development in the Philippines both during this period and in general.

3.1. Development Performance of the Philippines

After gaining independence from the United States in 1946, among the countries compared in the present study, the Philippines was outranked only by Japan, Malaysia and Singapore in terms of gross domestic product (GDP) per capita while all others—including South Korea and Taiwan—were lagging behind (see figure 6) (Maddison Project 2018). While Singapore, South Korea and Taiwan have been able to catch up with or—in the case of Singapore and Taiwan—

even outdo Japan over time, Malaysia, Thailand, Indonesia and the Philippines have stayed behind (ibid.).

Figure 6: Real GDP per Capita of Selected Asian Economies, 1950–2016 (2011 USD)



Source: Maddison Project 2018.

Especially the weak performance of the Philippines is remarkable as its real GDP per capita was at 2,005 2011 USD in 1950 and had only risen to 7,410 by 2016, i.e. it not even quadrupled throughout a period of almost 70 years (Maddison Project 2018). This stands in sharp contrast to, e.g., South Korea and Thailand increasing their respective real GDP per capita about 30-fold—from 1,178 to 36,103 2011 USD—and 14-fold—from 1,140 to 15,454 2011 USD—, respectively, during the same period (ibid.).

Initially, however, the Philippines fared quite well in terms of economic growth. Postwar recovery was quick with real GDP more than doubling between 1946 and 1950 (Alonzo and Mangahas 1974: 1). During the 1950s, the Philippine economy grew at an average of 6.5 percent per year (Balisacan and Hill 2003: 7). This trend continued during the 1960s and 1970s even though Philippine economic growth was much slower than that of South Korea or Thailand during these decades (see table 1) (WB 2018). In fact, during the 1960s, the Philippines were regarded the second most promising country in the area by the *World Bank*—surpassed only by Japan (Ofreneo 2018). The peak of Philippine growth was reached in 1973 when the economy recorded a growth rate of only slightly under ten percent (Vos and Yap 1996: 148n). However, this upward trend changed during the 1980s when the Philippines' GDP per capita actually

decreased and the average growth rate per year was at a mere 2.0 percent (Maddison Project 2013; own calculations based on WB 2018).

Table 1: Average Yearly GDP Growth per Decade of Selected Asian Economies, 1961–2016 (%)

	1961-69	1970-79	1980-89	1990-99	2000-09	2010-16
Philippines	5.1	5.8	2.0	2.8	4.5	6.3
South Korea	9.5	10.5	8.8	7.1	4.7	3.5
Thailand	7.8	7.5	7.3	5.2	4.3	3.6

Source: own calculations based on WB 2018.

A closer look at the Philippines' real GDP growth rate during the 1980s reveals that this downturn was caused by a severe crisis in 1984 and 1985 with negative growth rates of -7.3 percent in both years (WB 2018). While this crisis can be attributed to a mixture of external and internal factors, de Dios (1984: 2) stresses that "while external difficulties were certainly a necessary condition for the […] crisis, the major explanation for its occurrence must lie in the character of economic policies and of policymaking by the leadership." This notion is supported by the fact that external shocks such as global economic recessions were also experienced by other Asian economies which were, however, better able to cope with these circumstances and avoid further internal consequences (Vos and Yap 1996: 11). Thus, the 1980s have been dubbed the Philippines' "lost decade" (Balisacan and Hill 2003: 7). Since then, the Philippine economy has been following a boom–bust cycle and while the different sectors of the Philippine economy have largely developed similarly to the economy on the whole, the industrial sector has been particularly fluctuant (Balisacan and Hill 2003: 10n; Hill 2003: 220). And while the Philippines has recently been recording GDP growth rates of up to seven percent per year with a per capita GDP of just over 7,800 current international dollars in 2016, this growth is frequently labeled as "jobless growth" (WB 2013: 49n, 2018; ADB 2017: 144). Moreover, most of this growth is generated by a large service sector still mainly characterized by low value-added activities (see table 2) (Raquiza 2016: 46n).

Indeed, in addition to its largely disappointing growth record especially throughout the twentieth century, advantageous structural change has been slow in the Philippines. Structural change, i.e. the shift from an agriculturally- first to an industrially- and eventually to a service-oriented economy, however, is deemed essential for economic development. When examining the development of the sectoral shares of Philippine GDP over time it becomes obvious that the country never experienced a grade of industrialization comparable to its Asian neighbors (WB 2018). The Philippines emerged from World War II as an "open dualistic economy"

(Datta-Chaudhurri 1981: 64) consisting of traditional agriculture, on the one hand, and selected (extractive) export industry sectors and plantations, on the other hand. Subsequently, agriculture went from accounting for almost one third of the Philippines' GDP in 1970 to accounting for about one fifth of the economy in 1990 and still about one tenth in 2016 (see table 2) (WB 2018). In the mid-1990s, Vos and Yap (1996: 13) actually stated that "[t]he Philippine economy is still mainly agriculturally based." In contrast, in South Korea and Thailand, agriculture accounted for only 8.4 and 12.5 percent of the respective GDP already by 1990 (WB 2018). At the same time, both South Korea and Thailand experienced high degrees of rapid yet sustainable industrial growth (ibid.).

Table 2: Sectoral Composition of Philippine GDP, Selected Years (%)

	1960	**1970**	**1980**	**1990**	**2000**	**2010**	**2016**
Agriculture	26.9	29.5	25.1	21.9	14.0	12.3	9.7
Industry	31.3	31.9	38.8	34.5	34.5	32.6	30.8
Services	41.8	38.6	36.1	43.6	51.6	55.1	59.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: WB 2018.

As table 2 shows, this was not the case in the Philippines where the industrial sector's share of GDP increased during the 1970s from about 32 percent in 1970 to close to 40 percent in 1980 but subsequently fell throughout the 1980s, reaching not even 35 percent in 1990 and 2000 (WB 2018). Since then, the industrial share of the Philippine economy has even been decreasing further to slightly over 30 percent in 2016, so that one can, in fact, speak of *de*industrialization (Felipe et al. 2019: 161; WB 2018; Ofreneo 2015; Bello 2014: 17; Balisacan and Hill 2003: 27). When singling out manufacturing, this trend becomes even clearer (for the distinction between "industry" and "manufacturing" see subsection 2.1.2.). Indeed, manufacturing stagnated at generating around one fourth of the Philippines' GDP throughout the second half of the twentieth century and only accounted for about one fifth of the economy's GDP in 2016 (see table 3) (WB 2018).

Table 3: Manufacturing Shares of GDP of Selected Asian Economies, Selected Years (%)

	1960	**1970**	**1980**	**1990**	**2000**	**2010**	**2016**
Philippines	24.6	24.9	25.7	24.8	24.5	21.4	19.6
South Korea	12.1	18.8	24.3	27.3	29.0	30.7	29.3
Thailand	12.5	15.9	21.5	27.2	28.6	31.1	27.4

Source: WB 2018.

In contrast, manufacturing's share of GDP in South Korea grew from about 12 percent in 1960 to more than 25 percent by 1990 and roughly 30 percent in 2016 with a rapid rise particularly during the 1970s (WB 2018). In Thailand, manufacturing generated not even 15 percent of the country's GDP in 1960 but contributed close to 30 percent by 1990 and has since stayed on this level (ibid.). The sharpest rise in the manufacturing sector's contribution to GDP in Thailand took place in the 1970s and 1980s (ibid.). Thus, while the Philippines started out from a comparatively high manufacturing share of GDP in 1960, this share did not expand in subsequent decades.

Instead, the Philippines experienced a rapid increase in services particularly from the 1980s onwards (ibid.). This reliance on the service sector has been continuing up to the present and, in 2016, almost 60 percent of the Philippines' GDP were generated by services while, as mentioned before, agriculture accounted for about 10 percent and industry for about 31 percent of the country's GDP (see table 2) (ibid.). While the dominance of the service sector in *advanced* economies is typically a sign of a matured industrial sector or, in other words, prosperity, in the Philippines, it instead mirrors poverty and an industrial sector unable to provide adequate employment opportunities (Miranda, Jr. 1994: 12; Dohner and Intal, Jr. 1989: 436). Indeed, the Philippine manufacturing sector has been focused on low value-added activities such as the production of light consumer goods—especially processed foods—since the 1940s (Aldaba 2014: 11n; Hill 2003: 223n; WB 1987a: 46n, 1993c: 62n; Alburo 1987: 490). Moreover, the service sector in the Philippines is mainly composed of MNEs' subsidiaries and mostly characterized by low value-added activities (Raquiza 2016: 46n). Therefore, it is questionable if the development of the tertiary instead of the secondary sector can actually be regarded as advantageous in the case of the Philippines or if the dangers of "leapfrogging" the industrial stage of development outweigh its potential advantages (see, e.g., Felipe et al. 2019 or Usui 2012). In this context, Usui (2012: 46) maintains that the development of the Philippine service sector alone is not enough to stimulate sustainable and inclusive growth and Felipe et al. (2019: 161) suggest the necessity of first reaching a "manufacturing-jobs threshold." In any case, most importantly, the Philippines' lack of structural change in favor of the industrial sector has caused a lack of employment opportunities and income for excess labor from the agricultural sector which, as just mentioned, was instead absorbed by the service sector (Miranda, Jr. 1994: 12; de Dios 1984: 23).

Indeed, the percentage of those employed in the Philippine service sector in percent of total employment quickly increased from just over 30 percent in 1975 to almost 40 percent in 1990 and already more than 50 percent by 2010 and, finally, slightly above 56 percent by 2017 (see table 4) (ILO 2018; WB 1993c: 68). At the same time, agriculture's employment share in the Philippines oscillated around 50 percent throughout the 1970s and 1980s before slightly decreasing to about 45 percent in 1990 and, eventually, 26 percent in 2017 (ILO 2018; WB 1993c: 68). Meanwhile, manufacturing's share of total employment slowly but steadily declined from 11.7 percent in 1971 to 9.7 percent in 1985 and 1990 and a mere 8.2 percent in 2017 (ILO 2018; WB 1993c: 68). Essentially, these numbers reflect a move from self-employment in agriculture to employment in the informal urban service sector and point to the capital intensity of manufacturing (Vos and Yap 1996: 16). In fact, according to Usui (2012: viii), in the Philippines, "urban growth wholly relied on the services sector." Moreover, even in manufacturing, self-employed and unpaid family workers accounted for roughly 33 percent of employment in 1988 (Miranda, Jr. 1994: 11).

Table 4: Sectoral Employment Shares in the Philippines, Selected Years (% of total employment)

	1971	**1980**	**1990**	**2000**	**2010**	**2017**
Agriculture	48.8	51.4	45.2	37.1	33.2	26.0
Industry[1]	16.3	15.6	15.0	16.2	15.0	17.7
Manufacturing	11.7	11.0	9.7	10.0	8.4	8.2
Services	34.9	33.1	39.7	46.7	51.8	56.3
Total	100.0	100.1	99.9	100.0	100.0	100.0

Source: ILO 2018; WB 1993c: 68; totals do not always equal 100 percent due to rounding.

While, for instance, South Korea and Thailand displayed employment structures similar to those of the Philippines around 1970, their manufacturing employment shares had risen to around 25 and 13 percent by the early 1990s and (still) accounted for 16.9 and 16.1 percent in 2017, respectively (ILO 2018; Vos and Yap 1996: 16).

The fact that the agricultural sector only generated about 25 to 30 percent of the Philippines' GDP throughout the second half of the twentieth century while employing the bulk of its labor force, implies inefficiencies in agricultural production (see tables 2 and 4). Indeed, the agricultural sector of the Philippines has been characterized by low productivity regarding both labor and land from the 1970s onwards and the Philippines has actually been a net importer of

[1] Including construction.

agricultural goods since the mid-1990s (Ofreneo 2015: 115n; David 2003: 182n; WB 1993b: 135). In addition, the industrial/manufacturing sector of the Philippines has been suffering from productivity issues. After slightly rising during the 1960s, the total factor productivity (TFP) assessing "technological progress and efficient input utilization of a firm, sector or a country" (Cororaton and Abdula 2002: 284) of Philippine manufacturing decreased during the 1970s and has more or less stagnated since the 1980s (Usui 2012: 14, 16; Hooley 1985: 21n; for further details see, e.g., Cororaton 2005, Austria 2002 or Cororaton et al. 1995). In contrast, South Korea and Thailand—as well as other economies in the region—recorded substantial increases in TFP during their high-growth phases and, as de Dios (1984: 13 based on Oshima 1983b: 9) points out, in terms of industrial labor productivity growth, the Philippines was even outpaced by India and Nepal during the 1960s and 1970s (Kawai 1994: 380n; WB 1993a: 54n).

Productivity is closely related to a country's competitiveness in world markets, i.e. "the ability […] to produce goods and services that are more attractive than those of competitors and the ability to take advantage of changing opportunities in the international marketplace to sustain that attractiveness" (WB 1993b: 126n). In turn, international competition tends to result in the more efficient use of production factors domestically (ibid.: 127). An economy's competitiveness is easiest determined by examining its export performance over time (ibid.: 126). When comparing the Philippines' export performance with those of other Asian economies, it becomes clear that the Philippines has been falling behind. For instance, the Philippines' export ratio, i.e. the percentage of exports of goods and services in relation to GDP, only increased from 21.6 percent in 1970 to 23.6 percent in 1980, while South Korea's export ratio went from 11.4 percent to 28.5 percent and Thailand's from 15 percent to 24.1 percent during the same decade (see table 5) (WB 2018).

Table 5: Export Performance Indicators for Selected Asian Economies, Selected Years (%)

		1960	1970	1980	1990	2000	2010	2016
Exports of goods and services (% of GDP)	**PHL**	11.9	21.6	23.6	27.5	51.4	34.8	28.0
	KOR	2.6	11.4	28.5	25.3	35.0	49.4	42.2
	THA	16.1	15.0	24.1	34.1	64.8	66.5	68.9
Manufactures exports (% of merchandise exports)	**PHL**	-	7.5	21.1	37.9	91.7	56.8	85.3
	KOR	-	76.5	89.5	93.5	90.7	89.0	90.1
	THA	-	4.7	25.2	63.1	75.4	75.3	78.2
Medium and high-tech exports (% of manufactured exports)	**PHL**	-	-	-	38.5	81.4	73.1	-
	KOR	-	-	-	51.1	70.4	75.8	-
	THA	-	-	-	35.2	59.6	61.8	-

Source: WB 2018.

At the same time, the share of manufactures in the Philippines' merchandise exports was at 7.5 percent in 1970, 21.1 percent in 1980 and still only at a mere 37.9 percent in 1990, whereas in South Korea and Thailand manufactures exports accounted for 93.5 and 63.1 percent, respectively, of all merchandise exports in 1990 (WB 2018). While the Philippines has been able to increase the share of manufactures in its merchandise exports in more recent times—albeit due to the lack of any sizeable exports stemming from the agricultural sector—and the percentage of medium and high-tech exports in those manufactured exports is comparatively high, the total number of (medium and high-tech) manufactures exported from the Philippines remains relatively low due to the low export ratio and GDP (WB 2018; Hill 2003: 225n; see also WB 1997: 20). Moreover, Philippine "high-tech" exports usually entail low rates of locally added value (Hill 2003: 225).

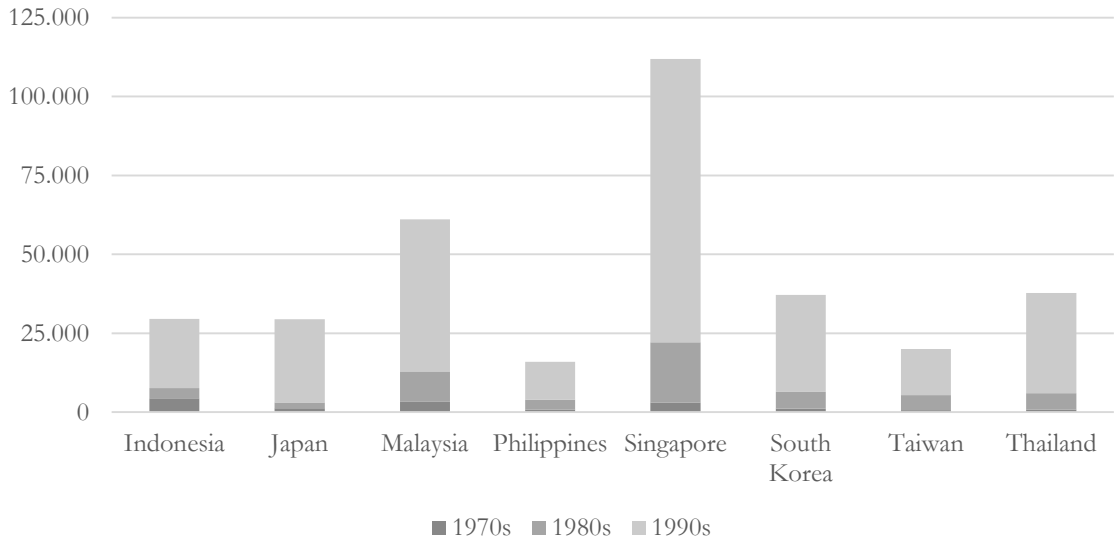
Owing to the low absolute exports, the world market share of Philippine manufactures was much lower than the respective markets shares of its competitors—particularly throughout the 1970s and 1980s (WB 1993b: 211n, 1997: 20). Correspondingly, the Philippines' merchandise trade balance has consistently been negative—with the exception of the year 1973 (UNCTAD 2018). Due to mostly worsening terms of trade throughout the 1970s, i.e. a declining ratio of export to import price indices, Philippine imports particularly during that decade had to be financed by foreign loans, using up reserves and monetizing gold—resulting in massive external debt (WB 1984b: 2n, 1987a: 23, 41; Datta-Chaudhurri 1981: 71).

Still, the export *structure* of the Philippine economy changed significantly during the 1970s. While, in the early 1970s, the Philippines' major export products were coconut-, sugar-, forestry- and mining-related, by the early 1980s, the majority of exports were nontraditional manufactures, i.e. "export goods whose value did not exceed US$5 million in 1968 and which have undergone a significant degree of processing" (PSA 2018b)—especially electronics and textile/garments (WB 1987a: 25, 29n; NEDA 1978k, 1978m, 1979b, 1979l, 1979n, 1979o, 1979p, 1979q). As de Dios (1984: 52) notes, "[t]hese two products accounted for 65 percent of the increase in nontraditional exports […] between 1972 and 1982"—pointing towards a high dependency on these product groups (see also Aldaba 1995: 249). In turn, the production of nontraditional exports in the Philippines depended on substantial amounts of imported raw materials and intermediate and capital goods, while generating only low levels of added value (Bautista and Tecson 2003: 146; Dohner and Intal, Jr. 1989: 434). Generally, manufactured exports from the Philippines have largely been capital- and technology- rather than labor-

intensive (Bautista and Tecson 2003: 146n; Datta-Chaudhurri 1981: 73). At the same time, as mentioned above in the context of value added issues, even by the late 1970s, only a small share of the Philippines' total manufacturing output actually consisted of nontraditional manufactures, while, in 1980, almost 40 percent of manufacturing value added was generated by the food and beverages industry subsectors (Pante, Jr. and Medalla 1990: 13; Ofreneo and Habana 1987: 13n). Moreover, nontraditional exports from the Philippines were mostly produced in export processing zones (EPZs) or under bonded manufacturing warehouse (BMW) arrangements and, decisively, by multinational enterprises (MNEs) (Aldaba 1995: 249). Indeed, particularly with regard to (nontraditional) exports, the dominance of MNEs in the Philippines was striking throughout the 1970s (Ofreneo 1984: 490n; Datta-Chaudhurri 1981: 72n). At the same time, these MNEs drained the Philippines of domestic financial resources by incurring local debt yet remitting profits to their respective country of origin and hardly establishing any backward linkages but sourcing most inputs from abroad (WB 1993b: 129; Warr 1987: 223n; Ofreneo 1984: 490). However, as Diokno (1989: 136) notes, cumulatively, exports from Philippine EPZs only accounted for 3.4 percent of total Philippine exports between 1973 and 1985, indicating the frequent use of BMWs by exporters (Manasan 1990: 207; Shepherd and Alburo 1986: 67).

While the overwhelming presence of MNEs in the Philippines may suggest high levels of foreign direct investment (FDI), in comparison with its neighbors, the Philippines has received rather meager FDI inflows throughout the 1970s, 1980s and 1990s (see figure 7) (UNCTAD 2018).

Figure 7: Accumulated FDI Inflows of Selected Asian Economies per Decade, 1970–99 (million current USD)



Source: own calculations based on UNCTAD 2018.

During the 1970s, the Philippines only recorded 800 million current USD foreign investment while Indonesia and Malaysia received 4,379 and 3,262 million current USD, respectively, and even South Korea—where the development strategy rather focused on domestic capital—recorded FDI of 1,094 million current USD (UNCTAD 2018).

While both Taiwan and Thailand received less FDI than the Philippines during the 1970s, this changed decisively during the 1980s (ibid.). In addition to disappointing foreign capital inflows, the Philippine economy, at times, also experienced large FDI outflows throughout the 1970s and 1980s (Aldaba 1995: 255n). While FDI inflows into the Philippines rose significantly following the declaration of martial law in 1972, by far most of these investments—at least up to the mid-1970s—were *non*equity investments which, once again, points to the highly important role played by MNEs and, apart from that, indicates substantial debt on the part of foreign investors (Datta-Chaudhurri 1981: 74; Daily Express 1972).

Traditionally, foreign industrial capital in the Philippines had primarily been American due to the unique relations between the Philippines and the US stemming from the fact that the Philippines were under American rule during the first half of the twentieth century (Yoshihara 1971: 273n). The Japanese, on the other hand, were basically not able to invest in the Philippines up to the late 1960s as they had been defeated by the Philippines—with the help of US forces—in the Pacific War and relations remained hostile at first (Yoshihara 1978: 61n). Accordingly, in his study of the 254 largest manufacturing corporations in the Philippines in 1971, Yoshihara (1971: 273) encountered only one Japanese-owned company while 67 were American-owned. This changed throughout the 1970s, however, with roughly 40 and over 30 percent of total FDI in the Philippines originating from the US from 1970–75 and 1975–80, respectively, and close to 16 and over 18 percent stemming from Japan during the same periods (Austria and Medalla 1996: 118).

Throughout the 1970s and 1980s, most foreign investments in the Philippines went into selected subsectors of manufacturing such as chemicals and chemical products, food processing and metal and metal products (Aldaba 1995: 259n; Gonzaga 1977c: 49). Indeed, the focus of FDI in the Philippines was on serving the *domestic* market rather than specializing in exports, thereby crowing out potential industrial endeavors of local entrepreneurs (Datta-Chaudhurri 1981: 74n). In 1976, for instance, almost one third of the top 1,000 corporations in the Philippines were subsidiaries of foreign enterprises mostly engaged in manufacturing particularly of food and

beverages and petroleum products and, in 1987, the foreign subsidiaries among the 1,000 top corporations in the Philippines controlled over 30 percent of total assets and over 40 percent of total sales of the economy's industrial sector (Miranda, Jr. 1994: 7n). The typically positive correlation of FDI inflows and export growth thus does not seem to hold true in the case of the Philippines (Thomsen 1999: 25n; WB 1997: 22).

While FDI flows into the Philippines rose once Marcos was ousted in 1986, Philippine FDI inflows were still low compared to foreign capital inflows into Indonesia, Malaysia and Thailand which increased significantly starting in the late 1980s when the *developmental states* began to move their labor-intensive production to Southeast Asia (see figure 7) (Thee 2010: 196n). Above all, Japanese firms increasingly invested in Southeast Asia which was due to the appreciation of the Japanese Yen—a "push" factor—following the Plaza Accord in 1985 making Japanese products more expensive on world markets which, in turn, led to the relocation of production by Japanese firms to economies with lower production costs (Dios 2011: 87n; Thee 2010: 196n; Bello et al. 2004: 19). The Philippines, however, hardly profited from these increased Japanese investments in the region—or at least not as much as Indonesia, Malaysia and Thailand (Thee 2010: 197n; Aldaba 1995: 287). Percentagewise, the Philippines' FDI stock ranged from 3.6 to 8.2 percent of GDP in the 1980s (UNCTAD 2018). While this ratio had reached over 20 percent by 2016, Indonesia's, Malaysia's and Thailand's FDI stocks had reached about 25, 40 and 50 percent, respectively (ibid.). The comparatively low GDP of the Philippines makes this percentage even more revealing. Moreover, FDI in the Philippines has been increasingly concentrated in the food and beverages industry subsectors (Aldaba and Aldaba 2012: 5n).

Generally, the foreign capital that *did* flow into the Philippines hardly had any significant positive effects on the local economy. For one, the direct employment impact of FDI in the Philippines was "quite limited" (Miranda, Jr. 1994: 18) as the total number of employees of foreign firms accounted for less than one percent of total Philippine employment from 1983 to 1988. However, singling out manufacturing where FDI was more prevalent than in the primary and tertiary sectors leads to direct employment shares of FDI-generated employment in manufacturing of seven percent in 1983 and almost six percent in 1988 (ibid.). In addition to not generating particularly high levels of direct employment, FDI in the Philippines did not lead to significant positive spillovers in the form of employment in *domestic* manufacturing or productivity increases, indicating weak backward linkages—even though their intensity differed depending on the respective industry sector and company (Aldaba and Aldaba 2012: 8; Miranda,

Jr. 1994: 19n). As mentioned above, particularly export manufacturing by MNEs in the Philippines mostly took place in enclaves separated from the domestic economy. Thus, in contrast to other Asian economies, structural change induced through generally increased investment with the help of increased foreign capital was negligible in the Philippines (Alburo et al. 1992: 302n). At the same time, foreign investment almost matched domestic investment during the 1980s while having accounted for roughly 45 and 40 percent of total investment in the Philippines during the first and second half of the 1970s, respectively (Austria and Medalla 1996: 117).

Indeed, while gross domestic investment—or gross capital formation—was comparatively high throughout the 1970s and early 1980s, the Philippines started falling behind significantly during the recession in the mid-1980s (WB 2018). While the level of investment in the Philippines in relation to GDP has been reaching levels similar to its neighboring economies more recently, the comparatively low GDP points to low levels of capital formation in absolute terms (ibid.). Moreover, the Philippines suffered substantial capital flight over the decades (Beja, Jr. 2005; Boyce 1992; Boyce and Zarsky 1988). At the same time, the ratio of domestic savings to GDP in the Philippines has been declining rather than increasing as was mostly the case in the *developmental states* and the other Southeast Asian economies considered in the present study (WB 2018). The gap between domestic savings and domestic investment then contributes to explaining the Philippines' high external indebtedness. While other countries in the region also ran deficits, they did not have to resort to foreign borrowing as much since the gap between savings and investments was not as large as in the Philippines, spending discipline was greater and exporting industry sectors more productive (de Dios 1984: 5n, 13). Indeed, in the Philippines, the ready availability of foreign loans may have actually contributed to the unproductive use of these foreign resources themselves as well as of domestic capital—both public and private—throughout the 1970s (Balisacan and Hill 2003: 10; de Dios 1984: 14n). In this context, Rodriguez (1985: 208) estimates that roughly 50 percent of foreign loans were siphoned off to foreign bank accounts by Marcos and his cronies and never reached the Philippines in the first place.

Generally, economic development in the Philippines had been increasingly debt-driven (James et al. 1991: 226). Public foreign debt was primarily incurred in order to finance public enterprises and extensive infrastructure projects during the late 1960s and 1970s (de Dios 1984: 11n; IBON Foundation 1983f: 4). But not only the Philippine state accumulated foreign debt, so did the

private sector. As the Philippine government issued loan guarantees to selected private enterprises, however, it was indirectly involved in the private sector's growing indebtedness as well (de Dios 1984: 12n). Precisely, "quite a good portion of [the external debt] of the private sector was also promoted by the government or by persons close to the administration" (Rodriguez 1985: 208). In this context, de Dios (1984: 13) notes that "the public–private distinction is artificial and illusory in analyzing the main contributors to the large external debt." As foreign borrowing was further spurred by the oil crises of the 1970s, the government was compelled to increasingly take on short-term loans by the end of the decade—a practice which continued during the global recession in the early 1980s (Aldaba 1995: 249; de Dios 1984: 16). Hence, from 1974 through 1982, the Philippines' total external debt had grown yearly at double digit rates and reached more than 24.5 billion USD by 1982 with an increasing debt service ratio and the main creditors being Japan, the US, the *World Bank* and the IMF (WB 1984b: 24n, 1993c: 13; IBON Foundation 1983f: 3n). In relative terms, this meant that total external debt had risen to over 65 percent of GDP and more than 350 percent of exports in 1982 with short-term borrowings accounting for almost half of total external debt in the same year (WB 1993c: 13n). Moreover, these borrowings were mostly not used productively (Balisacan and Hill 2003: 10). Consequently, the Philippines experienced a severe balance of payments crisis in 1983 which was further aggravated by the political turmoil caused by the assassination of Benigno S. Aquino, Marcos's archrival, on August 21, 1983 (Rodriguez 1985: 261n; de Dios 1984: 16n). Martial law, however, had already been lifted in January of 1981, "although it made no difference in the powers of the Marcos regime" (Aldaba 1995: 249n; Celoza 1997: 73n). And indeed, in the early 1980s, the state increasingly bailed out selected firms and, by that, lowered the investors' confidence even more (Vos and Yap 1996: 21; de Dios 1984: 16). This, in turn, urged more creditors to withdraw their resources which caused the bankruptcy of numerous enterprises related to the Marcos regime and eventually led to the regime's downfall as its supporters' financial resources diminished (Tadem 2012: 31; Vos and Yap 1996: 22). The subsequent debt moratorium reduced government spending and significantly fewer imports led to a major recession with total output going back by 14 percent from 1983 to 1985 and manufacturing output decreasing more than 11 percent in 1984 and close to 16 percent in 1985 (Vos and Yap 1996: 11, 21). The crisis also negatively affected employment and income distribution. In this context, Beja (2009: 1) actually calls public debt a "collective punishment" because it negatively affects the whole society and especially the poor. And indeed, while Marcos was ousted in 1986, the repayment of the debt accumulated during his presidency continues to this day and will do so until 2025 according to the IBON Foundation (2016).

One of the reasons for the low levels of both domestic investments and savings in the Philippines—not only during the 1970s—was the mere lack of capital due to persistent un(der)employment and inequality and widespread poverty (Vos and Yap 1996: 25; see also Balisacan and Hill 2003: 16n). While the unemployment rate in the Philippines was, on average, only about 5 percent throughout the 1970s, this changed in the course of the crisis in the 1980s when unemployment oscillated around ten percent (WB 1993c: 53n; Rodriguez 1985: 150n; Tidalgo and Esguerra 1984: 84n). Underemployment as defined as "a situation wherein a worker is employed but not in the desired capacity, i.e., in terms of compensation, hours, skill level, and experience" (Sugiyarto 2007: 5), however, was already high during the 1970s with, at times, as much as one quarter of the labor force being underemployed (WB 1993c: 53; Rodriguez 1985: 150n; Tidalgo and Esguerra 1984: 84n). As de Dios (1984: 22) points out, underemployment subsequently tripled from 1978 to 1983. Throughout the 1980s, the underemployment rate was then consistently higher than 30 percent and increased up to over 40 percent in 1985 (WB 1993c: 53n). At the same time, real wages and salaries in the Philippines during the 1970s were low and decreasing, resulting in a growing share of women entering the work force in order to increase household income yet, thereby, contributing to the oversupply of labor (de Dios 1984: 22n; Ofreneo 1984: 485n). Indeed, one of the reasons for high un(der)employment accompanied by low wages is the, in comparison with the *developmental states*, rapid growth of the Philippines' population of almost three percent annually throughout the 1970s, resulting in an oversupply of labor (WB 2018; Herrin and Pernia 2003: 284n, 292n; de Dios 1984: 19). As Herrin and Pernia (2003: 293) put it, "employment opportunities have failed to keep up with the rapid growth in the labor force."

This lack of decent employment opportunities has led to increasing numbers of Philippine citizens living and working abroad. In 2013, this was the case for more than ten percent of the Philippine population including the so-called *Overseas Filipino Workers* (OFWs) (WB 2018; CFO 2013). Their remittances accounted for 10.5 percent of the Philippines' GDP in 2017—by far the highest ratio in the economies considered in this study (WB 2018). While these remittances are, on the one hand, a "saving grace" (Lim 2007: 167), on the other hand, they constitute an obvious brain drain and may cause a number of additional economic as well as social problems (de Dios and Williamson 2015: 391n; Balisacan and Hill 2003: 4; Rodriguez 1996: 150n). Interestingly, remittances also seem to have aggravated domestic income distribution, i.e. inequality, in the Philippines (Rodriguez 1998: 337n).

Generally, income inequality in the Philippines has been comparatively high due to the segmented labor market as well as low productivity and value added resulting in low wages for the majority of the work force (Vos and Yap 1996: 17; WB 1993b: 129). Available data for the 1970s suggest that the Philippines' Gini coefficient "measure[ing] the extent to which the distribution of income […] among individuals or households within an economy deviates from a perfectly equal distribution" (WB 2018) oscillated around 0.5, i.e. in between perfect equality (0) and perfect inequality (1) (Gerson 1998: 5n; Estudillo 1997: 69n; Rao 1988: 35n; Oshima 1983a: 283). In fact, income inequality in the Philippines during the 1970s worsened with the poorest 60 percent of total households earning 25 percent of total income in 1971 but only 22.5 percent in 1979 while the richest 10 percent received 41.7 percent of total income in 1979 compared to 37.1 percent in 1971 (de Dios 1984: 20n; Oshima 1983a: 283). In short, "[m]ost Filipinos own little more than their labor power" (de Dios 1984: 19) while, additionally, "the rise in [income] inequality [from 1978 to 1983] came almost entirely at the expense of the lower-income deciles" (ibid.: 23n). By 2015, the income share of the highest 20 percent was close to 50 percent while the lowest 20 percent earned only 6.6 percent of income in the Philippines (WB 2018).

Such high inequality is reflected in the share of the Philippine population living in poverty. During the 1970s and 1980s around 60 percent of the total population of the Philippines were regarded as poor, i.e. not able to acquire a specified minimum level of food and nonfood items (WB 1993b: 323n). While the percentage of Filipinos living below the *subsistence* line including food but excluding nonfood items decreased from 35.4 percent in 1971 to 28.1 percent 1985, the percentage of the Philippine population living below the *poverty* line increased from 21.6 percent to 36.2 percent during this period (ibid.: 324n). Moreover, the absolute number of people living below subsistence increased by more than 3.6 million from 1971 to 1985 (ibid.). While poverty incidence was also high in Indonesia, Malaysia and Thailand in the early 1970s, it declined much faster than in the Philippines (Warr 2006: 284n). Indeed, during the last three decades, un(der)employment, inequality and poverty in the Philippines have only slightly decreased while, at times, even increasing again (ILO 2018; WB 2018; ADB 2009: 13n). These discrepancies are reflected in the Philippines' comparatively low HDI score. While the Philippines' HDI merely increased from 0.586 in 1990 to 0.682 in 2015, South Korea and Thailand recorded an increase from 0.731 in 1990 to 0.901 in 2015 and 0.574 in 1990 to 0.740 2015, respectively (UNDP 2018). In this manner, the Philippines' "social indicators stagnated" (Balisacan and Hill 2003: 4).

Overall, the Philippines has thus constantly been lagging behind regional standards with regard to both economic and socioeconomic development—despite significant improvements over the past decades. In particular, the Philippines has not been able to achieve inclusive and sustainable industrialization. The following subsections now explore the reasons for this subpar (economic) performance by tracing the industrial policies pursued in the Philippines during the Marcos era and their institutional embeddedness.

3.2. Industrial Policies in the Philippines

In order to shed light on the underlying reasons for the subpar development performance of the Philippines, this subsection now elaborates on the Philippines' industrial policies including development vision and planning during the Marcos era with a focus on the 1960s and 1970s. In so doing, the corresponding characteristics of the *developmental states* serve as benchmarks.

3.2.1. Development Vision and Planning

In his speech entitled "The Strategy of National Development" held at the *University of the East's* commencement ceremony on May 14, 1967, Marcos (1967) referred to the principle of private enterprise, the principle of [national] self-reliance and the principle of social justice as the three main pillars of his developmental vision. At the same time, he demanded from the private sector to continuously "adjust its activities and policies to the larger interests of the nation" (ibid.). In this manner, Marcos's vision—or at least his rhetoric—was remarkably similar to that of the *developmental states* clearly distinguishing themselves from socialist states while pursuing economic nationalism and emphasizing the need for concerted action. In 1973, Gerardo P. Sicat (1973: 28), then director-general of the *National Economic (and) Development Authority* (NEDA) (see subsection 3.3.1. for why "and" is put in parentheses), even spoke of "achieving […] our own economic miracle." Marcos's development vision culminated in the so-called "New Society." The term was first introduced in his 1971 book *Today's Revolution: Democracy* and stood for the "elimination of the oligarch who, in the Old Society, controlled the entire corrupted economic, social and political system" (Marcos 1974: 32) and the establishment of social justice through inclusive economic development (Lanuza 1973: 19). The latter included the promotion of labor- rather than capital-intensive endeavors as well as the encouragement of exports for employment and foreign exchange generation and the support of small and medium-sized enterprises (SMEs) and backward linkages (Ofreneo 2015: 113n; Bulletin Today 1974a; Lanuza 1973: 20n; The

Times Journal 1972b). In realizing such development, the New Society continued to rely on the private sector (Marcos 1978: 29; Sicat 1974b: 2; Lanuza 1973). In particular, the private sector was urged to form business organizations and support the government in reaching its social goals (Lanuza 1973: 22n). In Marcos's own words,

> "[t]he private sector remains the sole engine of economic growth. The entrepreneur remains the central factor in development. Indeed, the entrepreneur, most often an industrialist,—whether as the risk-taking investor, manager, or professional—when he performs with distinction should be considered a hero of development; a title he ought to share with a dedicated and skilled work force" (Marcos 1974: 38).

In fact, Marcos (1974: 32n) even used the private sector's primacy to justify the removal of the "old oligarchs" by claiming that such removal was "necessary to maintain free enterprise." Accordingly, (economic) development planning in the Philippines during the Marcos era including the martial law period was merely indicative (WB 1987b: 115; Paterno 1971b: 84; NEC 1970a: 107). However, at the same time, as Enrile (1972: 4) put it in 1972, "[t]here are so many plans now on the drawing board intended primarily to propel a systematic development of the Philippine economy" (see also Jayme 1972: 3n). Public acceptance of such planning and state intervention in the economy in general had grown during the first half of the 1960s when decontrol had led to corruption and production inefficiencies (Dohner and Intal, Jr. 1989: 439n; Datta-Chaudhurri 1981: 66n). In this manner, albeit it was merely indicative, economic development planning was much more organized and visible under Marcos than under preceding administrations—especially once martial law was declared in 1972. Relatedly, in 1973, Clavecilla (1973b: 10) stated that "[f]or the first time, we can truly say that we have a development plan" and stressed the plan's approval by the legislature. Indeed, similar to the *developmental states*, the Philippines during the Marcos era engaged in development planning and, for this purpose, published several development plans.

The first development plan prepared under Marcos was the *Four-Year Economic Program for the Philippines, Fiscal Years 1967–1970*. The plan, a "blueprint" (NEC 1966: 1) for economic development in the Philippines, emphasized the industrial sector's primacy in generating such development and identified the economy's continuing reliance on "light finishing operations" as problematic (ibid.: 25n). The 15 high priority projects as well as the additional 22 priority projects chosen to tackle this issue, amongst others, were almost entirely related to mining or agro-industrial endeavors (ibid.: 27n). Apart from these projects, the plan vowed to support SMEs and distressed businesses (ibid.: 41). In terms of promotional measures, in particular, the plan emphasized the government's control of long-term credit (ibid.: 27).

The following development plan, the *Five-Year Development Program for the Philippines, Fiscal Years 1970–1974*, continued the emphasis on industrial projects related to food, metals and mining and stressed the importance of exports and, once again, basic and intermediate rather than finishing industrial production (NEC 1969: 18n). Moreover, the plan envisioned integrated industrial complexes such as an iron and steel mill and a copper smelting and refining plant as prime utilizers of domestic raw materials (ibid.: 64). With regard to the particular industry sectors to be supported by the Philippine government, the plan referred to the investment priorities contained in the respective plans issued by the Board of Investments (BOI) including the establishment of integrated industrial operations in food production, metal processing and petro-chemical products (ibid.: 64n).

The *Four-Year Development Plan for the Philippines, Fiscal Years 1971–1974* then continued to aim at leaving behind the import substitution practices established in the 1950s in favor of increased exports, backward and forward linkages, productivity and employment (NEC 1970a: 107n). Apart from that, once again, the necessity to continue the focus on initial and intermediate (capital good) rather than finishing industrial production was emphasized (ibid.: 109). However, apart from the industrial sector, the plan identified the agricultural sector as crucial for advancing economic development (ibid.: 2n).

Once more being rolled over, in 1971, the *Four-Year Development Plan, Fiscal Years 1972–1975* was published (NEC 1971a). The main difference between this plan and the previous one were increased targets regarding economic growth and trade and reduced targets for agriculture and mining (ibid.: 10n). In addition to the BOI's *investment* priorities, with regard to industrial development, the plan now also referred to the BOI's *export* priorities (ibid.: 137n). In recognizing the pressing need for employment creation, the plan announced "a full departure from the inward looking import-substitution scheme adopted in previous decades" in favor of increased exports, labor intensity and industrial linkages as to emulate the economic success of South Korea and Taiwan (ibid.: 18, 32n).

After the declaration of martial law in the fall of 1972, the Philippines' development plans were prepared under the supervision of the *National Economic (and) Development Authority* (NEDA) and on a fixed-term rather than on a rolling basis (NEDA 1977e: 3n). The first development plan spearheaded by the NEDA was the *Four-Year Development Plan, Fiscal Years 1974–1977*. According to Sicat (NEDA 1973: v), the changes induced by martial law had "drastically altered

the framework of development, necessitating a restructuring and restatement of objectives and priorities." Rodriguez (1985: 198), however, notes that the plan including a new chapter on the alleged New Society reforms merely "repeated the same objectives, the same problems and challenge[s], the same basic development policies, the same specific programs and measures." Indeed, the chapter on industrial development continued to emphasize the need for labor-intensive nontraditional exports and, once again, labeled this approach as "a marked departure from the finishing-type import-substituting strategy pursued in the last two decades," the latter having "by itself become an impediment to further industrial growth" (NEDA 1973: 65). In a different—and much later—publication, however, the NEDA (1977g: 2, italics added) described the plan as "focus[ing] on the growth of export-oriented industries, *import-substitution* and wage goods industries, extractive industries, engineering and agro-based industries." Similar to the previous plans and instead of going into business itself, the plan identified the government's role as merely "creating a climate most healthy for industrial growth to proceed along lines envisioned in the Plan and in providing the necessary social overhead capital and other services for accelerated economic growth and development" (NEDA 1973: 65n). With regard to manufacturing export promotion, "the [plan's] approach consist[ed] of three elements: (1) Picking out specific products, (2) Selecting particular export firms, and (3) Identifying appropriate long-term buyers in promising international markets" (ibid.: 66)—a more detailed outline of this approach was lacking, however, pointing towards potential randomness in actually choosing products and enterprises to be supported (see also Abello 1973a: 3).

The subsequent development plan, the *Five-Year Philippine Development Plan, Calendar Years 1978–1982*, then included a mid-term *Ten-Year Philippine Development Plan, Calendar Years 1978–1987* and an additional *Long-Term Philippine Development Plan up to the Year 2000*. In this manner, this plan was the first long-term vision issued by the Philippine government realizing that "[m]any of the problems we have encountered which are now imminent could have been avoided if past decisions were guided by a longer-term view of desired development during these years" (Marcos 1978: 26). While the long-term plan highlighted the need for continued industrialization—and especially the expansion of manufacturing—, the five-year plan read: "Industrial development will be pursued *to complement* agricultural development" (NEDA 1977e: 8, italics added). In this context, Follosco (1982: 35) urged to keep in mind the (future) importance of the industrial sector regarding the absorption of the increasing labor force. Moreover, as clearly stated in the plan's preface, this development plan, once again, did not provide particulars on its implementation but rather supplied "guidelines" (NEDA 1977e: ix).

Sicat (1977e: ix) added, however, that "these [implementive program details] are now being developed as the nation begins to give life to the Plan." Yet, as discussed below, industry sectoral planning was not carried out in the Philippines during the Marcos era. While the *Annex to the Five-Year Philippine Development Plan, Calendar Years 1978–1982* entitled *Profiles of Selected Development Projects* outlined the development of eleven *Major Industrial Projects* (MIPs), these projects mostly focused on capital-intensive endeavors in agro- and mining/mineral-related areas and were foremost to be pursued by state-owned enterprises (SOEs), i.e. the public rather than the private sector (NEDA 1977b: 59n). Apart from that, however, the establishment of a potentially employment-generating second export processing zone (EPZ) was envisioned (ibid.: 72n).

In addition to the development plans and in order to further promote exports, in 1978, the *Philippine Export Council* (PEC) formulated the *National Export Strategy* (NES) which was more specific than the development plans and included export targets compatible with the *Five-Year Philippine Development Plan, Calendar Years 1978–1982* (NEDA 1978u, 1979d). However, since the latter were set very low and, thus, easily reached, the potential positive effect of such target setting remains at the least questionable (NEDA 1979d: 28). Moreover, the *World Bank* (1987b: 198) remarks that the NES was not actually implemented and the PEC replaced by the *Philippine Export Advisory Council* (PEAC) as early as in 1979.

To sum up, the industrial development plans of the Marcos government were comparatively generic, therefore "not provid[ing] the ways and means by which the objectives of an egalitarian society can be achieved" (Rodriguez 1985: 199). Instead, the suggested reforms were fragmented and rather aggravated the socioeconomic disparities in the Philippines including the creation of a new elite (ibid.: 200). In this context, Mangahas (1979) criticized the government's neglect to define numerical goals regarding the reduction of inequality and in 1976, the private sector expressed "[a]n increased need for the operationalization of [the government's ideology of equity and growth]" (NEDA 1976a: 112). Relatedly, the Marcos regime did not engage in industry sectoral planning. Indeed, while the *World Bank* (1973: 29) noted the Philippine government's intention to issue industry sectoral plans as early as 1973, such plans were never released. And while the BOI's plans included investment and export priorities, detailed plans for each—or at least some—of these industry (sub)sectors were not drawn up. A case in point were the individual export development strategies developed by the *Ministry of Trade and Industry* (MTI) in collaboration with the private sector for seven so-called "priority products" in the early

1980s (Ongpin 1982–83: 142). The seven areas of priority—all of them nontraditional exports—were garments, furniture, electronics, gifts and houseware, footwear and leathergoods, fresh and processed foods and construction services (Ongpin 1982–83). However, the supposed development strategies do not seem to have included specific actions intended to alleviate the problems of the respective industry (sub)sector but rather merely listed already existing incentives, suggested export markets and set export targets—at times under unrealistic assumptions (ibid.). Moreover, while sometimes denying the fact, from a more general perspective, the development plans of the Philippines were primarily focused on the agricultural sector throughout the twentieth century, thus rather neglecting the industrial sector (Alburo et al. 1995: 15).

3.2.2. Industrial Policies

In implementing these somewhat erratic development plans, in terms of fiscal incentives aimed at promoting economic development, different provisions were set up in the late 1960s and early 1970s. The Investment Incentives Act of 1967 (IIA) (Republic Act No. 5186) aimed at

> "accelerat[ing] the sound development of the national economy in consonance with the principles and objectives of economic nationalism, and in pursuance of a planned, economically feasible and practicable dispersal of industries, under conditions which will encourage competition and discourage monopolies" (Republic of the Philippines 1967: sec. 2).

In order to do so, the IIA granted a number of incentives to both Filipino and non-Filipino enterprises (prospectively) engaging in "preferred and pioneer areas of investment" (Republic of the Philippines 1967: sec. 18). "Preferred areas of investment" were those which were perceived by the BOI—which was actually created under the IIA—to best achieve the IIA's objectives (ibid.: sec. 13, 18). "Pioneer enterprise" referred to enterprises additionally

> "engaged in the manufacture, processing, or production, and not merely in the assembly or packaging, of goods, products, commodities or raw materials that have not been or are not being produced in the Philippines on a commercial scale" or "us[ing] a design, formula, scheme, method, process or system of production or transformation of any element, substance or raw materials into another raw material or finished good which is new and untried in the Philippines: *Provided*, That the final product involves or will involve substantial use and processing of domestic raw materials, whenever available" (Republic of the Philippines 1967: sec. 3(h), italics in original).

The areas of investment fulfilling either of these requirements and their respective "measured capacities" were laid out in yearly Investment Priorities Plans (IPP) prepared by the BOI based on criteria related to projected demand and current supply of the respective goods and services, potential new markets and sources of supply, potential job creation, assumed integration with

current production facilities, import substitution or export potential, required domestic resources, projected rate of profitability and return to the economy as a whole, likely effects on competition and others (Republic of the Philippines 1967: sec. 16(a), 18). "Measured capacity," in this context, referred to "the estimated additional volume of production which the [BOI] determines to be desirable in each preferred and pioneer area of investment, in order to supply the needs of the economy at reasonable prices, taking into account the export potential of the area" (ibid.: sec. 3(i)). Automatically included were enterprises exporting finished products largely made from domestic raw materials, exporting more than half of their production and not benefitting from trade agreements between the Philippines and the importing country (ibid.: sec. 18). In this manner, the IIA was the first Philippine investment policy explicitly promoting exports (Sicat 1972[1967]: 103). Apart from the provision of basic rights and guarantees including the freedom from expropriation, the incentives extended to eligible enterprises included tax allowances, credits and exemptions on capital gains, investments and imported and domestic capital equipment, accelerated depreciation and carry-over of net operating losses (Republic of the Philippines 1967: sec. 4–8). Exporters of finished products and commodities could also avail of the double deduction of promotional expenses and shipping costs and a special tax credit on raw materials (ibid.: sec. 9). In order to claim these benefits, the respective enterprise had to duly register with the BOI (ibid.: sec. 20). "Registered enterprises" were then those enterprises registered with the BOI, active in a preferred or pioneer area of investment and founded and operated under Philippine laws while at least 60 percent of their respective owners and board members were Philippine nationals—excluded were banks and similar organizations, service providers and traders (ibid.: sec. 3(b)). Indeed, under the IIA, the support of foreign enterprises was only considered if "the available measured capacity thereof cannot be readily and adequately filled by Philippine Nationals" (ibid.: sec. 19(a)(2)) in the case of pioneer projects or within three years from its inclusion in the BOI's list of preferred areas of investment in the case of preferred but nonpioneer projects and if the respective foreign investor vowed to fulfill nationality requirements in the long run (ibid.: sec. 19). Even though the IIA allowed both repatriating foreign investments and remitting earnings generated by foreign investments, in this manner, the IIA was an "explicit statement of economic nationalism" (Sicat 1972[1967]: 98) by clearly preferring Filipino entrepreneurs over foreign investors and, additionally, heavily encouraging the use of domestic raw materials (Republic of the Philippines 1967: sec. 4(a)–(b)). However, foreign investment in the Philippines exceeding 40 percent of a firm's capital was permitted—yet not supported—if the respective enterprise exported more than 70 percent of the finished products produced (ibid.: sec. 20).

In 1970, the IIA was complemented by the Export Incentives Act of 1970 (EIA) (Republic Act No. 6135) in order to further

> "invigorate the country's export trade" by "actively encourag[ing], promot[ing], and diversify[ing] exports of services and of manufactures utilizing domestic raw materials to the fullest exten[t] possible, and […] develop[ing] new markets for Philippine products, in order to attain a rising level of production and employment, increase foreign exchange earnings, hasten the economic development of the nation, and assure that the benefits of development accrue to the Filipino people" (Republic of the Philippines 1970b: preamble, sec. 2).

Under the EIA, export producers and traders as well as service exporters were eligible for a number of benefits. In order to be able to register as an export producer, enterprises had to be at least 60 percent Filipino-owned and (prospectively) engaged in "manufacturing, processing or exporting export products listed in the export priorities plan or if not so listed, that at least fifty per cent of its sales are export sales" (Republic of the Philippines 1970b: sec. 6(b)). In this way, the EIA explicitly promoted *non*traditional, i.e. significantly processed, exports and marked the shift from mainly simply utilizing excess capacities for export production to encouraging the building up of new capacities primarily directed at manufacturing exports (Paterno 1974a: 4n). Similarly to the IPPs, the Export Priorities Plans (EPPs) were to be prepared by the BOI on a yearly basis considering the respective industry (sub)sector's (potential) international comparative advantage, its prospective foreign exchange earnings and its assumed profitability to the Philippine economy as a whole (Republic of the Philippines 1970b: sec. 4). The benefits available to registered export producers—in addition to the respective applicable incentives under the IIA—were income tax reductions and tax credits and exemptions on various inputs, exports and imported and domestic capital equipment as well as certain additional incentives subject to specific conditions (ibid.: sec. 7, 9). At the same time, an export tariff was levied on (traditional) agricultural exports starting in 1970 in order to further encourage exports of *non*traditional products (Tan 2018[1984]: 54; Bautista and Tecson 2003: 139; President of the Philippines 1973d; Republic of the Philippines 1970a). This tariff decisively contributed to the rapidly increasing share of nontraditional exports during the 1970s. The manufacturing industry (sub)sectors identified as preferred or pioneer areas of investment by the IPPs and EPPs in the late 1960s and early 1970s were, amongst others, electronics and textiles and garments while the bulk of the priority areas were of an agro-industrial or mining/mineral-related nature (Bulletin Today 1974b; BOI 1968, 1969, 1970, 1971a, 1971b, 1972b; Manila Bulletin 1971; NEC 1971a: 146n; Virata 1968: 99). This is reflected in the (sub)sectoral distribution of the projects approved by the BOI under these plans (BOI 2016; Paterno 1974d: 90, 1975: 88n; WB 1973: 26; Paterno 1971b: 84, 89; Virata 1969: 110). The fact that support for particular industry (sub)sectors was,

at times, terminated, points to a policy of discontinuing support for industrial endeavors no longer perceived as desirable by the state as well as discouraging entry into "overcrowded" industry sectors where the respective "measured capacity" had been reached (Dohner and Intal, Jr. 1989: 444; WB 1973: 26n; Manila Bulletin 1971; Virata 1969: 114). However, firms engaged in the latter were still allowed to expand under certain conditions (Manila Daily Bulletin 1972).

In subsequent years, both the IIA and the EIA were amended, resulting in investment incentives both more liberal towards foreign investment and more export-oriented. In 1973, Presidential Decree No. 92 allowed for additional tax deductions of labor training expenses and, in the case of exporters, of direct labor and domestic raw materials costs, amongst others, intended to encourage employment and backward linkages (U 2005: 4; President of the Philippines 1973g: sec. 1, 3, 15; for a comprehensive overview see BOI 1973). Exporters could now also avail of tax credits for different kinds of inputs (President of the Philippines 1973g: sec. 3, 15). Presidential Decree No. 485 further amended the IIA and the EIA in 1974 by, amongst others, including providers of public utilities in the list of eligible enterprises and encouraging the upgrading of existing (export) production facilities (President of the Philippines 1974b: sec. 1, 3, 10; for a comprehensive overview see BOI 1974a). In 1978, Presidential Decree No. 1584 then endowed the president with the power to change the different incentives as he saw fit—though upon recommendation of the BOI (President of the Philippines 1978j: sec. 1). Subsequently, Presidential Decree No. 1646 once again adjusted the investment incentives in the Philippines in 1979 in order to further encourage exports (President of the Philippines 1979d). The priority areas for investments listed in the IPPs and EPPs of the mid- and late 1970s increasingly included engineering endeavors responsible for a growing share of the total number of BOI-registered projects, employment generation and exports (BOI 1974c, 1975a, 1975b, 2016; NEDA 1977g, 1979m). Interestingly, however, "Paterno [, the BOI's chairman at the time,] stressed that the [investment] priorities plan [was] designed to promote investments in *import-substituting* and labor-intensive industries" (NEDA 1978o: 3, italics added). From the late 1970s on, additional tax benefits could be obtained through registration with the Philippine Export Council (PEC) (President of the Philippines 1976c, 1978i). At the same time, however, the BOI withdrew the incentives for "big earners" with a return on investment of more than 33.3 percent (NEDA 1978c). In recognizing that the IIA, the EIA and the Agricultural Investments Incentives Act of 1977 (Presidential Decree No. 1159) "grant substantially the same incentives" (President of the Philippines 1981c), the Omnibus Investments Act of 1981 (Presidential Decree No. 1789) then merged these Acts into one (ibid.).

Apart from providing fiscal incentives aimed at promoting manufactured exports, a number of different support programs were offered to export manufacturers. In this context, the Central Bank actually encouraged exporters to explore markets other than the US market (Philippines Herald 1972b). The pre-martial law *Department of Commerce and Industry* (DCI), for instance, offered organization and financing of trade missions abroad as well as support by the respective commercial attachés while the early-martial law *Department of Trade and Tourism* (DTT) set up trade assistance centers domestically and trade houses abroad (NEDA 1979c: 34; Jaramillo-Miran 1974; Quiazon, Jr. 1974; Philippines Evening Express 1972; Philippines Herald 1972a; Manila Chronicle 1971a). Moreover, the late-martial law *Ministry of Trade* (MT), amongst others through its *Bureau of Foreign Trade*, provided studies and circulated information on potential export opportunities, organized cooperative export marketing initiatives and ran *Trade Assistance Centers* (TACs) all over the Philippines (NEDA 1979c: 34, 1979s). Apart from that, the *Institute of Export Development* (IED) of the BOI offered export advice, training and research and, from the late 1970s on, the *Technology Research Center* (TRC) in collaboration with the PEC rendered technology services (NEDA 1979c: 34n, 1979i; Paterno 1974a: 15). More direct involvement of the Philippine state in matters of international trade took place through the government-owned *Philippine International Trading Corporation* (PITC) which, however, did not only engage in trading itself but also facilitated trade fair participation, offered market information and organized financing (Datta-Chaudhurri 1981: 72; NEDA 1979c: 36; Rodriguez 1974; President of the Philippines 1973e, 1973f). By proving common customs bonded warehouses (CCBWs), the PITC was intended to support SMEs disadvantaged by the costliness of setting up bonded manufacturing warehouses (BMWs) (Datta-Chaudhurri 1981: 73n). Other entities operating CCBWs were, for example, the Philippine Exporters Foundation (Philexport) and industry sector-specific organizations (Manasan 1990: 206n). To further support SMEs, in 1978, Presidential Decree No. 1319 encouraged the establishment of *Accredited Trading Companies* (ATCs) offering, amongst others, bonded warehouse facilities and Customs Administrative Order (CAO) No. 3-78 enabled the tax- and duty free import of inputs imported on consignment basis for SMEs not able to enroll in other incentive schemes due to their limited size (Manasan 1990: 209n; WB 1980a: 39, 1987b: 163; NEDA 1978p; President of the Philippines 1978c). At the same time, export procedures were continuously simplified (NEDA 1978s, 1979h; President of the Philippines 1968, 1971, 1976b; Republic of the Philippines 1970b: sec. 15).

Overall, during the 1970s, the Philippine industry sectors receiving the most support under the IIA were copper smelting and refining, pulp and paper, chemicals and related products and synthetic fibers (WB 1980a: 31). Among the exporting enterprises benefiting most from government support during this decade were those producing chemicals and chemical products, fiber products and textiles and garments (ibid.). Other industry sector-specific programs implemented in addition to the preferred and pioneer areas of investment as declared in the IPPs and EPPs were the *Progressive Manufacturing Program* (PMP) including the *Progressive Car Manufacturing Program* (PCMP) and the eleven *Major Industrial Projects* (MIPs) including an integrated steel complex, aluminum smelter facilities, a petrochemical complex and the manufacturing of diesel engines, i.e. focusing on heavy industrial endeavors (Dohner and Intal, Jr. 1989: 445; WB 1984c: 159; NEDA 1977e: 141, 1980a: 15n). The PCMP was launched in 1972 and both strictly controlled the number of competitors and prescribed the use of local content (Abello 1973d: 106n; WB 1973: 27n). The MIPs were launched in the late-1970s and aimed at the substitution of previously imported agro- and mining/mineral-related inputs, thereby intending to generate downstream employment (Macalincag 1982–83: 126; AmCham 1979: 2, 14; NEDA 1977b: 61n). However, due to their high capital and energy intensity, the MIPs were at least questionable—especially in view of the increasing external indebtedness of the Philippine government which was to be heavily involved in financing the MIPs as well as the changing global economic environment (Dohner and Intal, Jr. 1989: 408n; Ofreneo and Habana 1987: 33n; WB 1984c: 46n; see also Gonzaga 1978b). Generally, duty and tax exemptions were also granted—and quite extensively so—to selected industry sectors not covered by the aforementioned incentives (Tan 2018[1984]: 59). Indeed, the *World Bank* (1973: 42) speaks of "excessive" investment incentives in the case of the Philippines—albeit referring to the *early* 1970s.

Nonetheless, especially nontraditional exports increased throughout the 1970s. These exports, however, were largely concentrated while both import-dependent and capital-intensive. This was due to the fact that the fiscal incentives granted to (mostly) Filipino-owned industrial enterprises from the late 1960 through the late 1970s included the aforementioned tax- and duty-exemptions for imported inputs resulting in capital intensity including a bias against small firms and weak backward linkages (Dohner and Intal, Jr. 1989: 445; on the bias against SMEs also see Pante, Jr. and Medalla 1990: 14n). In this way, the Philippines' (potential) comparative advantage—abundant and comparatively well-educated labor—was neglected (Tan 1987). At the same time, this stands in sharp contrast to the alleged intent of the Philippine state to further

labor-intensive industrialization through promoting exports, SMEs and backward linkages. In fact, by declaring the discontinuation of those parts of the current investment incentives biased against labor-intensive production in the late 1970s, the Philippine government implicitly admitted to previously having fostered capital intensity (NEDA 1978h, 1980b). Indeed, the previous tax reliefs regarding local employment and sourcing were "calculated by formula and did not fully compensate firms for purchasing inputs domestically at higher than world market prices" (Dohner and Intal, Jr. 1989: 444). In other words, domestically sourced inputs were expensive, so that "the import substitution policy only shifted dependence on imports of consumer goods to capital and intermediate goods" (Aldaba 1995: 271n). In order to alleviate the resulting un(der)employment, the Philippine state began to actively support labor emigration from the 1970s on (Stahl 1988). In fact, the NEDA listed the *Ministry of Labor* as one of the "agencies promoting exports" (NEDA 1979c: 38).

While the IIA and the EIA were "the first laws aimed at streamlining and rationalizing foreign investment policy in the Philippines" (Aldaba 1995: 249), according to these Acts, genuine foreign entrepreneurial activity in the Philippines was only supported or permitted under the aforementioned conditions. In order to further regulate foreign investment in the Philippines, already in 1968, the Foreign Business Regulation Act of 1968 (FBRA) (Republic Act No. 5455) was enacted with the aim of "contribut[ing] to the sound and balanced development of the national economy on a self-sustaining basis" (Republic of the Philippines 1968: preamble). Generally, the FBRA limited foreign ownership of enterprises not registered under the IIA to 30 percent of the respective firm's outstanding capital but granted exceptions if the proposed business activity was consistent with the respective IPP and other laws, preserved competition, avoided crowding out of Filipino entrepreneurs and, as already stated in the preamble, self-sustainably furthered the economic development of the Philippines (ibid.: sec. 2(1)(b), 3, 4). In short, "[t]he Philippines [did] not extend an indiscriminate welcome to foreign investment" (Paterno 1971a: 2). As Paterno (1971a: 3) points out, these provisions were comparatively restrictive at the time. However, in 1969, the FBRA was complemented by Republic Act No. 5490 establishing the Philippines' first export processing zone (EPZ) in Mariveles in the Province of Bataan—later to be known as the *Bataan Export Processing Zone* (BEPZ)—as to

> "stimulate, expedite, encourage and promote foreign commerce as a means of making the Philippines a vital center of international trade, of strengthening [the Philippines'] foreign exchange position, of hastening industrialization, of overcoming domestic unemployment, of accelerating the development of the country and of insuring the economic security of all the people" (Republic of the Philippines 1969: sec. 1).

In this way, the BEPZ was fashioned after Taiwan's *Kaohsiung Economic Processing Zone* (KEPZ) (MOLE 1984: 2). Starting operations in 1972 and overseen by the *Export Processing Zone Authority* (EPZA), the BEPZ granted the following benefits to enterprises—both domestic and foreign—located in the zone: exemption from duties on a wide array of domestic and imported inputs and equipment, internal revenue laws and regulations, local taxes and licenses—except real estate taxes—and export tax; net operating loss carry-over; accelerated depreciation; priority in foreign exchange allocation; financial assistance similar to domestic enterprises; under certain conditions employment of foreign nationals for up to five years (IBON Foundation 2005: 57; President of the Philippines 1972l: sec. 4(a), 16–18). As Warr (1987: 221n) points out, these benefits did not include the exemption from corporate income taxes offered in most other EPZs in Asia and, in fact, basically resembled the general incentives offered under the EIA. In order to be eligible for settling in a Philippine EPZ, at least 70 percent of the respective firm's production had to be exported (IBON Foundation 2005: 57).

However, the costs incurred in developing and maintaining the BEPZ exceeded the zone's benefits by large (see, e.g., Warr 1987: 234n). While the BEPZ had required investments of up to 150 million USD—available numbers actually differ from "more than 88" (Rondinelli 1987: 95) to 150 million USD—, the close to 50 companies located in the zone in 1978 employed not even 20,000 people, 90 percent out of which were female (Warr 1987: 223, 1989: 47; IBON Foundation 1979b: 2n, 1983b: 7). The car body stamping plant set up by *Ford Motors* in the BEPZ—the groundbreaking of which had been witnessed by Marcos himself in 1973—is a case in point as it only employed 300 people while having cost 39 million USD (Wideman 1976: 38; Lopez 1973: 9). At the same time, *Ford Motors* was responsible for almost one fourth of the zone's export value in 1978 (IBON Foundation 1979b: 3). Such capital intensity then contributed to the low manufacturing employment in the Philippines. Moreover, the zone's occupancy rate was only at about 50 percent during the 1970s (Castro 1983: 162). Incidentally, the BEPZ's location was far from ideal as the area lacked essential infrastructural provisions, sea- and airport facilities, sufficient drinking water and proper land access to Manila where, curiously, input customs were located (Ohara 1977: 106; Wideman 1976). As Wideman (1976: 37) points out, these problems were known and discussed from the beginning but critical voices were overruled once martial law was declared (see also Castro 1983: 161). Additionally, working and living conditions in the BEPZ were precarious as employers' demands were partly high yet wages low, jobs insecure, working environments hazardous, costs of living high and housing facilities poor (Kühn von Burgsdorff 1987: 51n; IBON Foundation 1979b: 3, 1983b: 1n) At the

same time, unionizing was discouraged (Kühn von Burgsdorff 1987: 67; IBON Foundation 1979b: 3). Moreover, due to the access to the local capital market, the "foreign" business endeavors in the BEPZ were largely financed through local loans—partly by the Philippines' development bank itself—, so that one cannot actually speak of genuine FDI in the case of foreign enterprises located in the zone (Warr 1987: 224n; IBON Foundation 1983b: 6; President of the Philippines 1972l: sec. 18(e)). Ford Motors, for instance, was even exempted from the general rules regarding the local debt–equity ratio (IBON Foundation 1979b: 4). Moreover, since the MNEs' profits were usually remitted to the respective country of origin, MNEs actually drained the Philippines of its own financial resources (Diokno 1989: 136; Ofreneo 1984: 490). While tougher restrictions regarding the availability of local capital to foreign investors were introduced in 1978, they were rather moderate (Warr 1987: 226; Gonzaga 1977a: 5; see also Gonzaga 1975a). The frequent use of local capital by foreign investors may then help to explain the low FDI levels in the Philippines while MNEs were overly present at the same time.

Additionally, the BEPZ failed to establish backward linkages beneficial to the local economy since most inputs were imported due to tax and duty exemptions for imported inputs and a lack of quality of local inputs partly due to the failure of (previous) import substitution policies (Aldaba 1995: 271, 277; Warr 1987: 223n). The zone thus remained an enclave separated from the rest of the economy, thereby unable to induce economic development and especially employment on a larger scale (see also WB 1993b: 129). In particular, the rate of technology transfer was low as the zone's enterprises were mostly engaged in light and labor-intensive low-skill industry sectors such as the production of toys, garments and car and electronics components (Warr 1987: 230; Ofreneo 1984: 491; IBON Foundation 1983b: 8). In this way, the Philippines became "an industrial sweatshop for the manufacture of low-cost parts or products destined for the world market" (Ofreneo 1984: 491). Exporters—both foreign and domestic—not located in an EPZ could avail of tax- and duty-free imported inputs through so-called bonded manufacturing warehouses (BMWs) administered by the *Bureau of Customs* (BOC) (Manasan 1990: 206; WB 1987b: 159n; Republic of the Philippines 1957: title V). In contrast to the "zone approach" taken by establishing EPZs, Engman et al. (2007: 25) refer to the option of setting up BMWs as the "enterprise approach." In order to set up a BMW, the respective company had to export at least 70 percent of its production at a specified minimum total value, register with the BOI and post an initial bond as well as, subsequently, pay substantial annual fees and post bonds for all imported inputs—hence the difficulties and aforementioned alternatives for SMEs (Manasan 1990: 206; WB 1980a: 34, 1987b: 160). Moreover, for all

shipments, BMW-operating enterprises had to prove the local nonavailability of the respective inputs (WB 1987b: 161). As noted above, most Philippine exports were manufactured under such BMW or CCBW arrangements rather than in EPZs (Manasan 1990: 207; Shepherd and Alburo 1986: 67). Similarly to EPZs, backward linkages, however, were also weak in the case of BMWs, thus not significantly contributing to manufacturing employment and development either (Aldaba 1995: 277).

Generally, from 1972 on, the restrictions on foreign investment in the Philippines were continuously relaxed with regard to the general availability of incentives, the time frame to fulfill nationality requirements and divesting, repatriating and remitting capital (Aldaba 1995: 258; Gonzaga 1975c: 16, 1977a; President of the Philippines 1973g: sec. 8). Moreover, the declaration of martial law in 1972 led to greater perceived order and stability—at least initially (Kind 2000: 19). At the same time, the nonpioneer areas of investment cited in the early IPPs which had not been filled by domestic enterprises in the first three years since their declaration as preferred were starting to open up to foreign entrepreneurs in the early 1970s (BOI 1971a: 5).

(Potential) foreign investors were, amongst others, assisted by the *Foreign Investments Assistance Team* of the IED/BOI and the Philippine commercial attachés abroad while those looking to settle in a Philippine EPZ were particularly supported by the EPZA (Paterno 1974a: 15, 1974b: 15; BOI 1972a; The Manila Chronicle 1972; The Times Journal 1972b). In fact, almost 50 percent of the investments made in the 1.301 projects approved by the BOI from 1968 to 1978 came from abroad (NEDA 1979a). Apart from that, in 1978, the exemption of machineries processing finished goods from real estate taxes for the first three years of operation, labor training and organizational and pre-operating expenses deduction from taxable income and further tax credits were added to the list of incentives available to enterprises located in the BEPZ (President of the Philippines 1978g: sec. 4). Towards the late 1970s, further EPZs were established in Baguio in the Province of Benguet and Mactan in the Province of Cebu (IBON Foundation 2005: 57). However, as mentioned above, (foreign) investment rules were continuously adjusted and generally becoming more arbitrary throughout the martial law regime, resulting in insecurities on the part of potential investors and, in turn, low investment (President of the Philippines 1978j: sec. 1; Gonzaga 1976b). Moreover, the restrictions introduced in 1978 regarding the ratio of local debt to equity were not appreciated by foreign enterprises operating in the Philippines (Gonzaga 1977f). At the same time—and in contrast to the *developmental states*—, the Philippine state did not pursue an appropriate technology policy bundling FDI with

the transfer of technology, thereby missing out on accumulating know-how and potentially moving up the global value chain (Felipe and Rhee 2015: 44; NEDA 1976a: 131).

As mentioned above, the majority of FDI in the Philippines throughout the 1970s and 1980s originated from the US. This is not surprising because, as a former colonizer, the US held lasting privileges in the Philippines. The Philippine Trade Act of 1946—more prominently known as the Bell Trade Act—granted parity to American citizens regarding the exploitation of natural resources and operation of public utilities in the Philippines (US Congress 1946: sec. 341). Moreover, the Bell Trade Act provided for tax- and duty-free trade between the Philippines and the US up to 1954 and gradually increasing tariffs thereafter (ibid.: sec. 201–205, 221–224, 311–315, 321–323). However, the export of select products such as coconut oil and sugar from the Philippines to the US was nonetheless restricted by quotas, thereby sheltering the US market from Philippine competition (Celoza 1997: 17; Shalom 1980: 500). In 1955, the Bell Trade Act was replaced with the Laurel-Langley Agreement which, on the one hand, extended the Americans' privileges "to all forms of economic activities in the country" (Aldaba 1995: 244) and, on the other hand, introduced gradually increasing tariffs already in 1956 instead of—as originally provided for in the Bell Trade Act—1974 as well as *reciprocal* parity (Business Month 1968). The still existing restrictions concerning investment repatriation and remittance of profits were eased by the IIA in 1967. The unique position of US investors was reflected in the distinction between US and other foreign entities in incentive overviews published by the BOI and contradicts the alleged economic nationalism pursued by the Marcos regime (BOI 1969, 1973; see also Jimenez 2016). When the Laurel-Langley Agreement expired in 1974, American investors were required to restructure their equity and divest their landholdings, resulting in subsequently declining shares of foreign investments from the US in the Philippines (Gonzaga 1975b: 17, 1976a: 12). Gonzaga (1975b), however, emphasizes related alleviations such as leaseback arrangements at low rents and the permission to maintain ownership of production facilities and equipment which, by far, outweighed the benefits obtained by the Philippines from the landholdings' divestment. Still, both the expiration of the Bell Trade Act and the Laurel-Langley Agreement led to insecurities and, in consequence, lower investments on the part of American investors (Kind 2000: 8; Gonzaga 1975c: 17).

On the whole, from the late 1960s to the late 1970s, the Philippines did not feature a setting particularly conducive to FDI in the same way the *developmental states* did—or at least those of them specifically aiming at attracting FDI. Rather, as shown, Philippine industrial policy

throughout the 1970s were comparatively restrictive with regard to allowing foreign capital into the country, resulting in low levels of foreign investment. Moreover, FDI in the Philippines hardly alleviated the problem of low employment in manufacturing due to the capital intensity of the respective endeavors coupled with weak backward linkages—both caused by the industrial policy provisions at the time. In fact, as Gonzaga (1978a: 51) remarked in 1978, Paterno—Industry Minister at the time—had only recently stated that the Philippine government sees "foreign investments 'only as supplemental' to local investments."

In order to encourage such domestic industrial investments, the *developmental states* set up public banks which promoted savings and extended long-term loans. In the Philippines, the main public institution financing long-term industrial development during the 1970s was the *Development Bank of the Philippines* (DBP) (WB 1973: 11, 1980d: 5, 39, 41; NEDA 1978r). The DBP emerged from the *Rehabilitation Finance Corporation* (RFC) in 1958 as "[t]o provide credit facilities for the rehabilitation and development and expansion of agriculture and industry, the reconstruction of property damaged by war and the broadening and diversification of the national economy, and to promote the establishment of private development banks in provinces and cities" (Republic of the Philippines 1958b). After having primarily refinanced struggling industrial enterprises in the mid-1960s, the focus of the DBP's industrial loans was on agro-industrial and textile endeavors as well as public projects such as transport infrastructure for the rest of the decade (Dähne 1980: 122n; WB 1973: 19). Due to the floating of the peso from 1970 onwards and the resulting difficulties for the DBP itself and its borrowers, very few new loans were extended to the industrial sector in the early 1970s (Dähne 1980: 124n; WB 1973: 11). Moreover, a large part of these new loans were directed at the ailing cement industry sector and other enterprises in need of bailout as well as at the public and metals sectors (Dähne 1980: 125). In the mid-1970s, the public sector and the mining and chemicals and chemical products industry sectors were the DBP loans' major recipients (ibid.: 324). Towards the end of the decade, the industrial loans extended by the DBP mostly went into public utilities, textiles and metals and metal products (WB 1980d: 44). At the same time, loans to the agricultural sector increased again during the first half of the 1970s while the hospitality service sector received large DBP loans particularly from the mid-1970s on (Dähne 1980: 100, 137). A further characteristic of DBP loans during the time frame studied was their concentration on large borrowers which was, amongst others, due to the lack of personnel and appropriate organizational structures (de Dios 1984: 39; Dähne 1980: 131n). In this way, the DBP's loan policies and operations cemented the bias against SMEs already inherent to the Marcos era's

fiscal incentives. Still, the DBP's share of total assets of the Philippine financial system during the 1970s only amounted to around ten percent in the second half of the 1970s while over 90 percent of the loans extended in the Philippines during the decade were issued by commercial banks—and with a short-term focus (Dähne 1980: 82n; WB 1980d: 3, 37n).

In addition to the DBP, the Philippine state controlled the biggest commercial bank of the country at the time, the *Philippine National Bank* (PNB) which had been founded in 1916 and was, according to Tan (1984: 66), "classified as a commercial bank because of its checking account function but […] also operate[d] as a development bank." In so doing, however, the PNB also primarily extended loans to ailing enterprises and the public sector as well as state-owned enterprises while being generously funded by the *Central Bank of the Philippines* (CBP) (Hutchcroft 1993: 174, 186; Tan 1984: 66n; President of the Philippines 1972j, 1972k). The latter also holds true for the DBP—even though funds were also acquired from foreign sources, government equity and deposits and bonds (Dähne 1980: 126; WB 1980d: 5; NEDA 1978g, 1978r; Bulletin Today 1972). In fact, as Hutchcroft (1993: 186) points out, the DBP had "unprecedented access to Central Bank loans and advances, as its borrowing grew nearly sixfold between 1970 and 1980." Especially the CBP's *Consolidated Foreign Borrowing Program* (CFBP)—also called the "jumbo loans" program—of the late 1970s and early 1980s benefited the DBP and the PNB greatly as they together obtained probably three fourths of the funds available under the program (Hutchcroft 1993: 172, 186).

The CBP was founded in 1948 with the goal of ensuring monetary and currency stability and promoting economic development (Republic of the Philippines 1948: sec. 1 and 2). In 1972, the latter function was changed to providing an environment favorable to economic development (President of the Philippines 1972m: sec. 1). Nonetheless, the CBP continued to be able to extend "rediscounts, discounts, loans and advances" in order to "regulate the volume, cost availability and character of bank credit and to provide the banking system with liquid funds in times of need" (Republic of the Philippines 1948: sec. 86 and 87; President of the Philippines 1972m: sec. 45). Due to the Usury Law of 1916, the respective interest rates had not been allowed to surpass 12 percent for secured and 14 percent for nonsecured loans until 1973 when section 1-a of said law was added, granting the CBP the right to adjust these rates "whenever warranted by prevailing economic and social conditions" but not more often than once a year (President of the Philippines 1973b: sec. 2; Government of the Philippines 1916: sec. 2 and 3). From 1976 onwards, the interest rate ceiling was set at 19 percent for loans with a duration of

more than two years (Dähne 1980: 75). Apart from comparatively cheap loans, the CBP offered easy rediscounting particularly towards the late 1970s and for loans extended to exporters of nontraditional products (WB 1980d: 67, 1987b: 174; NEDA 1978e, 1979g: 30n; see also Tan 1984: 53n). Moreover, the Philippine government offered loan guarantees to (small and medium-sized) enterprises of the industrial (export) sector, especially through the *Industrial Guarantee and Loan Fund* (IGLF)—mostly funded by the *World Bank*, in turn—and, supposedly, the *Philippine Foreign Loan Guarantee Corporation* created in 1974 and reorganized into the *Philippine Export and Foreign Loan Guarantee Corporation* (PEFLGC or PhilGuarantee) in 1977 (NEDA 1978l, 1979c: 37, 1979g: 31n, 1979k: 7, 1979r; President of the Philippines 1974d, 1977b). The latter, however, mostly backed Filipino-owned construction enterprises in the Middle East and ended up with largely nonperforming loans (WB 1988: 130). Moreover, a large part of the DBP's industrial engagements were, in fact, foreign loan guarantees (Dähne 1980: 124n).

However, the Manila Times's 1972 headline "Financing: Biggest Problem of [Industrial Development] Program" (Manila Times 1972) held true throughout the 1970s. In particular, risky industrial endeavors did not receive proper funding due to the low interest rates resulting in high loan demand enabling the lending institutions to choose rather secure undertakings (Dähne 1980: 73 drawing on NEC 1971b: 6n). Thus, the preferred and pioneer projects which were, in fact, to obtain preferential treatment according to the IIA—at least if Filipino-owned—and the DBP's internal regulations lacked appropriate financing as they were in need of "venture capital" (Gonzaga 1977b: 48; Dähne 1980: 118; Republic of the Philippines 1967: sec. 10). Yet, most public loans were nonperforming nonetheless which was most likely due to the aforementioned high number of bailouts and political factors rather than economic considerations as decisive in credit allocation (Tan 1984: 62n).

Additionally, the low interest rates translated into few savings, i.e. capital available (Dähne 1980: 73 drawing on NEC 1971b: 6n; Gonzaga 1974; for an overview of deposit rates see WB 1980d: 60, 64). Incidentally, both public social security providers, the *Government Service Insurance System* (GSIS) and the *Social Security System* (SSS), rather focused on housing for its members and financing the hospitality service sector than on financing industrial endeavors during the 1970s (WB 1980d: 5n; Gonzaga 1977b: 48; Manila Times 1972: 14). In this context, Dähne (1980: 317n) cites the high institutional diversification of the Philippine financial system—which was modeled after the Anglo-American banking system with its investment banks and reinforced by the *IMF-CBP Banking Survey Commission of the Philippine Financial System* in 1972—as a further

problem of capital mobilization (WB 1980d: 51n). At the same time, easy rediscounting meant that banks did not have to rely on deposits in the first place because capital was easily available from the DBP which, in turn, bore inflationary tendencies (de Dios 1984: 37; Tan 1984: 76). Moreover, if capital is cheap, firms naturally tend to prefer capital- over labor-intensive production (Gonzaga 1974: 43). In this manner and because collateral was typically more important than the respective endeavor's prospects, development finance in the Philippines during the Marcos era was biased towards large firms, thus reinforcing the similar bias of the fiscal incentives and, by that, contributing to low manufacturing employment (Dähne 1980: 151; WB 1973: 20). High loan demand and large profit margins due to cheap rediscounting also led to a short-term focus on part of the lending institutions resulting in insecurities on part of the borrowers and, consequently, low investment (WB 1973: 19, 1980d: 67, 1987b: 185n). As a result, in 1979, the BOI announced the introduction of financial incentives specifically for BOI-registered enterprises since "fiscal incentives like tax exemptions are not enough to assist firms which are really in need of financing more than anything else" (NEDA 1979f). This reveals that the BOI itself did not regard financial incentives as in place up to that time. Consequently, while the role of public institutions in financing industrial development usually *decreases* in the course of an economy's development, in the Philippines, the state's intervention into the financial market *increased* up to the mid-1980s (Tan 1984: 73).

Generally, throughout the 1970s and beyond, the Philippine banking system lacked regulation and was characterized by "rampant favoritism" (Hutchcroft 1993: 168n; Dähne 1980: 76n). As Tan (1984: 62n) puts it, "non-economic considerations swung loan decisions in favor of very large projects of doubtful economic worth." In this way, credit allocation was indeed "selective" yet not based on economic criteria as in the *developmental states* but rather on personal preferences by the respective decision-makers—Hutchcroft (1993) uses the term "selective squander" in this context. Political influence on credit allocation was naturally secured through government ownership of the respective financing institutions complemented with high-ranking politicians or presidential appointees as members of the boards of the CBP and the DBP (President of the Philippines 1972m: sec. 2; Republic of the Philippines 1946: sec. 14, 1948: sec. 5). In this manner, loans were extended to a variety of different industry sectors rather than focusing on the economically most promising ones as in the *developmental states* (Tan 1984: 54). Instead of fostering sustained and inclusive economic development, the structural characteristics and particular practices of the Philippine financial sector during the Marcos era thus merely led to increased private—and especially foreign—debt (WB 1980d: 32n; see also WB 1973: 10n). This

trend was supported by relaxing the regulations regarding (foreign) borrowing to equity ratios and lowering the respective interest rates (NEDA 1978d; President of the Philippines 1974b: sec. 5; Republic of the Philippines 1967: sec. 10). At the same time, the *public* sector's indebtedness increased severely due to the aforementioned extensive loans to public utility companies and high public investment in transportation—both endeavors actually, in terms of industrial policy instruments, being subsidies potentially supporting the private sector.

Apart from that, the Philippine state actively participated in the economy during the Marcos era through establishing state-owned enterprises (SOEs). Indeed, from 1972 through 1984, the number of SOEs in the Philippines rose from 31 to 94, excluding subsidiaries and bailed out private companies (Briones 1985a: 2 drawing on Briones 1985b; for an overview of rescued companies see IBON Foundation 1983e: 4). Including the latter two, the number of SOEs in the Philippines in the mid-1980s was around 300 (Manasan 1995: 16). These SOEs were active in a wide array of business activities ranging from financial institutions and utilities to coconuts and sugar, textiles, steel and oil and tended to crowd out private entrepreneurs (U 2005: 3; Pante, Jr. and Medalla 1990: 7; IBON Foundation 1981a: 3n, 1985a: 4n; de Dios 1984: 40n; NEDA 1978t; Ortiz 1969). Some of the aforementioned MIPs, for instance, heavily involved public ownership (NEDA 1977b: 65n). While the 1973 Constitution granted the state the right to, "in the interest of national welfare or defense, establish and operate industries and means of transportation and communications, and, upon payment of just compensation, transfer to public ownership utilities and other private enterprises" (1973: art. XIV, sec. 6), obviously, such active participation in the economy went beyond theoretical justifications for state involvement and contradicted the primacy allegedly given to the private sector by the Philippine state for generating economic development (Briones 1985a: 2 drawing on Briones 1985b). In fact, out of the 41 manufacturing enterprises included in his overview of SOEs in the Philippines in 1982, Manasan (1984: 31n) cites the generation of revenue as the sole purpose for six of them while another seven of these firms were set up to both redistribute income and generate revenue. Moreover, Philippine SOEs were operating highly inefficiently at the time with low levels of both productivity and profitability, therefore decisively contributing to the vast (foreign) public debt accumulating in the Philippines up to the mid-1980s (Vos and Yap 1996: 18; Manasan and Buenaventura 1987: 283n; Briones 1985a drawing on Briones 1984; Hooley 1985: 28n). Reasons for such disappointing performances were, amongst others, the conflicting roles of many ministers/secretaries as both supervisor and board member at the same time and a lack of supervision of the SOEs due to their autonomy and organizational structures including

subsidiaries independent from government supervision (Hooley 1985: 29; IBON Foundation 1985a: 2n). In this manner, "instead of becoming instrumentalities for the 'national interest', these public enterprises [could] become mechanisms for the transfer of public wealth to a few private individuals" (Briones 1985a: 2), thereby further consolidating Marcos's government (Vos and Yap 1996: 16; IBON Foundation 1985a: 3). This stands in sharp contrast to, for instance, the South Korean state's strategic involvement in the steel industry sector through the establishment and eventual privatization of POSCO. Moreover, the numerous bailouts of distressed firms indicate the lack of focus on supporting *economically viable* industrial endeavors by the Philippine state and contradict the aforementioned termination of support for ailing industry sectors. At the same time, such direct government participation in the economy stands in sharp contrast to the alleged New Society focus on the private sector in generating economic development.

In light of these developmental industrial policy measures implemented in the late 1960s and throughout the 1970s, the Marcos regime seems to have pursued the export-oriented development strategy described above. These *developmental* incentives were, however, accompanied by *protective* industrial policy instruments largely offsetting them. During the 1960s, both the Tariff and Customs Code of the Philippines of 1957 (TCCP) (Republic Act No. 1937) and the Basic Industries Act of 1961 (BIA) (Republic Act No. 3127) ensured the ongoing protection of the industrialists which had emerged during the 1950s and mostly produced nonessential consumer goods for the domestic market through high tariffs and tax exemptions (Tan 2018[1984]: 53; Dohner and Intal, Jr. 1989: 439; Republic of the Philippines 1957, 1961a; for an overview of effective protection during the 1960s see Baldwin 1975: 103n). Moreover, the Philippine peso was overvalued throughout the decade, further discouraging exports (WB 1973: 15n; for an overview of effective exchange rates see Baldwin 1975: 84n). Hence, together with the trade and exchange rate liberalization which had already begun in the early 1960s, "[i]n the 1960s, the Philippine industrial policy was in a classic 'neither-here-nor-there' situation." (Ofreneo and Habana 1987: 10). While the BIA expired in the late 1960s, the remaining tariffs were adjusted on a rolling basis (Republic of the Philippines 1961a). In 1972, shortly after the declaration of martial law, Presidential Decree No. 34 provided for the implementation—albeit with alterations—of Republic Act No. 6635 which was actually the last Republic Act passed before martial law (Philippines Daily Express 1972; President of the Philippines 1972i; Republic of the Philippines 1972). Aside from the default rate of 10 percent, the new *ad valorem* tariff rates were 20, 30, 50, 70 and 100 percent, thereby decisively simplifying the Philippines' tariff

structure at the time (Tan 2018[1984]: 54; Philippines Daily Express 1972). While the TCCP was slightly changed in 1978 by Presidential Decree No. 1464, the tariff rates themselves did not change until 1981 when the *Tariff Reform Program* (TRP) was launched (Medalla 1988; President of the Philippines 1978h). The effective protection rates (EPRs) which "include both the subsidy to domestic producers from the protection of output and the penalty from the protection of inputs" (Bautista and Tecson 2003: 139) reveal that, throughout the 1970s, the enterprises most protected from foreign competition in the Philippines were those manufacturing nonessential consumer goods for the domestic market (Tan 2018[1984]: 60n, 73n). The increasing number of tariff and tax exemptions on imports of capital equipment and raw materials as laid down in the IIA and EIA further promoted the consumer goods industry sector while discouraging the production of intermediate products (Dohner and Intal, Jr. 1989: 442). Generally, Philippine tariffs—especially on nonessential consumer goods—were much higher than those in Indonesia, Malaysia, Singapore and Thailand and, in terms of EPRs, only Indonesia protected domestic manufacturers more heavily relative to exporters than the Philippines (ibid.: 442n drawing on Findlay and Garnaut 2018[1986]: xix; Bautista 1981: 2n). All in all, the tariff regime of the Philippines during the Marcos era thus discouraged exports and promoted production for the domestic market, thereby not contributing to the government's envisioned increase in exports. The same holds for the exchange rate regime. While, as aforementioned, the Philippine peso floated and subsequently lost value from 1970 on, it was still overvalued due to comparatively high domestic inflation, thereby, once more, facilitating imports and discouraging exports (Bautista 2003: 3n; de Dios 1984: 13n). This was also reflected in the effective exchange rate (EER), i.e. "the number of units of domestic currency actually paid or received per dollar in a given transaction […] includ[ing] the effects of multiple exchange rates, tariffs and export taxes, discriminatory domestic sales taxes, subsidized borrowing rates, and margin deposit requirements" (Dohner and Intal, Jr. 1989: 442) favoring nonessential and semiessential consumer and nonessential producer goods while discouraging the production of essential goods and exports—both traditional and nontraditional—throughout the decade (Senga 1983: 305).

Additionally, a rising number of quantitative restrictions, i.e. nontariff barriers, ensured the protection of firms located in the Philippines and producing for the domestic market during the Marcos era (Bautista and Tecson 2003: 139; Medalla et al. 1995: 101). For one, while more than 60 percent of all consumer goods were subject to such restrictions in 1977—thereby significantly raising the respective EPRs—, for intermediate and capital goods, this was the case

for only around 20 percent of all goods in each category (Dohner and Intal, Jr. 1989: 442n). Similarly to the discretion granted to the President in 1978 to adjust fiscal incentives, from 1978 on, the Philippines' tariff rates could be altered by the President—albeit, this time, at the recommendation of the NEDA (President of the Philippines 1978h: sec. 104; see also Tan 2018[1984]: 52n). Moreover, as mentioned above, the Philippine state could regulate market entry through declaring certain industry sectors as "overcrowded" (Shepherd and Alburo 1986: 47). Incidentally, during the 1970s, these overcrowded industry sectors were those with the highest EPRs, indicating the policy's ineffectiveness in terms of promoting efficiency in production (Tidalgo and Esguerra 1984: 71). All in all, import protection in the Philippines during the Marcos era was thus "relatively high and uneven" (WB 1980b: 5). These substantial protective measures then resulted in low productivity and efficiency—and industrialization on the whole—since international competition had not to be feared (Balisacan and Hill 2003: 26n; Aldaba 1995: 271n; Miranda, Jr. 1994: 2). As de Dios (1984: 15) puts it, such an "incentive structure […] encourages the maximization of activity [including rent-seeking; author's note] rather than of results" (Miranda, Jr. 1994: 11).

To sum up, the industrial policies in the Philippines during the Marcos era were characterized by both developmental and protective measures. While this was also the case in the *developmental states*, in the Philippines, the latter outweighed the former and, additionally, the availment of incentives was neither tied to export nor productivity targets but rather derived from capacity measures, thus resulting in mostly inefficient production for the domestic market (Bautista and Tecson 2003: 169; Dohner and Intal, Jr. 1989: 444n; Bautista 1983: 16). Essentially, the Philippine state did not protect and support promising infant industries but rather sheltered preexisting enterprises serving the domestic market from foreign competition, thereby solidifying the Philippines' oligopolistic industrial structure and related inequality (Aldaba 2012: 3; WB 1993b: 174). Exporters, on the other hand, were essentially "penalized" (Aldaba 1995: 271; de Dios 1984: 10). Thus, it becomes obvious that the Philippine government did not actually pursue an export-oriented strategy as allegedly envisioned and planned (see also de Dios 1984: 10). As Rodriguez (1985: 200) remarks, "the [development] plans did not have meaningful influence on what was done." To make matters worse, both exporters and producers for the domestic market during the Marcos era in the Philippines highly depended on imported inputs, thereby not contributing to employment creation through backward linkages. The additional bias against SMEs through favoring capital-intensive production further added to low employment in manufacturing while, at the same time, once again aggravating inequality.

The incentive structure under Marcos also explains why FDI in the Philippines during the 1970s primarily went into industry sectors serving the domestic market rather than furthering the economy's exports—foreign investors simply took advantage of enduring protectionism. Indeed, the already sparse FDI in the Philippines went into those areas which enjoyed the highest effective protection rate at the time (Aldaba 1995: 267n). As Aldaba (1995: 272) puts it, "FDI in the Philippines was very much influenced by the import-substitution policy" pursued by the state both explicitly and implicitly. Hence, FDI in the Philippines did not decisively contribute to manufacturing employment, exports and efficiency but, rather, MNEs competed against domestic industrial enterprises for the local market (Aldaba 1995: 303n; Ofreneo 1984: 489). In this way, the Philippines' "industrial policy [was] overwhelmingly biased against local industries catering to the domestic market" (Ofreneo 1984: 489)—notwithstanding the aforementioned advantageous position of the Philippine industrialists.

All in all, the investment incentive structure, i.e. the lack of strategic industry policies, in the Philippines during the Marcos era—complemented by the ready availability of foreign loans—then contributes to explaining the Philippines' subpar development performance during the 1970s and subsequent decades. In order to explore the related underlying reasons, a review of the Philippines' government–business relations and (pre)conditions is necessary and conducted in the following two subsections.

3.3. Government–Business Relations in the Philippines

After having elaborated on the Philippines' lack of (economic) development and insufficient strategic industrial policies and related planning during the Marcos era, this subsection now details the underlying government–business relations at the time. In so doing, subsection 3.3.1. elaborates on the public sector, subsection 3.3.2. on the private sector and subsection 3.3.3. on the interactions between the two. Again, the corresponding characteristics of the *developmental states* serve as benchmarks.

3.3.1. The Public Sector

As theorized above, on the public side, the *developmental states* were characterized by the existence of a developmental elite as well as a well-educated and mostly independent—both from the

political elite and the private sector—bureaucracy. In the Philippines throughout the Marcos era, however, the public sector differed decisively from this ideal type.

First of all, the political leadership during the Marcos era was not developmentally oriented but rather in pursuit of its own maximum gain by means of corrupt practices. While Ferdinand E. and his wife Imelda R. Marcos took items worth 15 million USD with them when fleeing into exile in 1986, the entire fortune compiled by Marcos in the course of his presidency is estimated to amount up to 10 billion USD (Davies 2016; for a detailed account see Manapat 2017[1991]). In order to recover this sum, Marcos's successor, Corazon C. Aquino, in her first official act, created the *Presidential Commission on Good Government* (PCGG) which has so far recovered less than half of the alleged amount accumulated and was increasingly questioned by successive governments but is still active to this day (Gavilan 2017; Davies 2016; President of the Philippines 1986). The Marcoses so-called "ill-gotten wealth" stemmed from kickbacks for government contracts—resulting in Marcos being dubbed "Mr. Ten Percent"—as well as direct plunder of public resources by transferring war reparations, international (military) aid and loans and CBP gold into private overseas accounts (Davies 2016; Tiglao 1988: 41). Indeed, it is estimated that around half of all foreign loans received by the Philippines during the Marcos era did not even reach the country in the first place. Moreover, Marcos was directly involved in "private" business by holding equity in a large number of private enterprises through middlemen and his infamous "cronies" (Davies 2016; Mijares 1976: 164n). In this way, the Philippine government personified by Marcos took over entire industry (sub)sectors of the economy such as sugar, coconut, shipping, airlines, textiles, hotels, casinos and the media which were then granted government contracts, exclusive licenses and tax exemptions or government bailout to begin with (Davies 2016; Kushida 2003: 125). Apart from that, the Marcos regime created numerous SOEs primarily in order to gain control over those industry sectors of the economy previously dominated by the "old oligarchy," i.e. Marcos's adversaries, rather than for developmental considerations (Kushida 2003: 125; Celoza 1997: 89n). The fact that a high number of these industry sectors were endowed with monopoly powers further contributed to economic inefficiencies (Kushida 2003: 125). In short, Marcos "channeled all major economic activity through himself" (ibid.: 125n). Imelda R. Marcos played an increasingly important and multiple role in this scenario acting as governor of Metro Manila from 1975, Minister of Human Settlements from 1978 and head of 27 other government offices, thus forming a "conjugal dictatorship" (Mijares 1976) with her husband all the while pursuing her own agenda (Parsa 2000: 49 drawing on Canoy 1984: 221; Wurfel 1988: 240n; Rodriguez 1985: 136n; President of

the Philippines 1978d). By the early 1980s, Imelda R. Marcos oversaw public and private funds amounting to the equivalent of half of the Philippines' entire public budget (Parsa 2000: 49n drawing on Overholt 1986: 1148). In addition to Ferdinand E. and Imelda R. Marcos themselves, their families as well as the cronies greatly benefited from the Marcos presidency. Family members of Ferdinand E. Marcos, for instance, headed the *Medicare Commission* as well as the *Rice and Corn Administration* and acted as governors and representatives of Ilocos Norte, the Marcos family's home province, while Imelda R. Marcos's brother controlled the *Bureau of Customs* (BOC), the *General Auditing Commission* and the *Bureau of Internal Revenue* (BIR) and her sister was in charge of the *Central Bank of the Philippines* (CBP) and the *Department of Agriculture* (DA) (Kuhonta 2017: 143). Such highly interventionist state action did then not only crowd out potential private economic endeavors but also caused direct economic loss including loss of property on the part of the—non-Marcos related—private sector as well as major production inefficiencies (Kushida 2003: 125; Parsa 2000: 78 drawing on Wurfel 1988: 243; Wedeman 1997: 473).

Essentially, from 1965 through 1986, in the Philippines, "governmental functions [were used] to dispense economic privileges to some small factions in the private sector" (de Dios 1984: 10). This stands in sharp contrast to Marcos's alleged vision of letting the private sector take the lead in furthering the economy's development and reducing socioeconomic inequality (Celoza 1997: 90n; Hutchcroft 1993: 185). Rather, Marcos exploited his position as an autonomous ruler by designing and implementing industrial policies through Presidential Decrees and Executive Orders primarily benefiting industry sectors under his own or his cronies' control rather than considering developmental aspects including matters of labor intensity. In this manner, Marcos "liberally violat[ed] the property rights of non-Marcos elite as well the general populace" (Kushida 2003: 126). In short, the Philippine (political) elite exploited martial law to their own benefit (Tiglao 1988: 31). The vastness of the rents extracted during the Marcos era can be explained by Marcos's comparatively limited time horizon due to a lack of organized succession and the fact that, in the Philippine case, the political leader's and his allies' ability to extract did not depend on tax revenues needing taxable income and, thus, economic growth because they had access to the banking system including international loans and the opportunity to directly exploit various agro-industrial business endeavors (Kushida 2003: 125n; Lin and Nugent 1995: 2337).

Marcos gained and sustained such autonomy from and control over other actors—political, economic and societal—in different ways. The judiciary, for instance, was kept at bay by inhibiting legal investigations related to, amongst others, presidential decrees and executive orders, Marcos's power to independently appoint judges to the Supreme Court and inferior courts and, relatedly, the constant threat of removal (Celoza 1997: 82n; Wurfel 1988: 133n; Republic of the Philippines 1973: sec. 4; President of the Philippines 1972b). In consequence, as Celoza (1997: 84) puts it, "[t]o survive, the judiciary bent to presidential authority as did other government branches. In the process, it institutionalized the authoritarian regime." Apart from that, under Marcos, the military took over judicial functions (ibid.: 80). While politicians were also partly substituted with members of the military, more importantly, from 1976 on, meritocracy was disregarded and the entire bureaucracy appointed directly by the president himself who, in turn, was owed a favor (ibid.: 58n, 79, 87n). In this manner, all public officials in the Philippines directly depended on Marcos's grace and received benefits further indebting them to the president (ibid.: 77). Among these benefits were the control over SOEs and even private business conglomerates (ibid.: 88n). Additionally, the Marcos regime maintained autonomy from other societal forces—and also independence from domestic economic development—by means of external financing (Kushida 2003: 124n). Finally, autonomy from and control over the civil society and the non-Marcos elite was gained by sheer (military) force, imprisonment, torture and killings (McCoy 2001). It follows that the work force adhered to the prohibition of labor strikes and assemblies—at least at first (Vos and Yap 1996: 149; Ofreneo and Habana 1987: 13; IBON Foundation 1985b: 4; Datta-Chaudhurri 1981: 68). While, naturally, the declaration of martial law followed by drastically repressive measures granted Marcos tremendous autonomy, it is important to note that he "came to power without any larger institutional framework that might have directed policy toward some public interest" (Kuhonta 2017: 143). Subsequently, instead of building strong institutions like the political elites in the *developmental states*, the Marcos regime methodically destroyed them (Overholt 1986: 1148). Thus, in a nutshell, in the Philippines, the authoritarian government of the 1970s and first half of the 1980s did not utilize its autonomy for the greater public good in the fashion of the developmental elites in the *developmental states* but was *non*developmental instead (see also Johnson 1987: 140). This included a lack of "shelter" provided for the bureaucracy.

Apart from a developmental elite, the Asian *developmental states* accounted with a small and capable bureaucratic elite characterized by separation from the political elite, technical expertise ensured through meritocratic hiring policies and competitive rewards, organization in a pilot

agency and autonomy from private economic interests. The key bureaucratic elite with regard to economic development and its planning under Marcos included Gerardo P. Sicat, Vicente Paterno and Cesar E. A. Virata all of whom held undergraduate degrees from Philippine universities and graduate degrees from US universities as renowned as *Harvard University* and the *Massachusetts Institute of Technology* (MIT) (Tadem 2014: 347n; IBON Foundation 1984: 2). Sicat was the director-general of the NEDA and Secretary of Economic Planning from 1972 until 1981, while Paterno headed the BOI and, from 1974, also the *Department of Industry* (DI)—both until 1979—and Virata served as Finance Secretary during martial law and, from 1981 onwards, as prime minister and as chairman of the *Development Committee* of the IMF and the *World Bank* from 1974 to 1980 (Tadem 2014: 353; WB 1984a: 2). Apart from a few minor intragroup conflicts, these chief technocrats were in favor of strengthening the Philippines' export performance while, at the same time, reducing trade barriers, thus following a similar approach to that of their counterparts in the *developmental states* (Tadem 2014: 354; Paterno 2008; Virata 2007b; NEDA 1978f: 100). However, when these technocrats' views did not coincide with Marcos's, he simply replaced them with technocrats with more conformist positions. Virata, for instance, was replaced with Roberto Ongpin as Minister of Trade and Industry in 1979 due to the latter's intent to strengthen the Philippines' heavy industry sectors which was shared by Marcos but not by the other technocrats (Tadem 2012: 28, 2014: 354). In this context, Tadem (2012: 26) speaks of "two major technocrat factions […] reflecting the division between the politico-economic elite families who were importers and exporters," i.e. one group of technocrats favoring protective industrial policy measures while the one led by Virata was export- and FDI-oriented. In short, "there was no solid technocratic bloc" (Tadem 2014: 375). In contrast to the bureaucratic elites in the *developmental states*, the Philippine technocracy was hence not autonomous from the political elite but rather directly dependent on Marcos regarding both their appointments itself and the implementation of their developmental stance (Budd 2004: 31n). Moreover, Marcos increasingly granted himself the legal authority to single-handedly adjust industrial policy measures such as tariffs while being able to change government structures solely as he saw fit from 1978 on, thereby creating further insecurities on the part of the technocrats (President of the Philippines 1978e). All in all, the technocracy under Marcos thus only played a minor role in industrial policy making and implementation but was rather used by the regime for legitimization through a sound economic development program and ensuring the continuous inflow of foreign loans especially from the IMF and the *World Bank* (Tadem 2012: 27, 2014: 353n).

While the bureaucratic elite under Marcos was well-educated and possessed technical expertise similar to that of their counterparts in the *developmental states*, this was not the case in the lower ranks of the bureaucracy were positions mostly were not filled with the most qualified candidates but rather solely allocated according to personal considerations—especially from 1976 on when all bureaucrats were appointed directly by the president himself (Celoza 1997: 87n; Varela 1996: 55n). Accordingly, the *non*elite bureaucracy during the Marcos era was not autonomous from the political leader either and hiring was not meritocratic. Rather, rewards including career opportunities depended entirely on Marcos's grace who, moreover, significantly enlarged the Philippine bureaucracy in order to secure support for his leadership (Celoza 1997: 76). Indeed, under martial law, the number of government offices grew significantly, so that, from 1976 to 1980, the number of national government employees increased by more than 130 percent from around 220,000 to almost 520,000 while the number of SOE-employees rose by 75 percent from close to 64,000 to more than 110,000 and the number of local government employees grew by around 50 percent from slightly above 96,000 to almost 145,000 (Wurfel 1988: 136; Rodriguez 1985: 133n; IBON Foundation 1983d: 2). Referring to the ruling party at the time of which these bureaucrats were all members, Celoza (1997: 76) notes a lack of ideology "except that of its loyalty to Marcos"—a significant contrast to the *developmental states'* bureaucracies. The example of Marcos—as well as low salaries and particular cultural values—, in turn, induced (petty) corruption among these lower public ranks (Wurfel 1988: 243; Rodriguez 1985: 137; IBON Foundation 1983c: 3, 6n, 1983d: 3n). This included bribes given in return for passing bureaucratic entry exams, rendering entities such as the *Civil Service Commission*, the central public personnel agency under martial law, rather irrelevant (Rodriguez 1985: 138; President of the Philippines 1975d). While anti-corruption laws and enforcement agencies such as the Sandiganbayan—a special court tasked with the prosecution of graft and corruption—existed, corrupt practices were rarely punished (IBON Foundation 1983c: 4n; Republic of the Philippines 1973: sec. 5).

With regard to economic development planning and private sector promotion by means of industrial policy, a number of government agencies were active in the Philippines throughout the Marcos era. Just after the proclamation of martial law in September of 1972, Marcos decreed the reorganization of the executive branch of the Philippine government (President of the Philippines 1972f, 1972e). This included the *National Economic (and) Development Authority* (NEDA)—previously having been referred to as the *National Economic Development Authority*, Presidential Decree No. 107 eventually establishing the NEDA in early 1973 speaks of the

National Economic and *Development Authority* of which the former "shall serve as nucleus" (President of the Philippines 1973a: sec. 4)—, i.e. "[t]he martial law period […] brought about changes in the dynamics in the economic policy-making process" (Tadem 2012: 33; President of the Philippines 1972f, 1973a). In this process, the NEDA was the alleged "super economic body" (Enrile 1972: 4; The Times Journal 1972a: 7) or "economic superbody" (PCI 1973d), merging the *National Economic Council* (NEC), the *Presidential Economic Staff* (PES) and other economic bodies and councils (NEDA 1978v: 235, 1995: 11; Sicat 1974a: 41n). As such, the NEDA's task was to "submit continuing, coordinated and fully integrated social and economic plans and programs" (President of the Philippines 1973a: sec. 2). The NEDA's board was chaired by the president and had eleven other members: the Executive Secretary, the NEDA's director-general, the Secretary of Finance, the Secretary of Agriculture and Natural Resources, the Secretary of Trade and Tourism, the Secretary of Public Works, Transportation and Communications, the Secretary of Labor, the Secretary of Education and Culture, the Governor of the CBP, the Commissioner of the Budget and the BOI's chairman (ibid.: sec. 1). Apart from the board and the technical staff, the NEDA consisted of a number of different committees: the *Investment Coordinating Committee*, the *Development Budget Coordinating Committee*, the *Committee on ASEAN Economic Cooperation*, the *Cabinet Committee on Integrated Area Development Projects*, the *Committee on Major National Projects* and, later on, the *Committee on Social Development*, the *Committee on Trade, Tariff and Related Matters*, the *Committee on Infrastructure* and the *Committee on Statistical Development* (NEDA 1977a, 1978v: 233; President of the Philippines 1977a). Similarly to the NEDA's board, these committees were of an inter-agency nature, i.e. convening members of different government offices—typically the head of the respective agency (President of the Philippines 1973a, 1977a). As Enrile (1972: 4) points out, the NEDA was to "be composed of members without large substantial business interests in order to prevent undue influence from any sector."

Apart from the NEDA, the *Board of Investments* (BOI) was a major player in Philippine industrial policy making throughout the Marcos era. The BOI was created by the Investment Incentives Act (IIA) in 1967 and consisted of five full-time members who were nominated by private sector and labor organizations and, upon approval by the *Commission on Appointments* (CA), appointed by Marcos—who could also appoint qualified candidates not previously nominated, however (Republic of the Philippines 1967: sec. 13). The BOI's members had to be "of recognized competence in the field of economics, finance, banking, commerce, industry, agriculture, engineering, management, law or labor, such competence to be certified by the association

making the nomination or by the association whose members belong to the same profession, calling or occupation as the person appointed" (ibid.: sec. 14). Moreover, with the intent to avoid collusion, the BOI's members were neither allowed to run for any political position while in office and during the four years following their incumbency nor have financial interests in any company registered with the BOI while in office and for the following seven years unless such interests emanated from inheritance (ibid.). In 1973, these anti-collusion provisions were removed from the law, at the same time explicitly introducing the possibility for BOI members to head state-owned enterprises (SOEs) (President of the Philippines 1973g: sec. 4 and 5). However, while the powers and duties of the BOI included defining the "measured capacities" in the respective industry sectors, in 1979, the NEDA stated that the BOI had been rather "passive" until that time merely regulating through incentive setting instead of providing financial support to the private sector (NEDA 1979f; President of the Philippines 1973g: sec. 6; Republic of the Philippines 1967: sec. 16 and 18). While the BOI, administratively, was first under the Office of the President and, subsequently, under the NEDA, from 1974 on, it was attached to the newly-created *Department of Industry* (DI) also headed by Paterno (President of the Philippines 1974c: sec. 8; Republic of the Philippines 1967: sec. 13).

Indeed, in the course of reorganizing the executive branch of government, the *Department of Commerce and Industry* (DCI) which had been created in 1947 was split into the *Department of Industry* (DI) and the *Department of Trade* (DT)—the latter at first being the *Department of Trade and Tourism* (DTT) (President of the Philippines 1947: sec. 133, 1973c). According to the respective presidential decree, the DI was thought to be

> "the primary policy, planning, programming, coordinating, implementing and administrative entity of the executive branch of the government in the development, expansion, diversification of industry, in pursuance of the following objectives: a. Guide the development and operation of industry along directions of most contributory to the national goals as domestic and international conditions make appropriate and as defined from time to time by the President and/or the National Economic and Development Authority; b. Improve linkages and inter-relationships of industry with the development of the country's agriculture, natural resources, public services, and infrastructure, and reinforce and enhance the contribution of these sectors, conjunctively with industry, to the national progress and welfare; c. Identi[f]y the needs, encourage and assist the achievement of national self-sufficiency, without undue burdens to the end-consumers, in essential industrial products, in accordance with the philosophy of the self-reliance; d. Improve the ownership structure of industry to promoting broader ownership of large-scale industrial enterprises, accelerate the formation and growth of small-scale and medium-scale industrial enterprises, and encourage and promote the dispersal of industry throughout the country; and e. Develop the capabilities of industry to increase the domestic content of its products, to upgrade the quality of products according to competitive international standards to reduce costs of production, particularly those involving foreign exchange, and in coordination with the Department of Trade, to export manufacturers to the international and regional markets" (President of the Philippines 1974c: sec. 1).

While the DI's objectives included upgrading, potentially beneficial technology transfers from abroad were not managed by any government agency but rather "undertaken by line agencies on a piecemeal basis" (NEDA 1976a: 131) which implies that also the DT was not concerned with the transfer of foreign technology. Indeed, the DT was

> "responsible for the promotion, development, expansion, regulation and control of foreign and domestic trade and in pursuance of this responsibility shall be empowered and authorized to issue such rules and regulations and adopt such measures as to: (a) consolidate and/or coordinate all functions and efforts in particular and development of foreign trade in general; (b) maintain reasonable allocation/distribution as between domestic and export market through export retention, export allocation, export subsidy, pricing, export ban and other schemes and measures to ensure price stability and supply availabilities of essential commodities in the local market; (c) regulate the import of essential consumers and producers' items a view to enhancing availability at fair and competitive prices to end-users; and (d) promote and regulate domestic trade, marketing and distribution to ensure the rational, economic and steady flow of commodities from producing and/or marketing centers to areas in short-supply through the support of centralized buying operations, terminal markets and large scale and economical distribution systems organized by the public or private sector" (President of the Philippines 1975c: sec. 1).

In 1979, the now *"Ministry" of Trade* (MT) was "constituted as the principal governmental instrumentality for policymaking, planning programming, implementation, and inter-agency coordination for all domestic and foreign trade matters and activities," yet having to base its actions "on approved national development plans, priorities and guidelines" (President of the Philippines 1979b: sec. 2 and 4(a)). Eventually, in 1981, the *Ministry of Industry* (MI) and the MT were merged into the *Ministry of Trade and Industry* (MTI) (President of the Philippines 1981a: sec. 1).

Other important players in shaping economic development in the Philippines throughout the Marcos era were the *Development Bank of the Philippines* (DBP), the *Department of Finance* (DOF), the CBP and the *Export Processing Zone Authority* (EPZA). However, coordinating the different government agencies involved in the development planning process proved difficult. For one, this was due to the sheer number of involved agencies—around 230 in 1976 (NEDA 1978v: 237). Moreover, their competencies were oftentimes conflicting as can be seen from the just quoted legal provisions declaring different agencies as leading the planning process. Indeed, while the NEDA as the alleged pilot agency issued planning guidelines attempting to streamline the planning process and coordinate the different government agencies involved, even the NEDA's director-general himself remarked in the late 1970s that the NEDA was only part of the government's "planning machinery" (Sicat 1979) and that the planning process still had to be optimized as to ensure coordination and avoid duplication—an undertaking the NEDA had already been pursuing for "four or five years" at the time (NEDA 1976b). Moreover, in 1976,

the NEDA (1976a: 130) noted that "it might be worthwhile for NEDA to explore the possibility of creating a permanent inter-agency committee within NEDA that will concern itself with the totality of broad economic policies affecting the private sector" and "should complement rather than run counter to the operation of the Department of Industry." Apart from these difficulties, from 1978 on, the *Ministry of Human Settlements* (MHS) headed by Imelda R. Marcos further undermined the NEDA (Bronger 1979: 109n; President of the Philippines 1978d). Both the NEDA's self-perception and actual role thus stood in sharp contrast to the respective characteristics of the lead economic (planning) agencies in the *developmental states*. Meanwhile and contradictorily, Marcos (1978: 27) declared that "we have rationalized and strengthened our planning machinery in order to harmonize and coordinate the work of all agencies involved in development efforts, as well as to make individual activities mutually reinforcing at all levels of implementation."

As discussed above, the Philippine (elite) bureaucracy was not autonomous from the political elite. The same is true when it comes to the bureaucracy's (relative) autonomy from particularistic private interests. While the declaration of martial law freed the technocrats from having to obtain the Philippine Congress's approval regarding their developmental measures and could, in theory, impose strict measures on the private sector, the technocrats were not independent from Marcos's cronies who largely controlled the private sector since Marcos clearly dominated the bureaucracy and his support to selected private economic interests thus ensured them independence from this bureaucracy (Ofreneo and Habana 1987: 11; Paterno 1973b: 9). In this manner, the Philippine government—unlike the *developmental states'* governments—did not shelter the bureaucracy from particularistic private interests. However, at the same time, the technocrats tolerated the cronies' dominance particularly in the coconut and sugar subsectors because their close relations to the state granted the state a somewhat supervisory function which the technocrats deemed necessary due to these subsectors' national importance (Tadem 2012: 28).

All in all, the public side of government–business relations in the Philippines during the Marcos era thus decisively differed from the public sectors in the *developmental states*. For one, the Philippine elite was not committed to (industrial) development but rather took advantage of their privileged position and amassed massive private wealth. Moreover, the Philippine state at the time was characterized by a dichotomy between the political leadership and the technocracy with the former clearly dominating the latter, thereby contrasting the small and capable elite

bureaucracies working conjointly yet mostly independently from the developmental elite in the *developmental states*. Additionally, in the Philippines, the technocracy itself was split into two factions, reflecting the dichotomy between different private sector factions. And while the Philippine elite bureaucrats had been educated at renowned US universities, the rest of the bureaucracy mainly consisted of less qualified political appointees imitating the political leadership in pursuing their own interests through corruptive practices. Apart from that, unlike in the *developmental states*, the Philippines' developmental efforts were not coordinated by a powerful pilot agency but instead influenced by a number of different government agencies with partly overlapping competencies. Finally, the Philippine bureaucracy under Marcos did not enjoy relative autonomy from particularistic private interests in the fashion of their counterparts in the *developmental states* due to the political leadership's dominance over the bureaucracy and its close relations with selected private interests.

3.3.2. The Private Sector

Facing this state was a private sector characterized by high concentration and a lack of organization and unity, thereby contrasting the respective private sector of the *developmental states*.

In 1983, for instance, the average seller concentration in the Philippines' industrial sector was as high as 70 percent, meaning that, on average, 70 percent of the respective industry-sector output was produced by the four biggest enterprises in that area (Hill 2003: 237). In food processing—in turn responsible for a large share of manufacturing output—, seller concentration was up to over 80 percent in 1983 (ibid.). Manufacturing in the Philippines during the Marcos era was thus mainly carried out by large enterprises, reflecting the capital intensity of manufacturing production (Vos and Yap 1996: 28). Indeed, in 1978, manufacturing companies with 10 to 99 employees accounted for 83 percent of all firms with over 10 employees but only for 22 percent of employment and 15 percent of value added while manufacturing companies with 200 and more employees accounted for 10 percent of all firms with over 10 employees but for almost 70 percent of employment and 74 percent of value added (Hill 2003: 240). By 1983, the latter even accounted for 13 percent of all manufacturing companies, over 70 percent of employment and over 80 percent of value added, while the small companies' shares had declined to under 80, under 20 and slightly above ten percent, respectively (ibid.). These shares indicate a "missing middle," i.e. a lack of medium-sized

companies, in the Philippines during the 1970s and early 1980s (Hill 2003: 242; Vos and Yap 1996: 28; WB 1993b: 182n).

Moreover, Philippine manufacturing was—and is—dominated by large family-run business groups, resulting in "seller concentration data considerably understat[ing] the effective degree of market power in much of Philippine manufacturing" (Hill 2003: 238). Indeed, in the late 1970s, the Philippine economy was controlled by around 80 families (Doherty 1982: 25). In 1996, the 15 top Philippine families controlled 55.1 percent of market capitalization which was equivalent to 46.7 percent of the Philippine GDP that year—at the same time, however, in the Philippines, most companies are privately owned rather than publicly listed or at least privately controlled even if (partly) publicly listed (Kondo 2014: 174n; Claessens et al. 2000: 108). The largest Philippine conglomerate—held by the Ayala family—controlled 17.1 percent of market capitalization in 1996 (Claessens et al. 2000: 95, 108). In 1976, the *Ayala Corporation* was active in banking and finance—the *Bank of the Philippine Islands* (BPI) belongs to the conglomerate—as well as manufacturing and commerce, agriculture, hospitality and real estate (Batalla 1999: 25; Doherty 1982: 14n). During martial law, the Ayala family belonged to the few families without close ties to the Marcos regime whose fortune thus did not increase at a rate similar to the fortunes of the families of Marcos's cronies (Batalla 1999: 39; Doherty 1982: 30). In fact, the Ayala family did not have to rely on political favors in pursuing their various business endeavors due to, amongst others, the vastness of their own resources, thereby cementing Hutchcroft's (1998: 12) observation that, in the Philippines, the private sector largely has its "economic base outside the state" (Batalla 1999: 40n; see also Kondo 2014: 175). At the same time, however, the cronies' families succeeded economically precisely due to their closeness to Marcos (Hutchcroft 1998: 12; Doherty 1982: 30). On the whole, Philippine business groups during the Marcos era differed decisively from Japan's *keiretsus* and South Korea's *chaebols* with regard to capability and productivity as well as developmental commitment. For one, the banks belonging to the respective conglomerates in the Philippines tended to be small in size and lacking ample intrafamily managerial expertise (WB 1980d: iii, 8). Apart from that, in contrast to their equivalents in the *developmental states*, the Philippine business groups during the Marcos era did not succeed in establishing in-house trading houses facilitating the expansion of exports (Ofreneo and Habana 1987: 135; see also Datta-Chaudhurri 1981: 74). Generally, the focus of Philippine conglomerates run by the country's oligarchy was not so much on productivity in general and manufacturing in particular but rather on speculating and real estate projects (Budd 2004: 3). In this manner, "the Filipino elites expend[ed] more resources appropriating wealth

rather than actually producing it" (ibid.: 4). Moreover, in the Philippine case, the extremely diversified nature of business groups reflects their risk aversion resulting in rent-seeking activities in order to obtain a share of the domestic market rather than seeking export opportunities (Kondo 2014: 187). Relatedly, the family-centeredness of the Philippine business groups and their general reliance on personal relationships may have limited their opportunities to expand both into foreign markets and new and potentially profitable and productive industry sectors outside of their current scope (Bardhan 2005a: 514). Additionally, instead of cooperating and, by that, potentially fostering productive and innovative industrial development, the different business groups competed against each other in the aforementioned highly concentrated industry sectors—the exception being the pursuit of rents and evasion of risks (Kondo 2014: 182, 187). In short, the Philippines' private sector during the Marcos era lacked unity and did not show developmental commitment comparable to their counterparts in the *developmental states*. This was due to the fact that the major private companies in the Philippines derived their principal wealth from land holdings, agriculture and real estate, thus not "needing" economic development (Budd 2004: 3). Yet, at the same time, most of the families dominating the Philippine economy "rel[ied] heavily on their access to the political machinery to promote private accumulation" (Hutchcroft 1993: 168), i.e. they *did* "need" the state to further increase their fortunes through successful rent-seeking.

In terms of institutional organization, the Philippine private sector during the Marcos era was divided into two factions: the industrialists who had emerged under the import substitution regime of the 1950s were primarily organized in the *Chamber of Commerce of the Philippines* (CCP) while newly emerging companies did so in the *Philippine Chamber of Industries* (PCI). The CCP was founded in 1903 by 22 businessmen as a "truly nationalistic institution" (CCP 1973: 18n). By 1973, the CCP had more than 2,000 members (ibid.: 24). As such, the CCP opposed restrictive government policies including policies restricting private sector access to credit and generally strived for "[g]reater involvement in governmental affairs and militant expression of the views of Philippine business in legislation, policy formulation and implementation" (CCP 1971a: 22, 1971e, 1973: 19, 22). In particular, the CCP called for "a national planning body, free from the fetters of politics" and "composed of representatives of the government and private sectors and […] charged with the duty of planning and coordinating the economic and social development of the country" (CCP 1971d: 2). Apart from that, the CCP was against free trade with the US and, instead, lobbied for the replacement of consumer products imported from the US with domestically produced ones (CCP 1973: 19). For this purpose, the CCP supported the

"Buy Pilipino Decade" announced by the government in 1970 (Balatbat 1971; CCP 1971b). Moreover, the CCP wanted the government to reward increases in *productivity* and not only in *sheer output* (CCP 1971d: 2). Relatedly, the CCP was in favor of—and actively participating in—the promotion of SMEs (Elizalde 1975: 154n; CCP 1971c, 1973: 24, 1974a: 16; Puyat 1973). At the same time, the CCP advocated increased exports, particularly to economies with which the Philippines had had no trade relations so far (Elizalde 1975: 154; CCP 1971a, 1971c, 1973: 22n, 1974a: 4, 1974c; Clavecilla 1973a, 1973c: 10; Arambulo, Jr. 1972). For this purpose, the CCP established the *Export Promotion Bureau* (EPB) (Enrile 1972: 19; CCP 1971c). FDI was welcomed by the CCP in nonstrategic industry sectors when deemed necessary, yet foreign loans preferred—albeit only if "utilized exclusively for truly productive endeavors" (CCP 1971d: 3; del Rosario 1972: 8). The CCP's stance on economic development was reflected in the articles published in its journal *Commerce: The Voice of Philippine Business*.

In addition to the CCP, from 1934 on, particularly the *National Economic Protectionism Association* (NEPA) lobbied for the protection of the Philippine domestic market, for instance by spearheading the "Buy Pilipino" movement (Balatbat 1971: 4). All of its founding members were CCP members aiming at "foster[ing] the spirit of economic nationalism among Filipinos" (Abadilla 1971: 23; Gonzalez 1968: 120). For this purpose, May 1968 to April 1969 was declared as "NEPA Year" during which "the NEPA [was] authorized to initiate and carry out projects for the promotion of economic development, particularly through the patronage of Philippine-made products" (Gonzalez 1968: 120). As such, the NEPA principally consisted of those Philippine industrialists who had emerged during the import substitution regime of the 1950s and were now eager to maintain protection in their favor (Tadem 2012: 26). While these industrialists, in turn, were composed of landed, nonlanded and Chinese-Filipino entrepreneurs, the former "who […] at the same time engaged in the export of agricultural commodities and mineral resources" (Rivera 1994: 23) clearly dominated the segment. The diversification of this landed elite into manufacturing had been made possible by their ability to invest their agricultural and mineral earnings in manufacturing endeavors, i.e. their independence from external financing (ibid.: 26). In this context, O'Connor (1990: 187n cited in Rivera 1994: 15n) speaks of the "feudalization of industry." The industrialists' subsequent ability to influence political decision making, thereby prolonging their privileges, then marks a further path-dependent step, indicating institutional inertia. In this manner, the Philippine industrialists rather needed "political skill" than "entrepreneurial efficiency" in order to succeed economically which, once again, emphasizes their manufacturing unproductiveness (Anonymous 1974: 41).

In any case, the NEPA was afflicted with internal conflict stemming from differences between its bigger and its smaller members, the former being in favor of and the latter opposing foreign capital participation in Philippine enterprises (Rivera 1994: 8).

The other main business association in the Philippines during the Marcos era was the *Philippine Chamber of Industries* (PCI). The PCI was founded in 1950 by renaming the already 200 member-strong association *Small Industries and Machine Shop Owners of the Philippines* (SIMSOP) (PCCI 2016). As such, the PCI sought "to foster the interests of manufacturers on a collective endeavor" and to breed "a new entrepreneur class ready to take huge risks investing huge capital in new industries" (Martinez 1975: 12). In so doing, the PCI advocated the protection of infant industry sectors including the promotion of Filipino-made products and the prevention of smuggling as well as the expansion of nontraditional exports and support of SMEs (PCCI 2016; Guevara 1977; PCI 1977c: 8; Boncan 1975a; Villavicencio 1974a: 9, 20; Abello 1973c: 6n; PCI 1972a: 4, 1973c; Villavicencio 1973; Francia, Jr. 1970a: 7, 1970b: 16n; Guingona, Jr. 1970). With regard to foreign capital, the PCI maintained that FDI was "welcome […] in specific areas where Filipinos [were] not yet capable or unwilling to go into because of high financial and technological requirements but under certain guidelines and conditions" and that "Filipinos should be the chief determinants of their economic destiny" (PCI 1972d: 44). The PCI's stance on economic development was reflected in the journal published by the PCI, *Industrial Philippines*.

Basically, the CCP and the PCI reflected the dichotomy between the different technocrat factions as well as the DI and the DT. Indeed, while linkages and cross-directorates and -memberships between the two associations existed, conflict prevailed (Tadem 2012: 26; Doherty 1982: 7n; PCI 1970b, 1975a; Abello 1973b). For instance, when the CCP sought a name change to "*Chamber of Commerce and Industry of the Philippines*" in order to "make [the CCP] truly representative of its composite membership" (CCP 1973: 18) in 1973, the PCI's president at the time, Emilio Abello, reacted by stating that the PCI "believe[s] strongly that the PCI and the CCP have distinct and specific roles to play in the development of our economy and that there are indeed many areas of conflicts between commerce and industry" (Abello 1973b). In particular, Abello (1973b) accused the CCP of merely "distributing" instead of "producing" as, according to him, done by the PCI. However, this allegation somewhat contradicts particularly the NEPA's above mentioned pursuit of protection since protection needs production. Hence, it may be concluded that the chambers' agendas were not actually that different from each other or, rather, that each of them in itself represented conflicting interests. In fact, in 1972, the PCI

itself called for greater private sector unity and, in 1974, the PCI president at the time called for closer cooperation with other business organizations (Villavicencio 1974a: 8; PCI 1972e: 35).

The existence of two large business associations in the Philippines during the Marcos era as well as intraassociation controversies clearly indicate the private sector's lack of both organization and unity. In Virata's words:

> "And then, there were the conflicts between the *Chamber of Commerce of the Philippines* (CCP) and the *Philippine Chamber of Industr[ies]* (PCI). That was the reason why we forced them to merge so that they could sort out their problems or issues, before government could take action. It was very difficult to be caught in the middle of two warring factions, you would get shot." (Virata 2008, italics added)

Indeed, in 1978, the CCP and the PCI were forced to merge into the *Philippine Chamber of Commerce and Industry* (PCCI) "as the sole official representative and voice of the entire private business community" because "the fragmented state of the private business sector of the country tends to disunity and unhealthy rivalry among them to the prejudice not only of the private sector but of the national interest as well" (President of the Philippines 1978b). While such government action might indicate support and strengthening of business associations in the fashion of the *developmental states*, Lucas (1997: 74 drawing on Doner 1991: 242n) notes that, rather, "Marcos is alleged to have purposely emasculated business associations in order to bolster a network of corrupt clientelistic networks." This indeed stands in sharp contrast to the *developmental states* purposely supporting and strengthening and even staffing business associations. In fact, in the Philippines, government officials sat on the board of trustees of the *Confederation of Philippine Exporters, Inc.* (COPE) which had 25 members out of which 11 belonged to the public sector while only 14 actually represented the private sector (President of the Philippines 1975b: sec. 3 and 4). Only in 1976, in the course of recognizing that the private sector should organize as to enable more effective relations with the public sector, the NEDA (1976a: 130) considered issuing recommendations by the state for the creation of business associations. At the same time, the PCCI (2016) itself recalls the merger process as initiated by the two chambers themselves after acknowledging overlapping responsibilities and cross-membership. While the creation of a *Confederation of Economic Organizations* spanning the CCP, the PCI, the COPE, the *Philippine Contractors Association*, the *Bankers Association of the Philippines* and the *Chamber of Agriculture and Natural Resources* was initiated in 1975 and, later on, the CCP preferred a federation over a unified chamber, from the government's point of view, maintaining both chambers under the umbrella of a federation was not going to effectively unify the private sector's voice—the merger followed (PCCI 2016; Roldan 2000a: 1n; PCI 1975a).

In addition to the CCP and the PCI, Philippine business or rather Philippine *exporters* during the Marcos era were organized in the *Confederation of Philippine Exporters, Inc.* (COPE) created in 1973 and the *Philippine Exporters Foundation* (PHILEXPORT Foundation) created in 1984 (Roldan 2000b; WB 1987b: 194; President of the Philippines 1984; NEDA 1979c: 38). The former was "the only voluntary organization in the Philippines which integrate[d] the private sector into a single corporate body in order to perform the vital function of assisting the Government in the development, promotion and expansion of the country's export trade" (President of the Philippines 1975b) and, therefore, by law, granted significant government support. However, in 1987, the *World Bank* (1987b: 194) noted that "their [COPE's and PHILEXPORT Foundation's; author's note] collective efforts for product development and overseas marketing do not appear to be well organized and significant." Apart from the CCP, the PCI and the exporters' organizations, in 1954, the Filipino-Chinese business community of the Philippines founded the *Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc.* (FFCCCII) (FFCCCII 2018). In fact, Filipino-Chinese entrepreneurs played a major role in the Philippines throughout the Marcos era. In 1981, for instance, 14 of the 33 commercial banks operating in the Philippines had significant shares of Chinese capital and, out of the largest 140 manufacturing companies in the Philippines in 1980, 47 were owned by Filipino citizens with Chinese descent (IBON Foundation 1983a: 5; Hicks and Redding 1982: 205; see also Yoshihara 1985: 37n). In this way, Filipino-Chinese entrepreneurs controlled around 50 percent of the food and beverages and textile and garments industry sectors and 25 percent of the electrical machinery appliances and supplies industry sector in 1980 (Hicks and Redding 1982: 206). Relatedly, some of the aforementioned business groups are run by Filipino-Chinese families (Yan 2014: 416n; Rivera 2003: 93n; IBON Foundation 1983a: 8). Alongside these business groups and associations and partly overlapping with them, the private sector in the Philippines during the Marcos era was dominated by Marcos's cronies. The principal cronies, Eduardo M. Cojuangco and Roberto S. Benedicto, did not only control the coconut and sugar industry subsectors but nine and eleven companies, respectively (Parsa 2000: 78; Tiglao 1988: 43n). Apart from that, "seven banks […] ended up in the hands of Marcos associates" (Hutchcroft 1993: 186).

All in all, the private sector during the Marcos era in the Philippines was characterized by high concentration and fragmentation. Indeed, diverging particularistic interests were pursued by rivaling business groups and associations, old industrialists and newly emerging exporters. In a way, the private sector thus reflected the dichotomies in the public sector. Therefore, Virata (2007b) concluded: "No, you [could not] adopt what was done in Japan, in Korea, or maybe in

Taiwan, where the government assigned groups to develop shipping, heavy industries, steel, chemicals, and automotives." It follows that the interactions between the public and the private sector were ineffective in the Philippines during the Marcos era.

3.3.3. Interactions between the Public and the Private Sector

In contrast to the Asian *developmental states* in which the state closely cooperated with the private sector in designing and implementing strategic industrial policies while, at the same time, keeping sufficient autonomy for being able to discipline the private sector, in the Philippines during the Marcos era, the interactions between the public and the private sector were rather insufficient in this regard and, at the same time, selectively collusive.

Both the Investment Incentives Act of 1967 (IIA) and the Export Incentives Act of 1970 (EIA) were pushed by the technocrats together with the Senate and the House of Representatives, thereby seemingly not including the private sector in their development (Tadem 2012: 26). And while the BOI's board, which was in charge of the related Investment Priorities Plans (IPPs) and Export Priorities Plans (EPPs), did include members with private sector expertise, these were not active entrepreneurs—at least not pre-martial law and in BOI-registered enterprises, i.e. those in strategic industry sectors—and hence did not represent the pertinent private sector segment but rather took on an advisory role. The concept of "measured capacity," however, as included in the IIA, was introduced by the PCI (Virata 2007a, 2007b). In fact, the PCI even suggested ongoing private financial contributions to the BOI's budget in order to "less[en] political pressure" (PCI 1970a: 20) on the BOI and organized meetings between the private and the public sector as to "foster a two-way communication" (ibid.: 18). Better cooperation between the public and the private sector was also demanded by the National Economic Protectionism Association (NEPA) which suspected "that the proper government bureaus or offices are not thoroughly familiar with the NEPA objectives, much less its projects" (Guevara 1972: 22).

The first two development plans during the Marcos era, i.e. the *Four-Year Economic Program for the Philippines, Fiscal Years 1967–1970* and the *Five-Year Development Program for the Philippines, Fiscal Years 1970–1974* were conjointly prepared by the *National Economic Council* (NEC) and the *Presidential Economic Staff* (PES). The NEC, when created in 1935, consisted of not more than 15 presidential appointees approved by the *Commission on Appointments* (CA) of the National

Assembly while, in 1971, Power and Sicat (1971: 73) noted that it was composed of members of the Senate and the House of Representatives as well as presidential appointees and chaired by a presidential designee (Commonwealth of the Philippines 1935: sec. 1). While it remains unclear in how far the NEC's members were active in the private sector, it can be safely assumed that the NEC was predominantly a government agency in the true sense of the term—not least because it was one of the predecessors of the NEDA. This also applies to the PES which was the successor of the *Program* Implementation *Agency* (PIA, italics added) and, as such, rather involved in policy implementation than in design (Power and Sicat 1971: 74; Santiago 1969: 33). The *Four-Year Development Plan for the Philippines, Fiscal Years 1971–1974* plan was then prepared by an *Inter-Agency Committee* consisting of representatives of, amongst others, the *Department of Finance* (DOF), the *Department of Agriculture and Natural Resources*, the CBP, the NEC and the PES and published by the NEC (NEC 1970b). The industrial subplan was prepared by three members of the BOI, two members of the PES, one member of the NEC and one member of the DBP (ibid.). It is, however, not clear if the three BOI members participating in the planning process belonged to the public or the private sector and, as just mentioned, the same holds for the NEC while it seems more likely that the *one* NEC member partaking in industrial development planning belonged to the public rather than the private sector.

As mentioned above, under martial law, the NEDA was responsible for the preparation of the Philippines' development plans. The presidential decree creating the NEDA clearly stated that the private sector had to be included in the planning process: "The Authority, *after consultation with the private sector*, local government units and other appropriate public agencies, shall submit continuing, coordinated and fully integrated social and economic plans and programs." (President of the Philippines 1973a: sec. 2, italics added). In this context, Jayme (1972: 4n), the PCI president at the time, remarked that "the government, with the formation of the NEDA, has opened the channels of effective communication [and] [i]t is now up to us in the private sector to make use of these channels" while Paterno (1973a: 9) emphasized the need for institutionalization. It was concurred that confidence and trust of the private sector in the government was needed in order to make such communication effective as well as private sector organization and familiarity with the presidential decrees and executive orders in effect on the part of the private sector (Lanuza 1973: 22n). Particularly referring to the former, the BOI governor at the time stated that "[t]here is no problem that cannot be discussed in a dialogue between government and industry" (ibid.: 23). All the while, Marcos himself claimed to value and *already include* the viewpoints of private business in the Philippines' economic planning

process (PCCI 2016). This view was, in fact, shared by the PCI which claimed the establishment of "sincere and meaningful dialogues" (PCI 1973a: 9) with a number of government agencies including the NEDA, the BOI, the DI and the DT in 1973 and maintained that "[t]he NEDA institutionalizes through its Industry Committees the link between the government sector and the private sector, in order to make economic plans more responsive and relevant to the various needs of the private sector" (PCI 1972e: 35). However, the actual involvement of the private sector in the design and implementation of industrial policies during the early martial law years remains questionable. For instance, in the early 1970s, the CCP and the PCI jointly sought a tariff reform but were mostly neglected by the government—by eventually not holding further consultations with and disregarding previous suggestions by the PCI (PCI 1970d, 1970e, 1972b: 33, 1972e: 23). Transferring the responsibility for the respective private sector consultations to the Tariff Commission shortly before the second round of meetings, the NEDA additionally "confused the members [of the PCI; author's note] as to which government agency they have to present their tariff petitions" (PCI 1973b: 24).

Also the *Four-Year Development Plan, Fiscal Years 1974–1977* was officially still prepared by planning and implementing government agencies alone while being supposed to merely "provide indicative guidelines for business plans and decisions" (NEDA 1973: v) for private entrepreneurs. This limited role—and focus on matters of implementation—of the private sector is also apparent from the documentation of a 3-day CCP-seminar during which the private sector was informed about the content of the development plan and possible fields of private sector participation in its implementation (Ordoño 1974: 7). In the course of the seminar, the CCP further requested greater participation in policy design especially in categories most relevant to business such as investments or trade (ibid.: 8). With regard to the contents of the *Four-Year Development Plan, Fiscal Years 1974–1977*, the PCI criticized that the capital goods industry sector was left out of the plan, thereby ignoring its importance for genuine industrial development, and demanded a dialogue rectifying this neglect (PCI 1975d).

In general, throughout the following years, more participation in the development planning process was demanded by the private sector. The PCI, for instance, intended to extend its relations with the public sector beyond its cooperation with the DI including "the filling-up of vacant positions intended for the private sector in the higher economic planning offices of the government" (Villavicencio 1974a: 8). In this manner, the PCI sought to "continue pressing for the consideration of the positions taken by the Chamber on economic policies, and the adoption

of specific measures to encourage industry to accept and live up to its role in the national development program" (ibid.: 8n). By 1977, the PCI demanded the setting of nontraditional export targets for each industry sector and subsequent tax rewards for those enterprises reaching or exceeding the respective target and, in case of approval of this request, offered its participation in preparing the industry sector-specific plans (PCI 1977b). Moreover, the PCI requested monthly meetings with the Philippine president (Mañalac 1977). There is no indication, however, that either of these proposals pushed through. In the *developmental states*, on the other hand, export targets were set and meetings with the president held.

In reacting to a report issued by the *Council for Economic Development*, a private sector body, the responsible NEDA committee stated that "the mechanism for institutionalized dialogues has already been initiated by the government" and that it "felt that a number of government agencies have already involved the private sector in almost all aspects of their operations" (NEDA 1976a: 111). In further institutionalizing these government–business relations, the NEDA recommended the analysis of such relations in Japan, South Korea and France and emphasized the urgent need for adequate private sector organization and representation in order for public–private relations to be fruitful, thereby implicitly blaming the private sector for the ineffectiveness of the current government–business relations (ibid.: 112, 114, 134). In fact, at times, the public sector in the Philippines during the Marcos era outright accused the private sector of not holding up its end of the bargain in the economic development process. With regard to the lack of technology transfer and related policies, for instance, the NEDA (1976a: 147) stated that "the private sector should also be blamed in the sense that it is the main user of technology and is in a position to adopt technology to local conditions" and that, "in the system of free enterprise, it is generally regarded that in order to get ahead in competition one must innovate." Relatedly, the private sector was accused of relying on subsidies as soon as incurring losses stemming from alleged noncompetitiveness, while claiming all profits for itself in times of success (ibid.: 127). Moreover, the NEDA criticized the private sector's insufficient cooperation when it came to providing the government with data needed for development planning, allegedly resulting from "an attitude of noncooperation and mistrust" (ibid.: 134). Indeed, on the part of the private sector, there existed a lack of understanding and skepticism with regard to the Philippine government's role in economic development evident from private sector statements such as: "[W]hile development planning seeks to distribute the benefits of development as broadly and as equitably as possible, the private enterprise system understandably seeks to concentrate the profits of development in specific enterprises." and

"[T]he more planned our economy is, the greater will be the power of bureaucrats over businessmen [which] tends to result in graft and corruption or a form of bureaucratic capitalism unless the contradiction is successfully resolved." (ibid.: 150).

Nonetheless, in 1974, the so-called "industry desks" were established (Larcia 1974: 13). These industry desks were partly modeled after public–private relation arrangements in Japan and France and basically a cooperation between the DI, on the public side, and the PCI, on the private side (ibid.). The setup was such that the DI established a number of industry desks each concerned with a different grouping of industry (sub)sectors and, subsequently, complemented with a private counterpart on the PCI's part (Boncan 1975b: 149; Larcia 1974: 16n; Villavicencio 1974a: 8). Additionally, on the private sector's side, the PCI established the DI Liaison Committee assisting the chamber and its president in general and the respective industry desk in particular in communicating its members' problems to the DI and finding solutions (Villavicencio 1974a: 8). The six industry desks becoming operational in October 1974 were Industry Desk No. 1 concerned with industry sectors "producing primary capital goods, equipment or raw materials or other industrial firms that require intensive capitalization and technology" (Boncan 1975b: 149) such as heavy metal and foundries and shipbuilding, Industry Desk No. 2 dealing with industry sectors active "in the intermediate processing of indigenous raw materials into industrial market oriented products or construction industry inputs requiring less intensive capitalization and technology [than those falling under Industry Desk No. 1; author's note]" (ibid.) like electrical and electronic products, Industry Desk No. 3 concerned with industry sectors manufacturing mostly price-controlled consumer goods such as processed foods and textiles and garments, Industry Desk No. 4 attending to industry sectors assembling durable nonwage consumer goods like household appliances and furniture, Industry Desk No. 5 concerned with industry sectors not falling under any of the above and producing capital or consumer goods more labor-intensive than those falling under Industry Desk Nos. 1 and 2 and Industry Desk No. 6 dealing with government-controlled industry (sub)sectors like sugar, coconut, mining, iron and steel and automotive (Boncan 1975b: 149; Larcia 1974: 16n). The latter, i.e. Industry Desk No. 6, was a special case, however, since the industry desk existed only on the part of the PCI while the public sector was represented through the respective governing authority (Boncan 1975b: 149; Larcia 1974: 17). Generally, the industry desks covered those manufacturers with assets of 1 million PHP and above or more than 100 employees including, with exceptions, BOI-registered enterprises (Boncan 1975b: 149). In case of a problem or proposal on the part of either the private or the public sector, the issue in question was to be

forwarded by the PCI to the industry sector association concerned (Larcia 1974: 18). Subsequently, the respective PCI industry desk chairman could convene a meeting with the parties affected and the consensus reached would be sent to the corresponding DI industry desk which would then, upon arrangement of the PCI's *DI Liaison Committee*, engage in a dialogue with the respective PCI industry desk with the goals of clarifying the problem/proposal at hand (ibid.). The DI industry desk concerned with a particular problem/proposal would preliminarily evaluate the matter and enter into a dialogue with the corresponding PCI industry desk as soon as the latter had submitted its position paper and, if needed, also hear the opposing parties (ibid.). The DI would then involve other government agencies concerned as to facilitate government action and continuously follow up with all parties affected (ibid.). Eventually, the DI would actively support the execution of the decisions reached (ibid.). Paterno added that the DI would also be able to point the respective private sector inquirers to the government agency responsible in the respective case, thereby once more underlining the lack of clear-cut responsibilities on the part of the state (ibid.: 14). As such, the industry desks in conjunction with the aforementioned public inter-agency groups were ideally expected to serve as "the forum or focal point for identifying such special problems and bottlenecks for which additional laws or decrees might be necessary to remedy them" (Lanuza 1973: 23). In this manner, it was hoped, the public sector would "shape its policies in such a way that they meet the demands of the private sector for sustained industrial growth" (Villavicencio 1974b: 6). However, both the PCI (1975b: 19) and the NEDA (1976a: 129n) pointed out the ineffectiveness of the industry desk arrangement due to the lasting lack of communication between the DI and the PCI, the DI's limited reach in comparison with the NEDA and the PCI's lack of internal support, the latter once again underlining the private sector's disunity and disorganization.

Eventually, beginning in the mid-1970s, the Philippine government started to more actively involve the private sector in its development planning process by considering the private sector's view in the mid-term appraisal review of the *Four-Year Development Plan, Fiscal Years 1974–1977* and expressing the intention of incorporating these views into the preparation of the subsequent development plan (Sicat 1975: 22, 74). Accordingly, in 1978, the NEDA (1978v: 237, italics added) declared that "[t]he current plans were evolved with the participation of the government on all levels—national, regional and subregional—as well as the *active and meaningful involvement of the private sector*." According to the NEDA (1978v: 241n), several national and sectoral meetings—the former were chaired by Marcos himself—were held in 1977 and Sicat (NEDA 1977e: ix) remarks that the formulation of the *Five-Year Philippine Development Plan, Calendar Years*

1978–1982 "substantially benefit[ed] from the counsel and suggestions of representatives from private business enterprises, professional groups, [etc.]"—this included the formulation of the *Long-Term Philippine Development Plan up to the Year 2000* in the course of which two meetings with representatives of the private sector chaired by the president were held (Gonzaga 1977e; NEDA 1977f; see also Marcos 1978: 26). Likewise, the *National Export Strategy* (NES) complementing the *Five-Year Philippine Development Plan, Calendar Years 1978–1982* was prepared conjointly by the public and the private sector as the *Philippine Export Council* (PEC) tasked "[l]eading businessmen in each field, well over 200 of them, […] to form specific product or functional committees to put in their ideas, experiences and perspectives" including their "'gut' feel" (NEDA 1978u: 19). Only in 1978, the NEDA (1978u: 19, italics added) then stated that "[t]he participation of the private sector in putting up this input to the national plan marks *the very first time it has been formally integrated into the planning process of the government*." For instance, by 1977, the PCI was "properly represented in the NEDA development planning board" (Mañalac 1977). However, the so-called "public hearings" were apparently only held by the NEDA once the respective plans had already been drafted (NEDA 1978v: 243). And while the subsequent adjustments to the plans were referred to as "major" by the NEDA, Rodriguez (1985: 198n) claims that the respective private sector consultations were "hasty" and conducted only "with a limited group of business men" (NEDA 1977d). In fact, the *Five-Year Philippine Development Plan, Calendar Years 1978–1982* was rather based on *World Bank* than on private sector suggestions.

All in all, serious—and institutionalized—involvement of the private sector in economic development planning was thus lacking for at least the first 12 years of the Marcos presidency including the probably critical early martial law years. In this context, Brillantes, Jr. and Modino (2015: 4) remark that, naturally, the technocrats' focus was on technical and technological matters rather than on considering the public's, including the private sector's, stance on how to advance economic development (see also Tadem 2014: 356). However, the technocrats in the *developmental states* did, in fact, include the private sector in their decision making. In order to reveal wider underlying institutional structures, the following subsection now deals with internal and external (pre)conditions of Philippine development during the Marcos era.

3.4. (Initial) Conditions in the Philippines

Apart from effective government–business relations including a capable state and an organized private sector as well as institutionalized relations between the two, the Asian *developmental states*

emerged under highly specific internal and external conditions including favorable institutions left by the respective former colonizers such as relative wealth and income equality and a weak private sector.

In the Philippines, on the other hand, income inequality was high at the outset of martial law. This inequality can be traced back to Spanish colonization and the subsequent lack of land reforms reinforcing the dominance of the landed elite and resulting in subpar agricultural development. After Ferdinand Magellan had landed on the island of Cebu in 1521, the Spanish conquest began in 1565 and, by 1571, the Spanish had set up in Manila (Owen 2005: 147; Putzel 1992: 43n). In contrast to their interests in Latin America which mainly concerned the exploitation of natural resources—most of all gold and silver—, in the Philippines, Spanish interests were on simplifying the trade between China and Mexico and, eventually, Europe (Acemoglu and Robinson 2012: 10n; Putzel 1992: 44; Anderson 1988: 5). In this so-called "galleon trade," in which silver was exchanged for silk and porcelain, Spanish merchants controlled the leg between Mexico and Manila while Chinese merchants were in charge of the stretch between Manila and China (Yan 2014: 385; Anderson 1988: 5). The latter was due to the fact that the Chinese had already been exchanging goods with the Philippines since at least as early as 982 AD (Yan 2014: 379n). Trading activities were concentrated in Manila and Spanish authorities largely left the colonization of the provinces to the Catholic Church whose friars established the Philippines' first *haciendas*, i.e. "large landed estates" (Putzel 1992: 44n; Anderson 1988: 5n). The influence of the Chinese minority grew when British and American trading houses set up in the Philippines in the nineteenth century, in need of employees familiar with the islands, thereby accelerating Chinese immigration (Yan 2014: 389n; Tipton 2009: 409). Eventually, Chinese mestizos, i.e. descendants of Chinese immigrants and local women, also ventured into agriculture—first small-, then large-scale (Putzel 1992: 45n; Anderson 1988: 7n).

Once the Americans had taken over at the turn of the twentieth century, they seized most of the Orders' land—albeit with remuneration—and auctioned it off to these mestizos who, by then, had accumulated enough wealth to acquire further land holdings (Nelson 2007: 4n; Anderson 1988: 10n). By additionally installing a representative democracy with a bicameral legislature and single-district first-past-the-post elections for the seats in the House of Representatives, the American colonizers thus significantly contributed to the formation of a powerful landed elite in the Philippines (Anderson 1988: 11).

Postwar efforts at land reform in the Philippines included the Agricultural Tenancy Act of the Philippines in 1954, the Land Reform Act of 1955 and the Agricultural Land Reform Code in 1963 (Republic of the Philippines 1954, 1955, 1963). However, these various attempts at land reform in effect failed due to both design and implementation flaws (Kang 2002b: 28; Riedinger 1995: 87n; Dorner and Thiesenhusen 1990: 85; WB 1976: 476n). Under Marcos, the Code of Agrarian Reforms of the Philippines aimed at improving the living and working conditions of small farmers in 1971 and, after the declaration of martial law, Presidential Decree No. 2 declared the whole country as a land reform area (President of the Philippines 1972g; Republic of the Philippines 1971: sec. 2). Subsequently, the president "[d]ecree[d] the emancipation of tenants from the bondage of the soil, transferring to them the ownership of the land they till and providing the instruments and mechanism therefor" (President of the Philippines 1972h). However, due to several shortcomings of these reforms, by early 1986, less than three percent of land titles had been redistributed, benefiting only 2.2 percent of the targeted population (Tadem 2015: 402n; Riedinger 1995: 91n; Putzel 1992: 137n; Dorner and Thiesenhusen 1990: 86n). In this manner, high inequality in the Philippines persisted—including the existence of a powerful landed elite. This stands in sharp contrast to the relative wealth and income equality in the *developmental states* at the beginning of their respective economic ascent and shows structural similarities to Latin America (Nelson 2007: 16). In particular, land reform had not been forced on the Philippines from the outside, i.e., in this case, the US (Putzel 1992: 127n; WB 1976: 476). In this context, one interviewee stated during one of the explorative interviews conducted during the fieldwork for the present study that the US have been the Philippines' friend rather than foe, resulting in a lack of coercive measures such as land reforms which potentially could have benefited the Philippines. And while, during the short Japanese occupation during the early 1940s, the landed elite partly lost their privileges, they were reinstalled as soon as Douglas MacArthur freed the Philippines from the Japanese forces in the mid-1940s (Anderson 1988: 13n).

Such (land)ownership structures then contribute to explaining the unproductiveness of land in the Philippines during the Marcos era and, in turn, the economy's lack of industrial development which could have benefited from an agricultural surplus and excess labor (Rivera 1994: 31). Additionally, the fact that the landed elite derived their income and wealth from their land holdings and related agricultural earnings explains their comparative lack of ambition to take on *productive* industrial endeavors. Indeed, while their secure financial base outside of the industrial sector led some landowners to expand into the industrial sector, they did not have to be

particularly competitive and productive and rather engaged in rent-seeking activities (Kondo 2014: 170). In this manner, the agricultural sector's feudal structures were transferred to the industrial sector and, instead of weak as in the *developmental states*, the Philippine private sector during the Marcos era was strong (Rivera 1994: 14n).

Apart from not implementing land reforms but rather facilitating the establishment of a powerful landed elite, the Philippines' colonizers also did not leave behind a significant manufacturing base or favorable bureaucratic structures as was the case in the *developmental states*. While, as mentioned above, the Spanish colonizers in the Philippines focused on trade rather than on production, thus not setting up potentially beneficial industrial production facilities, the US, in their own tradition, left behind a weak bureaucracy including numerous local and provincial positions prone to be occupied by the respective leader's family and friends (Anderson 1988: 5, 11n). Moreover, as Varela (1996: 19n) notes, the bureaucratic structures which *were* installed by the colonizers were not compatible with the Philippines' value system and hence did not lead to an effective bureaucracy actually serving its constituency.

As laid out above, culture has been dismissed as a major determinant of (economic) development. Its underlying informal institutions, including values and norms, however, do have a significant influence on both political and economic institutions and, thus, developmental outcomes. In this manner, cultural practices may well become hindrances to economic development. Philippine society, for instance, is very family-centered (Talisayon 1990: 12n). With both the respective father's and mother's lines being important, the extended family then typically consists of numerous members—all of whom can be relied upon in case of need (Kondo 2014: 182n). This focus on the family as the most important social unit is aided by the dominance of Catholicism with its emphasis on family (Kondo 2014: 183; Inglehart et al. 2014a: 2, 46n, 2014b: 2, 50n). Among Philippine families in particular and groups in general, unity or conformity is highly important. This is reflected in the principle of "*pakikisama*" where the Tagalog "sama" translates as "accompany" or "go along with" and "paki" is the Tagalog prefix for "please" or "kindly" (Leoncini 2005: 160). *Pakikisama* thus refers to the practice of aligning one's opinion or will with that of the respective family or group (Leoncini 2005: 161n; Andres 1994: 127). As Andres (1994: 127) puts it, such "[c]onformity makes matters easier for the group," whereas defection of an individual may easily be interpreted as arrogance. In this manner, Philippine culture is overwhelmingly personalistic (Varela 1996: 298). Relatedly, respect for elders and authorities in general is a normative requirement in Philippine society (Reyes

2011: 349; Andres 1994: 122). Additionally, in the Philippines, the social principle of "*utang na loob*" plays a very important role. Dubbed an "indebtedness which even death cannot erase" (Dancel 2005: 110), *utang na loob* literally means "interior debt" or "inside debt" but is usually referred to as "debt of gratitude" or "debt of goodwill" in English (ibid.: 110n). Basically, *utang na loob* means reciprocity when it comes to giving favors which may, due to difficulties in appropriate repayment, result in long-term relations between individuals, at times even spanning generations (Dancel 2005: 117n; Andres 1994: 191). If the social obligation to reciprocate is not being fulfilled, the responsive actor is likely to experience "*hiya*", i.e. shame, or a loss of face and not to be trusted and confided in anymore (Dancel 2005: 115; Jocano 1997: 82; Andres 1994: 64). However, generally, the principle of *utang na loob* is being followed out of sheer inner obligation and precisely in order to satisfy the principle of *pakikisama* (Jocano 1997: 82).

Outside of families and groups, however, relations between individuals in the Philippines tend to be characterized by mistrust (Inglehart et al. 2014a: 4n, 2014b: 5n; Nelson 2007: 19). Consequently, Philippine society is fragmented not only with regard to language and geography and "groups[—such as unions or political parties—]easily break up" (Kondo 2014: 171). Rather low levels of trust cannot only be observed in interpersonal relations in the Philippines but also when it comes to trust in the public sector (ibid.: 183). For instance, confidence in the churches is significantly higher than in the national government, the civil service and the legal system (Inglehart et al. 2014a: 33n, 2014b: 36n). This may be due to the fact that the just mentioned Philippine values and social norms extend into to the public sphere, i.e. influence the actions of government employees and politicians (Reyes 2011: 349; see also Chingaipe and Leftwich 2007: 16). While the consequences can be both positive and negative, Varela (1996: 19) maintains that positive Philippine values such as the aforementioned ones regularly "become negative values when they are operationalized within the bureaucracy." Later on, Varela (1996: 95) identifies this operationalization as "patronage" (see also ibid.: 112n, 131n). Indeed, the normative preference for favoring people to whom close personal ties exist, obeying elders and senior officials, aligning to the respective group's will and reciprocating favors may well lead to corrupt practices—on *all* levels of public service (Reyes 2011: 349; Quah 2010a: 14n; Leoncini 2005: 166n; Jocano 1997: 82; Varela 1996: 299n; Quito 1994: 52n; see also Jha and Panda 2017). In this manner, the authoritarian regime under Marcos can be seen as "the peak of the [Philippines' value] system's evolution" (Celoza 1997: 21) rather than an abnormal development.

All in all, in the Philippines, the (land)ownership structures and administrative practices developed under the Spanish and American colonizers and the subsequent lack of land reform in conjunction with the high importance of (extended) family and kinship ties, values such as *utang na loob* and *pakikisama* and low general trust have resulted in societal and political structures characterized by collusive interactions between patrons and clients (Goh 2015: 173; Cruz 2014: 71; You 2014: 207n; Varela 1996: 308n; Anderson 1988: 11). In such a system, clients are dependent on (landed) patrons who are being followed as well as voted for by the clients in order to continue to benefit from patronage—e.g. in the form of employment and protection—and "citizens implicitly expect[…] public office to be used for private gain because they expect[…] patronage from their leaders" (Celoza 1997: 20n; Wurfel 1988: 201). In such a scenario, the state is then typically weak while particularistic private interests, on the other hand, tend to be strong (Hutchcroft 1998: 52n; Celoza 1997: 9n).

Apart from these *internal* blockades to (economic) development, the Philippines' *external* (initial) conditions differed decisively from those in the *developmental states*. For one, while technically enjoying the same regional embeddedness as South Korea and Taiwan, the Philippines did not take over sunset industry sectors from Japan starting in the mid-1980s due to internal political instability (Dios 2011: 87n). Moreover, while the Philippines, naturally, also faced the Cold War environment during the Marcos era, it was not subject to a direct external communist threat (Kushida 2003: 124; Kang 2002b: 29n). Rather, Marcos employed an alleged *internal* communist threat to justify the declaration of martial law (Celoza 1997: 46n; President of the Philippines 1972n). Apart from that, the Philippines did not have to struggle for political independence because independence was ensured by the US, causing the Philippine elite including the leading business groups, i.e. families, to compete rather than cooperate (Dios 2011: 101). At the same time, complete severance from the US was not sought by the Philippines due to the lasting benefits emanating from this relationship. This stands in contrast to, for instance, South Korea's strive for independence from US influence. Generally, the Philippines had much closer—and more amicable—relations to the US than the *developmental states* during the postwar decades. Thus, while the Philippines during the Marcos era, of course, had to deal with the same pre-WTO trading regime as the *developmental states*, it had significantly better access to the US market, particularly until 1974 when the Laurel-Langley Agreement expired. However, the Philippines could not benefit from this potential advantage but was rather swamped with US products and enterprises instead. But the close relationship between the two countries extended well beyond trade policy matters. In particular, the Marcos regime supported the US during the Vietnam War

both actively by sending Philippine troops to Vietnam and passively through hosting large US military bases (Celoza 1997: 99n; Wurfel 1988: 184n). This ongoing cooperation of the Philippines with its former colonizer brought in much needed capital in the form of grants and loans (Wurfel 1988: 190n, 196). Apart from that, in terms of employment offered, the US military bases in the Philippines were only surpassed by the Philippine government in 1980 (Celoza 1997: 108n). Such massive presence of and cooperation with US military then contributed to the absence of any serious external security threats to the Philippines during the Marcos era (Kushida 2003: 124). In addition to lending military support to the US, Marcos used his discretionary power to ensure the protection of American business interests in the Philippines (ibid.).

Apart from significant US influence on the Philippine economy, the *World Bank* and the IMF played important roles in the Philippines throughout the Marcos era. Indeed, in order to obtain loans from these organizations, the Philippines had to adopt an export-oriented economic development strategy and, generally, remove barriers to trade including an overvalued currency (Broad 1988: 81n; Wurfel 1988: 195; Ofreneo 1984: 487). Since the Philippine technocrats' views largely coincided with the IMF's and the *World Bank's* approach to economic development—at times jointly opposing Marcos—, the technocrats actually decisively facilitated the international resource flow into the Philippines (Tadem 2012: 29; Hutchcroft 1991: 429n; Broad 1988: 72n; Wurfel 1988: 195). The key *international* body in foreign lending cooperation to the Philippines was the so-called "*Consultative Group*" created in 1970 and composed of representatives of the *World Bank*, the IMF, the ADB and other international organizations as well as representatives of several individual countries (WB 1976: 13n). Informally gathering at yearly meetings, the *Consultative Group* was presided over by the *World Bank* and, in general, dominated by US representatives owing to the fact that the US was the major contributor to both the *World Bank's* and the IMF's resources and the *World Bank's* staff including its president (Wurfel 1988: 193n; Ofreneo 1984: 494). In this manner, the US was—at least partly—able to pursue its interests through multilateral instead of bilateral lending, thereby reducing the costs incurred (Wurfel 1988: 194). Throughout the Marcos era, a comparatively large number of loans was issued to the Philippines by the IMF and the *World Bank*, resulting in the Philippines being perceived as these organizations' "guinea pig" by Philippine public officials (Broad 1988: 63). In 1970, the IMF extended a stabilization loan to the Philippines—in the course of which the *Consultative Group* was actually created—under the conditions of floating the peso, allowing for more FDI and removing nontariff barriers to imports (Broad 1988: 34n; Ofreneo 1984: 494). Subsequently,

the Philippines received around 250 million USD from the IMF in the form of an *Extended Fund Facility* (EFF) from 1976 to 1979 (Broad 1988: 59; Montes 1988: 144). While the EFF was also tied to conditions such as increasing tax revenues and lessening import controls, these conditions were hardly adhered to (Broad 1988: 59n; Montes 1988: 144n). At the same time, the Philippines had already become one of the *World Bank's* main borrowers by the mid-1970s and Philippine development planning was heavily influenced by the *World Bank* through its report *The Philippines: Priorities and Prospects for Development* (WB 1976) which would basically become the *Five-Year Philippine Development Plan, Calendar Years 1978–1982* including the ten-year plan and the long-term plan up to the year 2000 (Broad 1988: 63n). In 1979, another IMF loan—this time of 190 million USD—was received by the Philippines under comparable conditions and, by the mid-1980s, the Philippines had become the IMF's overall second largest borrower (Broad 1988: 59; Wurfel 1988: 195). In 1980 and 1983, the *World Bank* lent 200 million USD as the first *Structural Adjustment Loan* (SAL I) and 302 million USD as the second *Structural Adjustment Loan* (SAL II) to the Philippines, respectively, the SALs most direct effects on Philippine industrial policy making being the *Tariff Reform Program* (TRP) and the Omnibus Investments Code (OIC) which merged the Investment Incentives Act (IIA), the Export Incentives Act (EIA), the Foreign Business Regulation Act (FBRA) and the Agricultural Investment Incentives Act in 1981 (Broad 1988: 81n; Montes 1988: 145n; Ofreneo and Habana 1987: 22n; IBON Foundation 1983f: 7; President of the Philippines 1981c; WB 1980c). Due to severe balance-of-payments problems and a general lack of capital, the Philippines throughout the Marcos era was highly dependent on these international loans. The fact that the loans extended to the Philippines by the *World Bank* and the IMF served as indicators regarding the Philippines' creditworthiness for other potential international lenders thus meant that "Philippine options were few" (Wurfel 1988: 193). In this manner, not only the US but also the *World Bank* and the IMF influenced Philippine industrial policy making throughout Marcos's presidency. However, as Hutchcroft (1991: 433n) points out, Marcos's cronies were oftentimes untroubled by these provisions through tailor-made exceptions decreed by the president. Moreover, as aforementioned, the availability of international loans may have actually contributed to the unproductiveness of capital in the Philippines and the autonomy of the Marcos regime, thereby exerting a rather negative influence on the Philippines' economic development. Additionally, as mentioned above, a substantial amount of international loans never reached the Philippines in the first place. Indeed, external influences are certainly not solely to blame for the Philippines' lack of economic development during the time frame in question (Hutchcroft 1991: 430; for an overview of contributions arguing to the contrary see Turner 1984).

All in all, at the start of its potential economic ascent, the Philippines was thus not "systemically vulnerable" in the sense that the Philippine elite—in contrast to the *developmental states'* elites—did not face (1) internal conflicts, (2) resource scarcity and (3) external threats (Doner et al. 2005: 352n). Indeed, comparatively stable societal structures over time as well as the successful suppression of oppositional forces, abundant land and foreign capital—abundant at least from the point of view of the elite—and the virtual absence of external security threats enabled those belonging to the economic and/or political Philippine elite under Marcos to focus on their own private gain instead of having to build coalitions and pursuing inclusive and sustainable economic—and particularly industrial—development in order to advance their own position.

In addition to the lack of strategic industrial policies and related planning, the Philippines thus featured ineffective government–business relations throughout the Marcos era as well as unfavorable (initial) conditions, both internally and externally. In order to further explore the Philippine development dilemma, the following sections now elaborate on the textile and garments industry sector as well as the electronics industry sector as two of the Philippines' main exporting industry sectors.

4. Industry Sector Study: Textiles and Garments

The textile and garments industry sector consists of two industry subsectors. The *textile* industry subsector includes producing yarn from natural or synthetic fibers, i.e. spinning, as well as making fabrics directly out of fibers and yarn by, for instance, weaving or knitting and, finally, finishing/decorating fabrics by, for example, dyeing them (BOI 1999: 1; Ofreneo and Habana 1987: 124). Integrated textile mills carry out all of these processes while semi-integrated textile mills perform only certain—consecutive—functions along the textile value chain and nonintegrated textile mills are involved in only one of the major textile-producing steps (Ofreneo and Habana 1987: 124; PCI 1976a: 5, 1977e: 6). Subsequently, the *garments* industry subsector turns these fabrics into ready-to-wear apparel including undergarments, outerwear and accessories and typically excluding footwear (IBON Foundation 1981b: 1; Cruz 1979: 4). In this manner, the textile industry subsector produces the raw materials for the garments industry subsector. The raw materials for the textile industry subsector, in turn, are made by fiber producers. The latter, however, are not included in the present analysis. Garment manufacturing roughly involves the following production processes: designing, cutting, embroidering, sewing/assembly, finishing and shipping (IBON Foundation 1981b: 1; NEDA 1978j: 20).

4.1. Development Performance of Textiles and Garments

In the mid-1960s, i.e. at the beginning of the Marcos era, there were already more than 100 textile manufacturers with 20 or more employees active in the Philippines (Ofreneo and Habana 1987: 131; Sembrano and Veneracion 1979: 16). Combined, in 1968, these firms operated over 18,000 looms and more than 750,000 spindles (Ofreneo and Habana 1987: 126; PCI 1970c: 12). Drawing on data from the *Textile Mills Association of the Philippines* (TMAP), the *Private Development Corporation of the Philippines* (PDCP) (1974: 107), however, reported only more than 4,000 looms and slightly over 180,000 spindles for the same year which seems to suggest that some of the major textile producers were not members of the TMAP. At the outset of martial law in 1972, the PDCP (1974: 16) counted 129 textile firms in the Philippines out of which 15 were integrated, 12 were semi-integrated and 102 were nonintegrated. In the mid-1970s, around 100 textile mills with a total of more than 860,000 spindles and over 18,000 looms were operating in the Philippines (Paterno 1974c: 5). Based on *National Census and Statistics Office* (NCSO) data, however, Sembrano and Veneracion (1979: 51) counted 227 textile manufacturers in the

Philippines in the mid-1970s. It seems that, by the late 1970s, these numbers had hardly changed (Ofreneo 2009: 544; Sembrano and Veneracion 1979: 18, 52; PDCP 1978b: 3). By 1983, there were 21,000 looms and 170 textile enterprises in the Philippines (Ofreneo and Habana 1987: 124). In the garments industry subsector, almost 28,000 establishments were active in 1975 and almost 30,000 in 1983 (Ofreneo and Habana 1987: 116; Ongpin 1982–83: 144; WB 1980b: 32; IBON Foundation 1979a: 5). However, most of these firms had less than ten employees with the majority actually being one-person enterprises while, in 1975, only eight firms had more than 500 and 38 firms over 100 employees (Ofreneo and Habana 1987: 116; USITC 1982: A-249; IBON Foundation 1979a: 5).

In 1980, the *World Bank* (1980b: 32) stated that "[t]he clothing industry is the most dynamic industry in the Philippines." Indeed, the Philippines' garments industry subsector grew quickly during the 1970s, recording average annual growth rates of 2.6 percent in the first half and over 40 percent in the second half of the decade (Austria 1994: 28; see also Yamagata 1998: 38). The textile industry subsector of the Philippines, on the other hand, contracted during the 1970s with average annual growth rates dropping from close to 14 percent for the years 1970 to 1975 to 8.1 percent for 1975 to 1980 (Austria 1994: 31; see also Yamagata 1998: 38). Ofreneo and Habana (1987: 124) even peg the Philippines' textile industry subsector's growth at 0.63 percent from 1973 to 1980, indicating stagnation. During the first half of the 1980s, both Philippine textiles and garments recorded negative growth rates—the former at over 25 and the latter at almost 17 percent—, before recovering in the post-Marcos years (Austria 1994: 28, 31). However, even during the 1970s, the Philippine textile and garments industry sector lagged behind their equivalents in Indonesia, Malaysia, Singapore, Thailand and Taiwan—except garments in the first half of the 1970s (Yamagata 1998: 36n; Kuo 1995: 89; Austria 1994: 28, 31; Sanchez 1990: 71). Nonetheless, in the Philippines, the textile and garments industry sector (including footwear) accounted for about nine percent of manufacturing GDP during the Marcos era (WB 1993b: 180). While the textile industry subsector's share in Philippine manufacturing GDP declined from 5.27 percent between 1967 and 1970 to 4.19 percent between 1980 and 1985, the share of garments and footwear rose from 3.92 percent between 1967 and 1970 to 4.71 percent between 1980 and 1985 (WB 1993b: 180; see also Pante, Jr. and Medalla 1990: 13).

In regards to the textile and garments industry sector's employment contribution, the available data vary widely due to differences regarding the inclusion of small enterprises and informal

workers in the respective count (WB 1974: 71n, 1987b: 248; USITC 1982: A-251). Drawing on census data, the textile industry subsector is estimated to have employed around 50,000 workers in 1970 and 1971 and over 80,000 after the declaration of martial law in companies with 20 or more employees where the latter accounted for almost 20 percent of total manufacturing employment in the Philippines at the time (Sembrano and Veneracion 1979: 23). While some sources concur with such high employment numbers for the mid-1970s—1976, in this case—, the PDCP (1974: 18) reports not even 50,000 workers in the textile industry subsector as of 1974 (USITC 1982: A-251; Esposo 1976: 180; PCI 1976a: 5). However, subsequently, employment in the textile industry subsector in the Philippines apparently decreased by more than one third from 1978 to 1985 (IBON Foundation 2001: 11). At the same time, based on data from the NCSO Census of Establishments, the Philippines' garments industry subsector employed more than 100,000 workers in 1975 and over 130,000 workers in 1983 with the latter accounting for 15 percent of the economy's total employment in manufacturing (WB 1987b: 248; IBON Foundation 1981b: 17). The number of home-based garment workers is usually estimated at more than half a million in the 1970s and early 1980s (WB 1987b: 248; NEDA 1978j: 18; de Roda, Jr. 1974: 131). The industry sector itself even estimated over one million employees in total in the textile and garments industry sector in the Philippines in the late 1970s (USITC 1982: A-251; IBON Foundation 1981b: 15). While subcontracting to these homeworkers was actually very common, still, over 18,000 out of the over 100,000 garment workers in 1975 were employed by only eight companies with more than 500 employees generating more than one fifth of the industry subsector's value added that year (IBON Foundation 1981b: 17). By the early 1980s, the textile and garments industry sector of the Philippines employed almost one fourth of the total Philippine manufacturing work force (Hill 2003: 229).

While at least the garments industry subsector thus generated substantial employment, productivity in both textiles and garments in the Philippines during the Marcos era was comparatively low. Labor productivity in the Philippines' textile industry subsector, for instance, was higher than labor productivity in textiles in Indonesia throughout the 1970s and early 1980s but lower than labor productivity in Malaysia's, Singapore's and Thailand's textile industry subsectors (Austria 1994: 52). The lack of skilled labor seems to have been one of the causes for the Philippine textile industry subsector's comparatively low labor productivity (WB 1980a: 93; PDCP 1978c: 6; PCI 1977e: 9). With regard to the change over time in total factor productivity (TFP), estimates vary from decreasing to increasing for both the textile and the

garments industry subsector in the Philippines during the 1970s and early 1980s, depending on the method of measurement (Cororaton et al. 1995: 307, 342, 347; Sanchez 1990: 80; Hooley 1985: 23). Relatedly, Philippine textile manufacturers during the Marcos era underutilized their production capacities and, according to Ofreneo and Habana (1987: 124), the BOI estimated capacity utilization in the Philippine textile industry subsector to be as low as 65 percent in 1980 (PDCP 1974: 42n, 1978b: 3; PCI 1976a: 8). At the same time, Philippine textile manufacturers could not have produced at full capacity even if they had wanted to due to the advanced age of their equipment (PDCP 1978b: 3). In the early 1980s, for example, only about one fourth of the spindles and one fifth of the looms in the Philippines had been bought in the preceding decade while much of the equipment had already been in use for more than 35 or 20 years, respectively, indicating the textile industry subsector's low technology level (USITC 1982: A-251; WB 1980b: 28; PDCP 1974: 89; for the respective percentages in the mid-1980s see Norlund 1989: 47). In fact, the difference in technology explains the productivity difference between the Philippines' and Thailand's textile industry subsectors (Sanchez 1990: 79n). While the Philippines' garments industry subsector's equipment was also ageing and, thus, substandard, equipment was much more important in textile than in garment production due to the greater labor intensity of the latter (USITC 1982: A-251). Apart from that, the predominance of *integrated* textile mills, i.e. the lack of specialization in the textile industry subsector, has been blamed for production inefficiencies and the low quality of Philippine textiles during the 1970s and early 1980s (USITC 1982: A-251; WB 1980a: 88; PDCP 1974: 41n). The entirety of the production inefficiencies in the Philippines' textile industry subsector during the Marcos era resulted in low quality domestically produced fabric, i.e. low quality raw materials for the garment manufacturers in the Philippines (IBON Foundation 1981b: 22; PDCP 1974: 88, 1978c: 6; PCI 1977d; Owyoung 1975). Such inferior quality of raw materials combined with high prices then led the garment manufacturers in the Philippines to draw on international sources instead of sourcing locally. Apart from the textile manufacturers, also the producers of accessories in the Philippines offered inferior quality at comparatively high prices (NEDA 1978j: 23).

Nonetheless, especially the Philippine garments industry subsector's export performance throughout the 1970s was remarkable with estimates for the average annual growth of garment exports ranging between 29 and 38 percent (Cruz 1979: 5; NEDA 1978j: 21, 1979j). Regarding their respective share in total exports, the textile and garments industry subsectors differed from each other decisively. Textiles, on the one hand, were produced mostly for the Philippine, i.e. the domestic, market and thus never among the Philippines' main exports (Yamagata 1998: 41).

According to Yamagata (1998: 41), textile exports from the Philippines never accounted for over two percent of total exports. When considering the Philippine textiles' share not in total but only in manufacturing exports, this share increases, however, to six percent in the late 1970s and early 1980s (James et al. 1991: 240). Garments, on the other hand, became one of the Philippines' major exports during the 1970s. In 1970, garments accounted for only 3.1 to 3.4 percent of the Philippines' total exports (IBON Foundation 2001: 27; WB 1980a: 123). By 1975, this share had risen to almost five percent and approached nine percent by 1980—the highest share was reached in 1992 when garments accounted for over 22 percent of all Philippine exports (IBON Foundation 2001: 27; Ofreneo and Habana 1987: 118; WB 1980a: 123). The Philippines' garment exports' contribution to GDP, however, never reached even 0.2 percent during the 1970s (IBON Foundation 2001: 27). Nonetheless, garment exports from the Philippines ranked in the top ten of the economies' total exports, making fourth place behind sugar, coconut oil and copper concentrates in 1976 and 1977 and third place behind only coconut oil and copper (concentrates) in 1979 (Villafuerte 1980: 142; IBON Foundation 1979a: 3; NEDA 1978j: 21, 1979n: 27). In fact, Cruz (1979: 4) even placed garments second only topped by coconuts when it came to export earnings in 1979. While textiles accounted for six percent of the Philippines' total manufacturing exports in the late 1970s and early 1980s, the respective share of the garments industry subsector was 10 and 12 percent, respectively (James et al. 1991: 240). In nontraditional manufacturing exports, the garments industry subsector's share was even larger, reaching more than 33 percent in 1976 and 1977 (WB 1980a: 123; NEDA 1978j: 21). In fact, the garments industry subsector was the Philippines' prime nontraditional exporter of manufactures from at least 1977 on until 1980 when it was outperformed by the electronics industry sector (Ofreneo and Habana 1987: 116; NEDA 1978k, 1978n: 2, 1979n: 27, 29). Generally, garment exports accounted for a significant share of the Philippines' nontraditional exports during the 1970s. By 1975, garments were responsible for almost 20 percent of the economies' nontraditional exports and this share even rose close to 25 percent in 1976 and 1977 and was still at 23 percent in 1978 before oscillating around 20 percent until the early 1980s (Ofreneo and Habana 1987: 118).

Throughout the 1970s, the US was the largest market for textile and, particularly, garment products manufactured in the Philippines and from 1970 to 1974, roughly 80 percent of garment exports originating from the Philippines were sold in the US (NEDA 1978j: 21). While this share decreased continuously in the subsequent years, in 1980, it was still at slightly above 50 percent, so that the dependence on the US market was still undeniable (USITC 1982: A-263;

NEDA 1978j: 21). While textile exports from the Philippines during the 1970s also primarily went to the US, by the end of the decade, Hong Kong had become a major export destination as well (USITC 1982: A-263). In 1980, for example, roughly 33 percent of the Philippines' textile exports went to the US while slightly above 30 percent were shipped to Hong Kong (ibid.). In this manner, in the textile industry subsector, the sole dependence on the US market was reduced throughout the decade although, now, the Philippines' textile exports were still heavily concentrated. Taken together, almost half of the Philippines' textile and garment exports went to the US in 1980 (ibid.: A-263n). Other markets of textile and garment items manufactured in the Philippines in the 1970s included a number of European countries including Germany and the UK, Canada, Australia, Japan and Hong Kong—the latter, as just pointed out, was especially relevant to the Philippine textile industry subsector (USITC 1982: A-263n; NEDA 1978j: 22n). In terms of world market share in developing country exports, however, the Philippines stayed far behind the shares of its competitors including Singapore, South Korea and Taiwan (Alburo 1987: 506n). With shares of under 0.05 percent in 1970 and 1975, the Philippines still only accounted for a mere 0.57 percent of textile exports from developing countries in 1980, while its share in garment exports from developing countries at least rose from 0.04 percent in 1970 to 0.75 percent in 1975 and slightly above two percent in 1980 (ibid.: 506). Even in its main market for garments, the US, the Philippines' share was only 3.2 percent in 1974 (NEDA 1978j: 22).

While the share of garment exports produced on consignment to total garment exports from the Philippines decreased throughout the 1970s, consignment production did play a major role in the exporting garments industry subsector in the Philippines during that time (Kuo 1995: 95). In such a consignment system, a foreign principal furnishes a local producer with the respective raw materials and specifications under which the producer manufactures the respective garment and then re-exports it to the principal (Ofreneo and Habana 1987: 118; IBON Foundation 1981b: 3n; de Roda, Jr. 1974). The raw materials, in this case, are typically imported free of duties and taxes, cannot be sold domestically and, oftentimes, production is even further subcontracted to smaller firms or homeworkers—a practice to which Pineda-Ofreneo (1982: 286) refers as "layers of exploitation" (Aldana 1989: 49; Ofreneo and Habana 1987: 118n; IBON Foundation 1981b: 4n; de Roda, Jr. 1974). Relatedly, in garment production—especially for export—, foreign ownership was high in the Philippines during the Marcos era (WB 1987b: 293). The textile industry sector, on the other hand, was overwhelmingly dominated by Filipino-owned firms (PDCP 1974: 18).

4.2. Industrial Policies in Textiles and Garments

Generally, the textile and garments industry sector in the Philippines was covered under the government's—alleged—export-oriented development strategy (Bulletin Today 1974a). However, both textiles and garments were not mentioned in the Philippines' development plans up to and including the *Four-Year Development Plan, Fiscal Years 1974–1977* (NEDA 1973; NEC 1966, 1969, 1970a, 1971a). Yet, in 1972, the then-president of the *Garment Business Association of the Philippines* (GBAP) spoke of the ongoing development of a five-year program by the BOI to promote the garments industry subsector and, in 1973, a *World Bank* report mentioned the BOI's intent to develop plans specific to certain industry (sub)sectors including textiles and garments and added that—while the exact contents of these plans were not yet known—they were to be designed "as five year rolling plans to be appended to the IPP" (WB 1973: 29; Sehwani 1972: 17). While several government publications (BOI 1974c, 1975a: 9; Paterno 1974c: 8, 15) subsequently mention a "Textile Sector Development Plan," a copy of this plan could not be obtained. Still, the mere reference to the Investment Incentives Act (IIA) and the Export Incentives Act (EIA) when speaking of the "guidelines on the expansion of the woven textile industry" (Paterno 1974c: 8), indicates the lack of a detailed plan containing specific developmental measures including financing (ibid.: 8, 15). Moreover, apparently no *overall* industry sector development plan intended to connect the two industry subsectors, i.e. textiles and garments, existed.

In 1977, the *Department of Industry* (DI) and the *Central Bank of the Philippines* (CBP) (1977: i) published a "Study on the Philippine Textile Industry" with the goal of "provid[ing] a more up-to-date framework for planning the development of the textile sector over the long term." And indeed, as one of the *Major Industrial Projects* (MIPs), the support of "textile mills" was part of the *Five-Year Philippine Development Plan, Calendar Years 1978–1982* (NEDA 1977b: 68, 1977d). In the course of this project, four yarn producing facilities were to be set up in order to provide the Philippines' garment manufacturers with raw materials of high quality at low prices (NEDA 1977b: 68). However, the IBON Foundation (2001: 11) notes that, "after a few flagship enterprises like Filsyn and Solid mills were set up, the national economy experienced prolonged recession in the early 1980s." Moreover, an export strategy specific to the textile and garments industry sector was added to the *National Export Strategy* (NES), aiming at increasingly moving into "nonquota markets" (PDCP 1978d: 10). However, also the export targets for textiles and garments were set too low to be able to serve as incentives for increasing export production

(NEDA 1979d: 28). Finally, also the development strategy for garments as one of the seven priority products in the early 1980s was rather unspecific (Ongpin 1982–83: 144n). Overall, the textile and garments industry sector in the Philippines during the Marcos era thus lacked a well-thought and well-defined official development strategy (Ofreneo 2009: 546; Kuo 1995: 124).

After having been one of the industry sectors enjoying the benefits of the Philippines' import substitution strategy during the 1950s, the first industrial policy provision specific to the textile and garments industry sector was the so-called Embroidery Act of 1961 (Republic Act No. 3137), i.e. a provision which was enacted before Marcos became president (Ofreneo 2009: 544; IBON Foundation 2001: 4; Kuo 1995: 122, 124; Austria 1994: 11; Republic of the Philippines 1961b). According to the Embroidery Act,

> "[n]o textile, leather gloves raw materials and/or supplies, of any kind relative thereto, may be imported into the Philippines as consigned goods to duly registered and organized Philippine embroidery and apparel firms without the necessary license issued in accordance with the provisions of this Act" (Republic of the Philippines 1961b: sec. 1).

On the face of it, the Philippines' textile producers were thus the immediate beneficiaries of the Embroidery Act. The government entity charged with administering the licenses was the *Embroidery and Apparel Control and Inspection Board* (EACIB). Companies duly registered and licensed under the Embroidery Act, the so-called "Embroidery firms," were allowed to import raw materials free of duties and taxes for export production (Republic of the Philippines 1961b). In order to be eligible for these benefits, garment manufacturers had to set up bonded manufacturing warehouses (BMWs), post bonds in the amount of 1.5 times of the respective expected duties, taxes and other charges, and export the now-processed raw materials within a period of two years from the import of the materials (Republic of the Philippines 1961b: sec. 4 II. and VIII.). In fact, retracing the Philippines' industrial policies during the Marcos era, Paterno (2008) points out that "[t]extile garments were probably the first exports really assisted by BOI […] to set up their bonded manufacturing warehouses." However, the EACIB licensed very few garment manufacturers and its prolonged examinations of import requests led to interruptions in the respective production process and, thus, higher costs (Kuo 1995: 122; Paterno 1974c: 5). Apart from that, the long time frame given for re-exportation complicated its proper supervision which eventually led to the shortening of this time frame to (regularly) 12 months in 1982 (President of the Philippines 1982c: sec. 2; IBON Foundation 1981b: 22). Moreover, the fact that some of the licensed garment manufacturers were not even actively producing reveals that economic considerations such as efficiency and productivity were not crucial in the EACIB's licensing policy (Kuo 1995: 122). In this manner, "[t]he Embroidery

system was 'an exclusive club for political spoils'" (ibid.). This hostility towards the garment manufacturers in the Philippines further became manifest in the late 1960s when—on Marcos's request—even tougher import controls were introduced and EACIB personnel supportive of garment producers were fired (ibid.). Garment firms in the Philippines were further compelled to submit detailed monthly reports to the CBP and failure to do so could result in future denial of import licenses (NEDA 1979j). Apart from that, the *non*-Embroidery firms' share in the Philippines' garments exports actually rose continuously from a mere 0.54 percent in 1970 to almost 50 percent in 1978 (IBON Foundation 1981b: 6). In this context, Kuo (1995: 124) remarks that the garments industry subsector's growth in the Philippines could have doubled if the benefits extended to Embroidery firms had been more widely available. However, non-Embroidery firms were only allowed to import raw materials on consignment starting 1983—when they were already responsible for close to 60 percent of garment exports from the Philippines (WB 1987b: 248n). The rise of the non-Embroidery firms during the 1970s may thus not be explained by the Embroidery Act but, rather, by other industrial policy measures such as the provisions under the Export Incentives Act (EIA).

Further favoring textile manufacturers over garment producers, Republic Act No. 4086 (partly) exempted textile firms registered accordingly from duties and taxes on imported raw materials, chemicals, dyestuffs and spare parts from 1964 through 1970, instead imposing a special tax of one percent on gross sales which went into the Special Textile Research Fund intended to further both the improvement of raw materials and production processes (Republic of the Philippines 1964a: sec. 1, 2, 4). The resale of the thusly obtained inputs without processing was prohibited (ibid.: sec. 3). The government agency in charge of administering this Act was the BOI (PDCP 1974: 78). However, due to enormous delays in actually being granted tax exemptions, the comparatively short availability of the benefits and the obstacles in the administrative process, not many textile manufacturers registered under this Act (Kuo 1995: 119). Accordingly, the Manila Chronicle's (1971b) respective headline read "Incentives Fail Textile Sector" and the article detailed that the benefits extended to textile firms under Republic Act No. 4086 "proved only as pall[i]ative measures." Along these lines, Sembrano and Veneracion (1979: 33) remark that, in general, "[t]he value of tax exemptions to the long-term and overall growth of the textile industry had been debatable." During Marcos's first term as president, Republic Act No. 4653, which entered into force in 1966, additionally prohibited the import of "textile articles commonly known as used clothing and rags" unless brought into the country by returning residents, foreign tourists, immigrants or foreign film producers or for

emergency purposes so as to "safeguard the health of the people and maintain the dignity of the nation" (Republic of the Philippines 1957: sec. 105, 1966). At the same time, however, by the mid-1960s, the 1950s' system of import and foreign exchange controls had been dismantled (Austria 1994: 12).

In 1967 and 1970, the Investment Incentives Act (IIA) and the Export Incentives Act (EIA) were passed, respectively. The incentives granted to enterprises duly registered with the BOI under these Acts included tax concessions regarding income, capital gains and equipment, accelerated depreciation and carry-over of net operating losses. While the garment producers—at least to some extent—were naturally able to benefit from deductions of direct labor costs and labor training expenses from taxable income due to the garments industry subsector's comparatively high labor and low capital intensity, the main beneficiaries of these provisions were, again, the Philippines' textile manufacturers (WB 1980a: 128). In order to avail of the benefits available under the IIA and the EIA, the respective industry (sub)sector had to be listed as a preferred or pioneer area of investment, i.e. be included in the current Investment Priorities Plan (IPP) or Export Priorities Plan (EPP). While the first IPPs only included the production of certain raw materials needed by textile manufacturers, the entire textile industry subsector was classified as overcrowded in 1970 (PDCP 1974: 78n; BOI 1968, 1969). At the same time, applications of garment firms—which were not included in the first IPPs—under the Embroidery Act were suspended (Kuo 1995: 122; BOI 1968, 1969). However, based on a study conducted by the BOI which concluded that domestic textile production would not suffice in the case of halted imports, the textile industry subsector was removed from the list of overcrowded industries and included in the Philippines' IPPs from 1972 or the fifth IPP on, when also applications under the Embroidery Act were possible again (Kuo 1995: 122n; NEDA 1978a; BOI 1974c, 1975a; Paterno 1974c: 15; PDCP 1974: 79n; WB 1974: 70; Dacanay 1972: 6). Subsequently, both the number of Embroidery firms and the applications for the creation of new and the expansion of existing textile companies increased (Kuo 1995: 122n; WB 1974: 70). However, the EACIB apparently—at least temporarily—stopped furnishing licenses for the operation of BMWs to Embroidery firms from 1974 on (de Roda, Jr. 1974: 122). Already after martial law was declared in 1972, some Embroidery firms had been excluded for misconduct regarding the use of BMWs and other internal matters (WB 1974: 72). In the Philippines' EPPs, both textiles and garments were included from the beginning on and hence able to avail of the benefits under the EIA—which was in line with the general export-orientation of the industry sector as expressed in its inclusion in the *National Export Strategy* (NES) (BOI 1975b; CCP 1974b;

Paterno 1974c: 15; PDCP 1974: 80n; The Times Journal 1974: 9; Cuna 1972: 15). Additionally, at the request of the Philippines' garment producers, in the late 1970s, the CBP lowered the marginal deposit for loans used for importing raw materials and supplies in order to reduce the firms' operational costs (NEDA 1979e; PDCP 1978c: 6).

In addition to the benefits available under the IIA and the EIA, the provisions of the Trade Zone Authority Act of 1969 (Republic Act No. 5490) were pertinent for the textile and garments industry sector due to the high proportion of consignment production especially in the garments industry subsector. This Act established the Philippines' first EPZ in Bataan, Mariveles—later dubbed the *Bataan Export Processing Zone* (BEPZ)—for which a high occupancy by garment firms had been planned from the beginning (Castro 1983: 163). And indeed, garment manufacturers were among the first applicants and settlers in the zone (Manila Times 1971a; Ayala 1970: 122n). In fact, once martial law was declared, garment producers were even ordered to move to or newly establish their facilities in the BEPZ and noncompliant firms could not register under the Embroidery Act (Osias 1975; Rodriguez-Co 1972: 12). By 1977, garment manufacturers were among the top exporters in the BEPZ and, in 1978, out of the 37 exporters (of light industrial products) located in the BEPZ, 16 belonged to the garments industry subsector (Castro 1983: 164; NEDA 1977c, 1978b). By 1979, garments were responsible for almost two thirds of total exports from Philippine EPZs (NEDA 1979d: 23).

In this manner, firms in the Philippines' textile and garments industry sector during the Marcos era can be classified according to under which Act they were registered: (1) the Embroidery firms registered under the Embroidery Act and making use of BMWs, (2) the firms registered with the BOI and availing of the incentives under the IIA and/or the EIA and (3) the firms registered under the Trade Zone Authority Act located in an EPZ (PCI 1977a: 12). In terms of export earnings, in the mid-1970s, this group was led by the Embroidery firms followed by those registered with the BOI and, far behind, those located in EPZs (WB 1987b: 289; PCI 1977a: 12).

As a result of the entirety of these incentives, most of the Philippines' garment exports during the 1970s were produced on consignment. Based on NCSO data, the IBON Foundation (1979a: 4) calculates a share of 67 percent of consignment producers in total garment exports for the years 1970 to 1977, while Ofreneo and Habana (1987: 117), drawing on CBP data, compute this share as declining from 74 percent in 1975 to under 50 percent from 1979 onwards. Still, to a

large extent, garment exporters in the Philippines during the Marcos presidency produced to the specifications of foreign enterprises or were actually foreign-owned, mostly American (WB 1987b: 248; IBON Foundation 1979a: 4; WB 1974: 73). Referring to the latter, Krinks (2002: 144) speaks of "transfers within firms" rather than proper exports. A prominent example of an American-owned garment manufacturer in the Philippines during the 1970s was *Levi Strauss* (IBON Foundation 1979a: 4; BOI 1972c). In fact, almost 100 percent of the Philippines' garment exports manufactured on consignment were controlled by US firms in 1979 since they were the proprietors of the large firms (IBON Foundation 1981b: 5).

Consequently, local value added in the manufacturing of garments for export in the Philippines was low under Marcos as "the only economic benefits of this industry accruing to the Philippines [was] the value of the labor used and the overhead expenses" (Balatbat 1968: 108; PCI 1977a: 12). It is estimated that not even 50 percent of the export value of garments manufactured in the Philippines were added locally and that, out of this export value, another roughly 30 percent were repatriated as profits by the respective MNEs, so that a mere 31 percent of the export value actually remained in the Philippines in the form of wages (IBON Foundation 1979a: 3; see also Krinks 2002: 163). The fact that, frequently, the respective textile raw materials even had already been marked additionally stresses the limited contribution of value added to the final product in the Philippines (WB 1987b: 248). In the Philippines' textile industry subsector, local value added was low as well with almost 50 percent of the value of textiles exported to the US in 1982 stemming from the export of natural fiber cordage rather than actual fabric (USITC 1982: A-255). Moreover, the consignment system of garment production did not lead to technology transfers and subsequent upgrading in the Philippines and the involved MNEs had no ambitions to remain in the Philippines in the long run (Ofreneo 2015: 118; Krinks 2002: 167). Relatedly, the backward linkages of the garments export industry subsector in the Philippines, i.e. its linkages to the domestic textile manufacturers, were weak during the Marcos era (WB 1980b: 33). Instead, at least partly owing to the nature of the consignment production system, the garment exporters in the Philippines heavily depended on imported inputs (ibid.). In 1978, for instance, over 70 percent of the raw materials needed by the Philippines' garment industry subsector were imported (PDCP 1978a). In fact, the same holds for the Philippines' textile industry subsector where, in 1979, over 85 percent of needed raw materials were imported and which was, moreover, dependent on imported machinery (Ofreneo 2009: 544; Ofreneo and Habana 1987: 128). In contrast, the import quota, i.e. the ratio of imported to domestically manufactured inputs, was lower in Thailand and the *World Bank* (1987b: 286) notes that, in order

for linkages to develop between the two industry subsectors in the Philippines, more Philippine ownership may have been necessary among garment exporters as opposed to foreign ownership—as was the case in, amongst others, South Korea and Taiwan (Yamagata 1998: 42n).

In terms of financial support, the Philippines' textile and garment manufacturers during the Marcos era had to rely on the general financing options discussed above. Accordingly, the DBP was an important source of capital for the industry sector—and especially the textile industry subsector—, including its support for ailing industry sectors, i.e. textiles in this case (WB 1980d: 44, 1993b: 179; Gonzaga 1977d; PDCP 1974: 70n; Ronquillo 1968: 112). However, as a UNIDO expert noted in 1972, garment manufacturers could neither afford the high interest rates charged by private nor come up with the collateral needed in order to obtain loans from public financial institutions (Rodriguez-Co 1972: 12; see also Cruz 1979: 7). In short, similarly to the industrial sector in general, the Philippine garments industry subsector suffered from a lack of capital throughout the Marcos era, thereby further encouraging the garment manufacturers' tendency to focus on consignment production (WB 1974: 76n). In fact, in 1978, a representative of the Philippine garments industry subsector identified the lack of capital as the "biggest problem" (NEDA 1978j: 23) for garment manufacturers as interest rates, at that time, were still comparatively high. Moreover, Marcos's cronies played a substantial role in the textile industry subsector which may explain why, in the mid-1960s, large sums of money were distributed to only three textile mills, thereby neglecting over 100 others and pointing to personal relationships being more important in fund allocation than economic considerations (Kuo 1995: 119). Relatedly, state-owned enterprises (SOEs) played a role in the Philippine textile industry subsector during the Marcos era with nine textile mills being publicly owned in 1982 (Lamberte 1984: 27; Manasan 1984: 31n; Ortiz 1969). However, the fact that apparently all of them were taken over by the state as "distressed industries" clearly underlines that they were not build up and/or taken over out of industrial strategy considerations and suggests their unprofitability (Manasan 1984: 31n).

Yet other industrial policy measures undertaken by the government to support the Philippines' textile and garments industry sector during the Marcos era were the commissioning of surveys conducted by overseas commercial attachés and the organization of trade fairs and missions abroad as well as the establishment of the *Philippine Textile Research Institute* (PTRI) in 1967 which, however, according to Kuo (1995: 119) was "poorly staffed and funded" and lacked industry

subsector data (Sembrano and Veneracion 1979: 48n; PDCP 1974: 84n, 1978d: 10; CCP 1972; Manila Bulletin 1972).

In terms of international market access of its textiles and garments, the Philippines enjoyed preferential access to the US market through the Laurel-Langley Agreement in effect until 1974 but was, at the same time, bound by several bilateral trade agreements with the US enacted in 1964, 1968, 1974, 1975, 1976 and 1978, respectively (Kuo 1995: 91; Cruz 1979: 7; Cuna 1972: 15). As Kuo (1995: 91) notes, the latter were similar to yet "more generous" than the respective agreements between the US and South Korea and Taiwan (see also NEDA 1979d: 23). These agreements set quantitative import restrictions regarding textiles and garments stemming from the Philippines with these quotas growing steadily over time (NEDA 1978i; PCI 1977a: 13; Cuna 1972: 15). From 1974 on, these bilateral trade agreements were negotiated under the Multifiber Arrangement (MFA) which was—until its phase-out starting in 1995—the pertinent provision for textile and garment trade between the US, Canada and various European countries and developing economies (Austria 1996: 2n; WB 1987b: 260n). The MFA was signed by about 50 countries and allowed industrialized economies to impose quantitative barriers to trade regarding products made of all kinds of different fibers on exporting developing countries, thereby disregarding the principles of nondiscrimination and elimination of quantitative restrictions postulated in the General Agreement on Tariffs and Trade (GATT) (Austria 1996: 2; Goto 1989: 208n). In this manner, the MFA protected the respective industry (sub)sectors in advanced economies from cheap imports originating from developing economies (Ofreneo and Habana 1987: 132). In the early 1980s, almost two thirds of the Philippines' textile and garment exports went to the so-called "quota markets"—with the US alone accounting for almost half of total textile and garment exports—while the remainder went to "nonquota markets" with the largest being Hong Kong, Japan, Central America, Africa and Australia (Ongpin 1982–83: 144n). In dividing up the negotiated quotas between the different manufacturers, the Philippine state honored previous quota fulfillment and production experience before giving out the remaining allotments on a first come, first serve basis (NEDA 1978q, 1979d: 23). The practice of the *Garments and Textile Export Board* (GTEB) of redistributing unused quotas from one manufacturer to the other led to, amongst others, the false declaration of exports in order to keep the respective quota and related export authorization (IBON Foundation 1979a: 6; NEDA 1978q). At the same time, however, the *World Bank* (1974: 74) notes that the EACIB did *not* discipline enterprises unable to fill their respective quota. Moreover, by the mid-1980s, the

biggest and most lucrative quotas were held by only two enterprises which were directly linked to the presidency (Kuo 1995: 121n).

In any case, while the quotas allocated to the Philippines were quite generous in comparison to those imposed on its competitors, Philippine quota utilization was low, ranging from as low as 10 percent in the early 1970s to around 50 percent in the mid- and late 1970s and early 1980s and still less than 70 percent in the mid-1980s, depending on the respective importing economy and product category (WB 1987b: 266; Ongpin 1982–83: 145; PCI 1977a: 13; Rodriguez-Co 1972: 12n). Between at least 1979 and 1982, all other significant exporting economies of textiles and garments in Asia had higher quota utilization rates (WB 1987b: 266). In fact, the Philippines' quota underutilization resulted in foreign firms locating in the Philippines merely to take advantage of the still available quotas (Ofreneo 2009: 547). When stating that, "[a]s of March 19, 1978, the Philippines was using between 90 and 95 per cent of the quota from the US, Norway and EEC [European Economic Community; author's note] countries," the NEDA (1979d: 23) thus seems to have included these "quota refugees." The proposed reasons for the Philippines' textile and garments industry sector's failure to fill the allotted quotas include harmful US influence, low demand in the US, short time spans between quota allotment and production and the difficulties of the textile industry subsector itself (WB 1987b: 266; PCI 1972c: 30, 1977a: 13). However, the Philippines was hence not negatively affected by the protectionism of the advanced economies but, rather, the quotas allocated to the Philippines represented a secured market—a notion supported by the fact that, with the passing of the MFA, garment exports from the Philippines quickly increased (Ofreneo 2009: 546; Kuo 1995: 92; WB 1980b: 32; PCI 1977a). As noted above, before the passing of the MFA, the Philippines, on the basis of the Laurel-Langley Agreement, enjoyed preferential tariff rates for exports to the US, so that the Philippines seems to have been privileged over its competitors throughout the Marcos era when it comes to selling textiles and garments on the American market—the post-Laurel-Langley Agreement tariff restrictions were, of course, incurred by all exporting economies, thereby not constituting a distinctive factor (WB 1987b: 261; Cuna 1972: 15).

As opposed to these *non*tariff barriers to trade, tariffs did, in fact, affect the Philippines' textile and garments industry sector and particularly the textile industry subsector during the Marcos era—albeit not tariffs imposed by potential importers of Philippine textiles and garments but by the Philippine state itself. The pertinent tariff rates at the outset of Marcos's presidency were those stipulated in the Tariff and Customs Code of the Philippines of 1957 (TCCP) (Republic

Act No. 1937). Schedule XI entitled "Textiles and Textile Articles" set import tariff rates of 50 percent *ad valorem* for grey rayon fabric, for example, 80 percent *ad valorem* for other (rayon) fabric and 65 to 120 percent *ad valorem* for ready-made garments (Republic of the Philippines 1957: sched. XI). While, initially, these tariffs merely served a revenue generating purpose as the domestic textile industry subsector was too small to sufficiently supply the garments industry subsector anyway, they turned into protective industrial policy instruments once textile production increased and, eventually, import tariffs on textiles were even raised after the declaration of martial law (PDCP 1974: 80, 82). Indeed, in 1972, Presidential Decree No. 34 raised the import tariff to 70 percent *ad valorem* for *all* fabric and 100 percent *ad valorem* for *all* ready-made garments (ibid.: 82). Essentially, import protection grew along the different stages of production with fibers being less protected than fabric and fabric being less protected than ready-made garments (WB 1980a: 95n). In this manner, both the textile and the garments industry subsector of the Philippines enjoyed substantial protection throughout the Marcos era. However, while the effective protection rates (EPRs) in the Philippine textile industry subsector were particularly high during the 1970s, the garments industry subsector's EPR was negative in 1974, stressing the former's advantage over the latter (Hooley 1985: 128; WB 1980a: 96; Tan 1979: 135n). As Sembrano and Veneracion (1979: 37) rightly note, however, the Laurel-Langley Agreement of course partly offset the protective effect of these tariffs. Nonetheless, taken together with the developmental industrial policy measures encouraging the export of garments from the Philippines by offering the opportunity to manufacture under BMW arrangements or in EPZs, these tariffs resulted in domestically produced textiles which were of low quality and high prices, thereby contributing to the missing link between the Philippines' textile and garments industry subsectors (USITC 1982: A-257n; WB 1980a: 96). While the opportunity to set up in EPZs and produce under BMW arrangements partly remedied the high tariffs imposed on the Philippines' garment manufacturers, the latter still led to rampant smuggling of textiles by, amongst others, undervaluation and misdeclaration (Ofreneo 2015: 127; IBON Foundation 1981b: 21; WB 1980a: 126; Anonymous 1977: 54; PCI 1976a: 8; PDCP 1974: 87n). Indeed, even though the simplified tariff rates introduced by Presidential Decree No. 34 in 1972 contributed to the reduction of technical smuggling, in the early 1980s, still around one third of the textile inputs of the garments industry subsector were smuggled into the Philippines and, in some years, the amount of smuggled textiles even exceeded the amount of officially imported textiles (Moraw 1997: 103; Ofreneo and Habana 1987: 125; PDCP 1974: 82). Very likely, the items so-obtained were, subsequently, not only used in the respective firm's own production process but also sold as is on the domestic market—a practice which further harmed local textile producers

(Ofreneo 2009: 545, 2015: 127; IBON Foundation 1981b: 21; Evening News 1971). Understandably, the Philippines' textile manufacturers thus "concentrated their efforts on survival rather than modernization and expansion" (Dacanay 1972: 5) including rent-seeking activities necessary to ensure future protection and general government support (Doner 2009: 219). In fact, since the import of ready-made garments was also very much restricted, similarly to the industrial/manufacturing sector-wide incentives, the incentives for Philippine textile and garment enterprises to sell domestically were higher than those to export anyway (USITC 1982: A-257; WB 1980a: 128).

In order to perspectively improve the quality of domestically manufactured textiles and curb smuggling, thereby increasing tax revenues, towards the late 1970s, the Philippine state considered both the abrupt reduction of tariffs on imported textiles from 70 to around 50 or 30 percent as well as slowly phasing out the industry subsector's protection (WB 1980a: 96; PDCP 1978b: 4, 1978d: 10; Anonymous 1977: 54). Subsequently, the *Tariff Reform Program* (TRP) was enacted in 1981, reducing average implicit tariffs, i.e. the combination of nominal tariffs and sales taxes, from 48 to 21 percent for textile inputs and from 52 to 38 percent for garment inputs (Austria 1994: 14). Moreover, the *Import Liberalization Program* (ILP) eliminated almost all import restrictions on garments in 1982, while import restrictions on textiles were only liberalized starting in the mid-1980s (ibid.: 14n). Consequently, the EPRs of the textile industry subsector decreased during the 1980s—yet remaining positive—and textile imports increased throughout the 1980s and 1990s (Ofreneo 2009: 545; Cororaton 1997: 6). At the same time, in the early 1980s, the Philippine government extended substantial help to the country's textile industry subsector through the *Textile Modernization Program* (TMP) to be carried out with financial support by the *World Bank* (Cororaton 1997: 6; WB 1982). However, out of the already limited number of enterprises which applied under the scheme, only around two thirds realized their plans and most of them only incompletely (Cororaton 1997: 7). While Kuo (1995: 120) notes the restrictive conditions for participation, the general Philippine economic crisis of the early and mid-1980s seems to have been the major reason for the program's failure (Ofreneo 2009: 544; Cororaton 1997: 6n; Ofreneo and Habana 1987: 273). As the *World Bank* (1987b: 274) puts it, "the TMP never really got off the ground." As a result, the Philippines had to return two thirds of the *World Bank* loan in 1985 (Kuo 1995: 120).

On the whole, the industrial policies in the Philippines' textile and garments industry sector during the Marcos era were thus conflicting and ineffective. While the textile industry subsector

was among the most heavily protected industry subsectors in the Philippines at that time and, consequently, operating inefficiently, thereby producing low quality yet highly priced fabric, the garments industry subsector was encouraged to engage in consignment production and, as the aforementioned UNIDO expert put it, "government assistance [to the Philippines' garment manufacturers] has been practically nil" (Rodriguez-Co 1972: 11). In this manner, the incentive system was biased towards the finishing stages of production and, over time, the cleavages between the two industry subsectors deepened and the chance to create linkages through well-designed industry sector-specific plans and their implementation leading to employment creation and international competitiveness was missed. Ofreneo (2009: 546), in this context, speaks of the garments industry subsector as the "mortal enemy" of the textile industry subsector instead of being its "natural ally." Moreover, in parallel to the general industrial incentive system, the incentives offered to the Philippines' textile and garments industry sector during the Marcos era, through the explicit encouragement of integration and the difficulties encountered by smaller firms in setting up BMWs, favored large enterprises over SMEs (NEDA 1979d: 23n; PDCP 1974: 41n).

4.3. Government–Business Relations in Textiles and Garments

On the public side, a number of actors were involved with the textile and garments industry sector in the Philippines during the Marcos era. These were, first of all, *non*industry sector-specific agencies such as the NEDA, the PEC, the BOI, the CBP, the DBP, the EPZA, the DOF, the BOC and the departments/ministries of trade and industry and their subdivisions. One of the main industry sector-*specific* public agencies concerned with the textile and garments industry sector was the *Embroidery and Apparel Control and Inspection Board* (EACIB). The EACIB was created under the Embroidery Act of 1961 and composed of its chairman—a BOC representative chosen by the Finance Secretary—, a CBP representative, a DCI representative, an NEC representative and a private sector representative (Republic of the Philippines 1961b: sec. 2). Since the Act provided that "[n]o other government instrumentality or agency shall be authorized to qualify or question the validity of license so issued by this Board" (ibid.), the EACIB was a powerful entity (see also ibid.: sec. 3). However, as aforementioned, the EACIB caused bureaucratic delays and engaged in collusive practices. Moreover, the EACIB did not actively encourage Embroidery firms to actually make use of the available or allocated quotas and, relatedly, did neither punish existing but nonperforming firms nor scout and support potential new entrants (WB 1974: 74). In this manner, the EACIB obviously did not pursue and

implement a clear developmental strategy. Consequently, its restructuring followed as early as in the mid-1960s and, after its significance had started to diminish decisively a decade later, the EACIB was merged into the *Garments and Textile Export Board* (GTEB) in the early 1980s (Kuo 1995: 117n; President of the Philippines 1982c: sec. 4).

The GTEB was created by Presidential Decree No. 1440 in 1978 and tasked

> "a. [t]o oversee the implementation of the garments and textile agreements between the Republic of the Philippines and other countries, particularly the administration of garments and textile quotas; b. [t]o approve quota allocations, and export authorizations, to issue export licenses and to adopt the necessary measures to expedite the processing of the same; c. [t]o provide on a regular basis the necessary information and statistics relating to the administration of garments and textile quotas and the flow of garments and textile exports, for monitoring purposes and in order to obtain maximum benefits from textile negotiations with other countries; d. [t]o promulgate, subject to the prior approval of the National Economic and Development Authority, and implement, all rules and regulations to carry out all international textile agreements entered into between the Republic of the Philippines and importing countries; e. [t]o fix and collect reasonable fees for the issuances of export quotas, export authorizations, export licenses and other related services, in accordance with the criteria specified in the rules and regulations" (President of the Philippines 1978f: sec. 2).

In this manner, the GTEB combined the competences previously held by the *Textile Exports Board* established in 1975 and the *Garments and Textile Export Office* established in 1978 (NEDA 1978j: 22, 1978q; President of the Philippines 1975a, 1978f: sec. 1, 1978a; PCI 1977a: 13). The GTEB was directly under the president and composed of one representative each from the DT—who acted as chairman—, the DI, the DOF, the BOI, the CBP, the Tariff Commission and the EPZA and one private sector representative with the right to vote chosen by Marcos (President of the Philippines 1978f: sec. 1). However, already a year later, in 1979, Executive Order No. 537 abolished the old GTEB in order to establish a new GTEB chaired by the Minister of Trade or his representative and, apart from that, having as members the Minister of Industry and the Commissioner of the BOC or their representatives (President of the Philippines 1979a: sec. 1; see also IBON Foundation 1981b: 3). While the powers and functions of the GTEB basically stayed the same, two changes were made: first, the promulgation of the rules and regulations related to the Philippines' textile agreements with importing countries was not subject to prior approval by the NEDA anymore and, second, these rules and regulations had to be promulgated and implemented taking into account the following stipulations:

> "a. Quota allocations shall be administered in a manner whereby no individuals or firms, whether directly, indirectly or through their affiliates, shall hold monopoly positions. b. New manufacturers shall be given equitable and tangible shares in the allocation of quotas. c. Performance must be assessed on the basis of manufacturer's in-plant capacities. Performance that could justifiably be attributed to sub-contractors may entitle such sub-contractors to compete for the quota. d. Quota allocations shall not be given to middlemen or traders. e. Partly finished garments or worked textiles shall not be imported, tagged and

> exported as a Philippine product under quota/restraint level. f. The Board, through the Commissioner of Customs and/or any of the investigating agencies of the national government as the circumstances may warrant, shall cause the examination of textile shipments, including importations of raw materials and supplies intended for the manufacture of export products, under quota/restraint level." (President of the Philippines 1979a: sec. 2)

In 1981, Executive Order No. 537 was amended by Executive Order No. 720 as to accommodate the creation of the *Ministry of Trade and Industry* (MTI) and subsequent reduction of the GTEB's number of members to only two (President of the Philippines 1981a, 1981b). However, the fact that the new third member was the chairman of the EACIB or his representative seems odd since the EACIB's chairman was, as mentioned above, a representative of the BOC, thereby seemingly significantly increasing the BOC's influence and power in the export of textiles and garments from the Philippines (President of the Philippines 1981b: sec. 1). When the EACIB merged into the GTEB in 1982, the GTEB was also transferred the right to regulate the import of raw materials by BOI-registered firms—a function which was previously held by the BOI—, thereby enlarging its competencies (President of the Philippines 1982c: sec. 4). Generally, the powers and functions of the GTEB were extended and now additionally included, amongst others, "the development and promotion of garments and textile exports to maximize the benefits derived from the implementation of garments and textile agreements and to hasten the diversification and expansion of export markets" (ibid.: sec. 2) and the ability to impose fines on enterprises underutilizing their respective allocated quota (ibid.). At the same time, however, the GTEB was now composed of the Minister of Trade and Industry as chairman, the deputy Minister of Finance as vice-chairman, the deputy Minister of Trade and Industry, the vice-chairman of the BOI and the Commissioner of the BOC, thus somewhat spreading power (ibid.: sec. 1).

Apart from the EACIB and the GTEB, the *Philippine Textile Research Institute* (PTRI) was meant to deliver industry sector-specific services to the textile and garments industry sector but, as mentioned above, largely failed in this attempt. Generally, the public actors involved with the textile and garments industry sector in the Philippines during the Marcos era were incapable of gathering the necessary data and overseeing operations of firms active in the industry sector (Doner 2009: 221; see also PCI 1976a: 6). Moreover, similarly to the general characteristics of the public sector in the Philippines during the Marcos era, rivalries existed between the different public actors, leading to a focus on rent-seeking and increasing the expenses incurred by private firms (Doner 2009: 220).

On the private side, the Philippines' textile and garments industry sector during the Marcos era was characterized by high concentration and a lack of unity and effective organization. While the bulk of the garment firms in the Philippines were SMEs, in 1978, over half of the economy's garment exports were manufactured by only ten firms (Ofreneo and Habana 1987: 116; IBON Foundation 1979a: 5, 1981b: 8). In 1983, the 4-firm seller concentration, i.e. the four largest enterprises' output share, was at 37 percent in textiles and 26 percent in garments, respectively (Hill 2003: 237). The large size of these firms was due to scale considerations in regard to both manufacturing and demand satisfaction (WB 1974: 74n, 1987b: 255n). At the same time, however, Paterno (2008) remarks that fully integrated textile mills actually lacked flexibility after initial decisions related to equipment and yarn production had been made. In the textile industry subsector, only few firms were active anyway—very likely due to the industry subsector's capital intensity. Among the largest textile manufacturers in the Philippines during the Marcos era were *Continental Manufacturing Corporation* and *Redson Textile Manufacturing Corporation*, both owned by Dewey Dee, a Marcos crony (Kuo 1995: 115; IBON Foundation 1981b: 24). Indeed, the textile industry subsector was one of the industry subsectors heavily controlled by Marcos and his cronies. Generally, over half of the textile firms in the Philippines during the Marcos era were in the hands of Filipino-Chinese entrepreneurs (IBON Foundation 1983a: 6; PDCP 1974: 18). While the Philippines' garments industry subsector during the Marcos era was not controlled by Marcos's cronies, interestingly, also the large Filipino conglomerates were not overly engaged in garment manufacturing for export, possible reasons for which include the lucrative domestic market and the MNE's first-mover advantage (WB 1987b: 256, 286). Indeed, the garments industry subsector was mostly dominated by MNEs. An exception were *De Soleil Garments* and *American Inter Fashion*, controlled by Marcos relatives and allies, which came to hold the most lucrative quotas in the mid-1980s (Manapat 2017[1991]: 362; Kuo 1995: 121n).

In terms of organization of the textile and garments industry sector in the Philippines during the Marcos era, apart from the *non*industry sector-specific business associations, in the textile industry subsector, the *Textile Mills Association of the Philippines* (TMAP) played a major role. The TMAP was founded in 1956 and had 15 members by 1958, among them the industry subsector's largest and most powerful players such as the *Continental Manufacturing Corporation* (Yujuico 1960: 105; Aspiras 1958: 85). By 1976, the TMAP had 22 member firms and 31 associate member firms most of which were run by Filipino-Chinese entrepreneurs (PCI 1976b). In order to become a member, the respective textile firm had to identify with the association's objectives and pay an initial fee as well as monthly fees and further charges as set by the TMAP's board

(PDCP 1974: 86). In this context, Kuo (1995: 111) emphasizes that the TMAP's fees were high, causing SMEs to refrain from membership. The TMAP's main goals were:

> "1. To foster among its members adherence to the ethical standards of fair business practices. 2. To promote the common welfare of the members and to maintain and enhance amicable relations among them. 3. To cooperate with the government or any agency in the study and solution of all problems affecting textile industrialization. 4. To assist its members in keeping abreast of progressive trends in the efficient operation and management of textile mills." (PDCP 1974: 86)

As such, the TMAP principally lobbied for ongoing protection of the textile industry subsector including seeking a policy of "Filipinos First" in EPZs and fighting smuggling resulting from high tariffs (Doner 2009: 220; Kuo 1995: 111n; Philippines Herald 1972c). One of the strategies used was to hire former government officials as lobbyists (Kuo 1995: 111). Other associations in the textile industry subsector in the Philippines during the 1950s, 1960s and 1970s were the short-lived *Filipino Textile Mills Association*, the *Chamber of Textile Manufacturers*, the *Philippine Knitting and Weaving Association*, the *Texturizers Association of the Philippines* and the *Textile Producers' Association of the Philippines* (TEXPAP) (Kuo 1995: 111n; IBON Foundation 1981b: 3; PDCP 1974: 85). In 1982, the latter was forced to merge with the TMAP into the *Federation of the Textile Association of the Philippines* which was, later on, also joined by other textile industry subsector associations (Kuo 1995: 112). However, since both the TMAP and the TEXPAP maintained their respective independence, "the federation was essentially an organization only on paper" (ibid.). Generally, the TMAP represented only a small share of the Philippines' textile enterprises at the time, so that one cannot speak of a "single voice" of the private sector in the case of the textile industry subsector in the Philippines during the Marcos era (Doner 2009: 220; Kuo 1995: 111n). Rather, rivalries between different textile manufacturers inhibited productive cooperation (Doner 2009; Kuo 1995: 111). As Kuo (1995: 126) puts it, "[w]ithin the group of large producers, an even smaller group of producers pursued individual maximization at the expense of the whole industry." Moreover, the TMAP—similarly to the public sector—lacked proper data on the industry subsector (PCI 1976a: 6).

The garments industry subsector of the Philippines began organizing in the second half of the 1960s in response to the industrial policies favoring textile over garment manufacturers (Kuo 1995: 120). The main business association in the Philippines' garments industry subsector during the Marcos era was the *Garment Business Association of the Philippines* (GBAP). The GBAP was founded in 1968 by seven or eight garment producers (Kuo 1995: 121; Sehwani 1972: 16). By 1972, the GBAP had 31 regular members and 8 associate members—among the latter previous skeptics—, some of whom were registered with the BOI and few with the EACIB (Rodriguez-

Co 1972: 10; Sehwani 1972: 16). While the GBAP's main purpose was to give a voice to the Philippines' small garment manufacturers—made possible through low membership fees—, among its members were also medium-sized and large enterprises—a notion which is supported by Sehwani's (1972: 16) claim that the association's regular members "constitute[d] the strongest section of the industry" at the time and the fact that, for instance, the American-owned *Levi Strauss* was one of them (Kuo 1995: 121; Cruz 1979: 7). The GBAP consisted of eleven standing committees offering a wide range of services related to trade, productivity and legal provisions, amongst others (Kuo 1995: 121). The GBAP's publication, *The Garment Journal*, was released once a quarter (ibid.). In 1972, the GBAP issued the industry subsector's first ever statement directed at the BOI in which the government was criticized for having neglected the garments industry subsector and in which the textile industry subsector was accused of "direct competition and uncooperative practices" (Sehwani 1972: 16). In this context, Sehwani (1972: 16) notes that the garments industry subsector had commonly been equated with the textile industry subsector until then. By the early 1980s, the GBAP already had more than 200 members and, by the late 1980s, its almost 400 members held over 90 percent of the industry subsector's production capacity (Kuo 1995: 121).

Others business associations supporting the garments industry subsector in the Philippines during the Marcos era were the *Export Processing Zone Chamber of Exporters and Manufacturers* (EPZCEM), the *Filipino Chamber of Embroidery and Apparel Products* and the *Philippine Association of Embroidery and Apparel Exporters* (PAEAE) (Kuo 1995: 120; IBON Foundation 1981b: 3; Cruz 1979: 7). Acting as an umbrella organization for the GBAP, the EPZCEM, the *Filipino Chamber of Embroidery and Apparel Products* and the PAEAE, in 1969, the *Confederation of Garment Exporters of the Philippines, Inc.* (CONGEP) was created (Kuo 1995: 120). It was headed by Donald Dee, Dewey Dee's brother, and contributed to the relaxation of import controls as well as intensified collaboration between small and big and foreign and domestic enterprises, thereby improving quota utilization and technology transfer (ibid.: 120n). In so doing, according to Kuo (1995: 121), the "GBAP was the major contributor to CONGEP in terms of its policy initiatives and enrollment effort."

In this manner, i.e. by making the garments industry subsector's (existence and) concerns visible to the government, the business associations in this subsector, especially the GBAP and the CONGEP, indeed seem to have contributed to the subsector's ascent during the 1970s (ibid.: 126n). However, at the beginning of the 1980s, intraindustry subsector rivalries arose in the

garments industry subsector when big garment enterprises clashed with smaller ones over quota allocation and the former, represented by the CONGEP, supported the TMAP rather than supporting the latter, represented by the GBAP (ibid.: 121). As a result, the GBAP left the CONGEP, thereby losing the government's support—at least in the case at hand (ibid.).

Thus, as seen, neither the textile nor the garments industry subsector in the Philippines during the Marcos era were organized effectively as to speak with "one voice" in relaying their needs and concerns to the government. Additionally, in seeking protection and liberalization, respectively, the two industry subsectors did not cooperate between each other but rather worked against each other, thereby posing yet another dichotomy in the Philippines' political economy under Marcos (Kuo 1995: 111n; Gonzaga 1977d). For instance, neglecting the garments industry subsector's need for high quality and low prices, the sheltered textile manufacturers increased prices while quality remained low which, in turn, led to a drop in demand resulting in further price increases and so on (Kuo 1995: 113). This lack of private sector organization and unity then contributed to impeding effective relations between the public and the private sector in the textile and garments industry sector in the Philippines during the Marcos era.

With regard to direct interactions between the public and the private sector in textiles and garments, in the early 1970s, the BOI met with both textile and garment producers, i.e. representatives of the TMAP and the GBAP as well as representatives of the *Institute for Small-Scale Industries* (ISSI) at the *University of the Philippines* (UP) in the attempt to foster cooperation between the two industry subsectors (Sehwani 1972: 17; ISSI 1971; Manila Times 1971b). Moreover, a tripartite dialogue between the government, garment manufacturers and labor representatives was initiated—which later merged into the GTEB—and the BOI consulted the GBAP regarding the design of the garments development program allegedly developed in the early 1970s (Doner 2009: 221; Kuo 1995: 123; Sehwani 1972: 17). In the mid-1970s, the so-called industry desks were established as a cooperation between the DI, on the public side, and the PCI, on the private side. Both textiles and garments belonged to Industry Desk No. 3 (Boncan 1975b: 149; PCI 1975c). However, as noted, the industry desks were mostly regarded as ineffective by both the public and the private sector. This is reflected in the then-president of the GBAP demanding that "[t]he government must formulate policies only after consulting the private sector" (Owyoung 1975). In the late 1970s, as just mentioned, the tripartite dialogue between the public and the private garments industry subsector and the latter's employees was

continued under the GTEB. The GTEB itself, however, only included a private sector member—designated by Marcos—for a short time. Still, consultation with the private sector took place through the GBAP's committee concerning GTEB affairs and also the CONGEP was regularly invited to consultative meetings (Kuo 1995: 121, 123). In this manner, the GTEB "represented, for the first time in Philippine history, close cooperation between producers and the state in developing the *garment* industry" (ibid.: 123, italics added). In terms of institutionalized government–business relations, the garments industry subsector thus seemed to be at an advantage in comparison to the textile industry subsector during the Marcos era in the Philippines (ibid.: 119n, 123). However, as mentioned, the TMAP hired former government officials for lobbying purposes and, more importantly, the textile industry subsector was generally dominated by the state to begin with.

Indeed, the state's bias against independent producers, i.e. producers without close ties to the presidency, was apparent in, for instance, the random withdrawal of export quotas from over 20 member firms of the GBAP in the early 1980s (ibid.: 115n, 121). Moreover, data obtained by the government through public–private interactions were regularly misused and employed to strengthen the position of Marcos's allies amongst the enterprises in the textile and garments industry sector and corruption was widespread especially when it came to smoothing imports of needed raw materials (Doner 2009: 221; WB 1974: 74). In this way, collusion and arbitrariness rather than economically desirable development projects and productive cooperation characterized the government–business relations in the Philippine textile and garments industry sector during the Marcos era. For instance, *Manila Bay Spinning Mills* and *Southern Textile Mills*, both owned by the Tanco family, and the *Continental Manufacturing Corporation* owned by Dewey Dee were apparently engaged in "ghost exports"—at least partly with the help of government officials—yet its owners continuously supported by the government through, amongst others, the allocation of additional quotas and buyback options after bankruptcy (Kuo 1995: 115, 118n). Another case in point was the quota reassignment from *Glorious Sun*, one of the Philippines' major garment exporters at the time, to two enterprises created ad hoc by, amongst others, a daughter of the Marcoses in the mid-1980s (Manapat 2017[1991]: 361n; Kuo 1995: 121n). As mentioned above, subsequently, these two enterprises came to hold the biggest and most lucrative export quotas to North America (Kuo 1995: 122). Collusion and public dominance of the private sector were also apparent in the fiber industry subsector where *Filipino Synthetic Fiber* (Filsyn)—partly owned by Dewey Dee—was heavily supported by the government in spite of numerous obstacles such as the domestic nonavailability of raw materials and high energy and

capital cost, overall resulting in overpriced output and thereby failing to emulate Japanese and South Korean business groups (Doner 2009: 219n, 222; Ofreneo 2009: 545; Kuo 1995: 114n; WB 1987b: 276n). Drawing on Kuo (1995: 120), Doner (2009: 221) then pointedly concludes that "[t]he safer options were to circumvent official regulations, and avoid involvement in official programs."

All in all, government–business relations in the textile and garments industry sector in the Philippines during the Marcos era were thus not effective but rather generally characterized by an incapable state, a fragmented private sector and partly collusive, partly uncooperative interactions between the two. However, decisive differences between the two subsectors existed: While the Marcos government was responsive to and supportive of (certain) textile manufacturers, the state mostly left the garments industry subsector alone and the GTEB, for instance, was only established in the late 1970s following the organization of the industry subsector itself, the Philippine state thereby not acting as a *developmental state* but rather following the market (Kuo 1995: 123). In addition to these internal blockades to the development of the Philippine textile and garments industry sector, extensive US aid from the 1950s onwards contributed to the textile industry subsector's inefficiencies (Doner 2009: 222). In this manner, in the Philippines, the textile and garments industry sector failed to provide a basis for further (economic) development.

5. Industry Sector Study: Electronics

The electronics industry sector is comprised of several industry subsectors: the semiconductor industry subsector including the manufacture of integrated circuits, transistors and diodes; the electronic data processing industry subsector engaging in the production of, for example, personal computers, hard disk drives and motherboards; the consumer electronics industry subsector producing, for instance, televisions, electronic games and karaoke machines as well as recorders; the office equipment industry subsector responsible for the production of, e.g., photocopiers and calculators; the control and instrumentation industry subsector manufacturing printed circuit boards; the automotive electronics industry subsector engaging in the production of brake systems and car radios, amongst others; the telecommunications industry subsector producing, e.g., cell phones; the communications and radar industry subsector manufacturing, amongst others, video surveillance equipment and radar detectors; the medical and industrial instrumentation industry subsector; and the solar and photovoltaics industry subsector (SEIPI 2019; U 2005: 18). The remainder of this section largely focuses on the consumer electronics industry subsector, on the one hand, and the semiconductor industry subsector, on the other hand.

5.1. Development Performance of Electronics

The electronics industry sector in the Philippines started out with enlarging the production of consumer electronics in the 1960s, followed by the introduction of semiconductor manufacturing in the early 1970s (Frederick and Gereffi 2016: 43; Kuo 1995: 166n). The consumer industry subsector grew rapidly during the 1960s and 1970s but stagnated thereafter, while the semiconductor industry subsector, in contrast, took off in the 1970s and continues to be the Philippine electronics industry sector's main driver up to the present (DTI and BOI 2019a; Hill 2003: 230; Kuo 1995: 168; Ofreneo and Habana 1987: 102). Electronics, in turn, accounted for more than half of total Philippine exports in 2017 (PSA 2018a: 53). In fact, the electronics industry sector had outperformed the garments industry subsector as the Philippines' prime nontraditional exporter of manufactures by 1980. Indeed, especially in the late 1970s and early 1980s, electronics exports from the Philippines grew exponentially, reaching yearly growth rates between about 30 and 80 percent (Alburo 1987: 497). While the electronics industry sector also includes, amongst others, the consumer and automotive electronics industry subsectors, in the Philippines, with regard to exports, the semiconductor industry subsector has been playing the main role, semiconductors and other micro components alone being responsible for around

one fifth of the Philippines' total exports in the mid-1980s and almost 40 percent in 2017 (PSA 2018a: 53; IBON Foundation 1990: 34). The yearly increases of semiconductor exports from the Philippines were remarkable especially in the late 1970s with growth rates of, for example, over 80 percent in 1978 and an annual average growth rate of over 50 percent between 1973 and 1984 (IBON Foundation 1990: 16, 134). In this manner, the Philippine economy has been very dependent on electronics exports in general and semiconductor exports in particular since the 1980s. The consumer electronics industry subsector, on the other hand, mostly catered to the domestic market (U 2005: 19; Ofreneo and Habana 1987: 102).

The manufacture of semiconductors comprises design, fabrication, assembly and testing with the first two stages being capital- and knowledge-intensive and the latter two stages being labor-intensive (Castillo 2005: 8n; IBON Foundation 1990: 10n; Pineda-Ofreneo 1985: 187). Semiconductor production in the Philippines took off in the mid-1970s when foreign—mostly American—MNEs moved the labor-intensive stages of the production process—especially assembly—to the Philippines (Frederick and Gereffi 2016: 43; Kuo 1995: 169; Ofreneo and Habana 1987: 102; Pineda-Ofreneo 1985: 194n; Ofreneo 1984: 491). However, while the Philippines' consumer electronics industry subsector during the Marcos era mostly consisted of local companies, in the semiconductor industry subsector, both domestic and foreign enterprises were active (Kuo 1995: 167; Ofreneo and Habana 1987: 101). The former, acting as subcontractors of foreign firms, emerged before the declaration of martial law in September of 1972, whereas the latter, i.e. the MNEs, took up their operations after the declaration of martial law (Kuo 1995: 167). Initially, the local subcontractors fared better than the MNEs, so that, "[b]y 1983 the Philippines were alleged to have the largest number of independent semiconductor subcontractors in the world, producing about 10 to 15 percent of the world's supply" (ibid.: 168). However, these Filipino-owned companies increasingly lost market share—and some even had to stop production altogether—to the MNEs already present in the Philippines which, in order to benefit from the industry subsector's success, scaled up their respective production and to MNEs newly settling in the Philippines (ibid.: 168n). Consequently, by 1987, 90 percent of semiconductor exports from the Philippines were produced by MNEs (ibid.: 169). In fact, by 1995, almost 85 percent of all electronics manufactured in the Philippines were produced by, at least partly, foreign-owned enterprises (Hill 2003: 236). While the absolute numbers of semiconductor firms in the Philippines during the Marcos era vary depending on the source, there seem to have been still more locally-owned enterprises active in the semiconductor industry subsector in the mid-1980s than foreign ones

(Aldana 1989: 128n; Scott 1987: 147; for a different account see Ofreneo and Habana 1987: 102). Scott (1987: 147), for instance, records 11 US-owned and 14 domestically-owned semiconductor plants in the Philippines in 1985. Among the *largest* semiconductors firms, however, the MNEs increasingly dominated in the early and mid-1980s (IBON Foundation 1990: 22n; Aldana 1989: 129). In the consumer electronics industry subsector, 29 enterprises were active during the 1960s, with this number decreasing in the early 1980s (Ofreneo and Habana 1987: 102, 111).

While the electronics industry sector only employed about 5,000 workers in the mid-1970s, towards the late 1970s, employment in the industry sector increased by over 50 percent per year on average (Frederick and Gereffi 2016: 43; Ofreneo and Habana 1987: 107). By the mid-1980s, the semiconductor industry subsector alone employed around 40,000 workers—at low wages and generally harsh conditions (McKay 2006; IBON Foundation 1990: 45n; Aldana 1989: 162; Pineda-Ofreneo 1985: 196n). Out of the total employment in the industry sector, 40 to 45 percent were provided by MNEs (Ofreneo and Habana 1987: 107). However, especially employment in semiconductors was very volatile, depending on international demand and the MNE's decisions regarding their individual production processes (IBON Foundation 1990: 37n; Ofreneo and Habana 1987: 107). Still, while electronics had only accounted for 4.2 percent of all manufacturing employment in the Philippines in 1975, by 1983, its share had risen to 7.5 percent (Hill 2003: 229).

The main export market of semiconductors manufactured in the Philippines during the Marcos era was the US, accounting for 66 percent of total semiconductor exports in 1975 and still close to 50 percent in the early 1980s (IBON Foundation 1990: 36; see also Aldana 1989: 218). By 1985, however, the US' share had declined to a mere 33.4 percent while Singapore's and Malaysia's joint share, for instance, had expanded to over 40 percent from under 20 percent in the late 1970s (IBON Foundation 1990: 36). In terms of importers of semiconductors into the US, the Philippines ranked fifth in Asia in the mid-1980s (Aldana 1989: 113). Comparing the Philippines' share in assembled US semiconductor imports with those of the "dragon economies" from the late 1960s through the mid-1980s reveals an increasing share for the Philippines and other Southeast Asian economies, particularly Malaysia, and a mostly declining share for South Korea, Taiwan and Singapore (Scott 1987: 146).

However, semiconductors in the Philippines were to a very large extent produced on consignment, i.e. raw materials were mostly imported, resulting in low local value added and net earnings and weak backward linkages—including negligible links to the consumer electronics industry subsector (Hill 2003: 230; Kuo 1995: 167; IBON Foundation 1990: 35n; Aldana 1989: 139n). Moreover, also the consumer electronics industry subsector exhibited weak backward linkages (Kuo 1995: 167). For semiconductor and microcomputer exports between 1976 and 1983, Ofreneo and Habana (1987: 106) compute local value added shares of as low as 30 percent in 1976 and reaching a high of 43 percent in 1979. Moreover, the technology transfer from MNEs to domestic workers and companies was negligible (IBON Foundation 1990: 41n; Aldana 1989: 158n). Consequently, the Philippines' semiconductor manufacturers have not succeeded in moving up the global value chain (Frederick and Gereffi 2016: 56; IBON Foundation 1990: 41n). In this manner, the electronics industry sector in general and the semiconductor industry subsector in particular mirror the structure of the textile and garments industry sector and particularly the garments industry subsector during the Marcos era in the Philippines in that they basically remained enclave industry sectors serving as mere production hubs for international companies without contributing to sustainable and inclusive economic development in the Philippines.

5.2. Industrial Policies in Electronics

Overall, the development of the electronics industry sector in the Philippines during the Marcos era was in line with the state's industrial development strategy at the time which was focused on labor-intensive nontraditional export products—at least theoretically (Ofreneo and Habana 1987: 13). Industry sector-specific planning in the case of electronics in the Philippines from the 1960s to the 1980s, however, was scarce. While the declaration of martial law in 1972 apparently led MNEs to settle in the Philippines, electronics were not explicitly mentioned in the Philippines' development plans during the Marcos era—except for including electronics in the industry sectors envisaged to locate in the planned *Mactan Export Processing Zone* (MEPZ) in Cebu and stating that "[c]onsiderable room for expansion in [electronics] still exists" (NEDA 1977e: 146) in the *Five-Year Philippine Development Plan, Calendar Years 1978–1982* (Kuo 1995: 167; IBON Foundation 1990; NEDA 1973, 1977e: 132n; NEC 1966, 1969, 1970a, 1971a). Also in the *National Export Strategy* (NES) formulated in 1978, the electronics industry sector was not specifically mentioned (NEDA 1978u).

In the early 1980s, however, electronics were then one of the seven "priority products" and hence subject to an individual export development strategy drawn up by the *Ministry of Trade and Industry* (MTI) in collaboration with the private sector (Ongpin 1982–83: 142). While the respective industry sector-specific plans generally lacked details, in the case of the electronics industry sector, the plan included a strategic shift of electronics exports away from the mere assembly of semiconductors towards the production of "finished consumer and industrial electronic products" (Ongpin 1982–83: 144), a move labeled by U (2005: 20) as "another instance of how government can misread which sectors[…] have the potential to be winners." The general strategic shift from sourcing locally to focusing on exports, i.e. from import substitution to export promotion, is also evident from the industry sector's industrial policies discussed below. Additionally, in the early 1980s, the intent to develop a *Comprehensive National Plan for Science and Technology* "establish[ing] priorities for specific programs and projects" and "provid[ing] guidelines for the participation of the private sector in the research and development program of the government," amongst others, was formulated—a copy of such plan could, however, not be obtained (President of the Philippines 1982a: sec. 3).

Accordingly, industrial policies strategically promoting the electronics industry sector in the Philippines during the Marcos era were few. Still, already in the mid-1960s, Republic Act No. 4122 set the sales tax for domestically produced phonographs, combination radio and phonograph sets of all types, television sets, combination radio and television sets, combination radio-phonograph-televisions sets, gramophones and similar articles at seven percent, while imported articles were subject to 30 percent sales tax (Republic of the Philippines 1964b: sec. 2). "Domestically produced articles," in this context, were

> "articles manufactured in a manufacturing enterprise which processes physically and/or chemically raw materials such as copper clad boards, silicon, steel laminations, other metal sheets, wires, plastic powder and/or pallets, fiber boards, wood, metallic and non-metallic tubes, roads, special paper, etc., into the various intermediate components and parts, and subsequently assembling or fitting them together with other imported collaterals or intermediate components and parts into such completed and finished articles: provided, however, that if the following parts are intermediate components of a finished article, except as used in the tuner assembly, they must be locally manufactured within the manufactured enterprise or any other local manufacturing enterprise: 1. Printed circuit roads; 2. Transformers; 3. Coils, except yoke and flyback, and sheet metalware attached thereto except the mask; 4. Cabinets; 5. Chassis" (Republic of the Philippines 1964b: sec. 2).

However, according to the BOI (1974b: 4), these provisions "did not increase the local content of the industry beyond that required by the Tax Code" and "[a]n additional measure to increase the local content could have correspondingly increased further the country's dollar savings."

Therefore, in the mid-1970s, the Philippine government launched the *Electronics Local Content Program* (ELCP), prescribing local content requirements to manufacturers of electronics products in the Philippines and, by that, further consolidating this import-substituting approach regarding the raw materials needed by the electronics industry sector. At the same time, the ELCP sought to "rationalize" the electronics industry sector to prevent "overcrowding" and/or forced exits (NEDA 1977e: 141). The ELCP was adopted in 1975 and aimed at replacing previously imported electronics parts and components with domestically produced equivalents, thereby emulating the *Progressive Car Manufacturing Program* (PCMP) (BOI 1974b: 4). In particular, the ELCP aspired an "annual increase in the a) use of locally manufactured components; b) use of local raw materials and parts for component manufacture; and c) processing of imported raw materials and parts" (ibid.). In order to qualify as "domestically produced," the respective part/component had to satisfy the following conditions:

> "1. the peso cost to manufacture the component shall not be higher than the import cost of that component after paying duties thereon; 2. the foreign exchange cost to manufacture the component shall not exceed the foreign exchange cost to import the finished product; 3. the quality must be acceptable to the requirements of the industry; 4. the production volume must meet the yearly requirement of the industry; and 5. the price must be competitive with that of the imported counterpart, of the same specifications." (BOI 1974b: 4n)

The products to which the ELCP was applicable were television receivers, radio receivers and sound reproducing appliances including gramophones, tape recorders, cassette players and car radios and stereos (BOI 1974b: 5, 7). In this manner, the ELCP was pertinent only to the *consumer* electronics industry subsector while not applying to any of the other electronics industry subsectors, among them the semiconductor industry subsector and the office equipment industry subsector. Over the course of three consecutive years, the minimum local content required by the ELCP increased from 13 to 24 parts/components, with the provisions for the second and third year being reevaluated subsequently and new provisions added for the next two years every time (ibid.: 5n). Moreover, the inputs imported for the production of the parts/components specified by the ELCP were subject to reduced import taxes and the import of finished parts/components was limited—previously, import tariffs on inputs had been higher than import tariffs on finished products (U 2005: 18; Kuo 1995: 192). In this manner, the ELCP protected the Philippines' consumer electronics industry subsector (see Tan 1979: 135n and Bautista 1981: 11n for the respective EPRs in 1974, 1980 and 1985). At the same time, the ELCP sought to increase exports of consumer electronics from the Philippines by granting incentives additional to those provided by the Investment Incentives Act (IIA) and the Export Incentives Act (EIA), among them options to import on consignment and operate bonded

manufacturing warehouses (BMWs) (BOI 1974b: 7). In this manner, the ELCP was supposed to establish backward linkages through replacing previously imported inputs needed by consumer electronics producers—although apparently only by those predominantly serving the domestic market—with locally produced ones as well as spur exports through facilitating consignment production, thereby being somewhat contradictory in itself.

However, on the whole, the ELCP failed to actually support the consumer electronics industry subsector in the Philippines during the Marcos era due to several problems related to both policy formulation and implementation (Tecson 1999: 248n; Kuo 1995: 194n). Probably most importantly, as just mentioned, the ELCP compelled manufacturers of consumer electronics in the Philippines to source locally, albeit without encouraging (potential) suppliers to improve their production quality and cost structure (Tecson 1999: 248). Low quality and high prices—in spite of cost limits derived from the costs of importing the needed parts/components imposed on these suppliers—then led to both decreasing demand for (local) raw materials and fewer exports, thereby reinforcing the industry sector's ailments (U 2005: 21; Tecson 1999: 248n; BOI 1974b: 6). As a result of the suppliers' failure to satisfy the requirements of the consumer electronics firms, the Philippine state had to permit the classification of parts/components manufactured in-house as "local content" (Tecson 1999: 249). Due to the quality and cost concerns of the consumer electronics firms, around half of the "local content" value generated by the ELCP eventually consisted of such parts/components produced in-house (ibid.). In this way, rather than fostering specialization and cooperation between different firms along the consumer electronics value chain, the ELCP led to vertical integration, thereby hindering the development of (potential) suppliers to the consumer electronics industry subsector in the Philippines during the Marcos era—even though the ELCP specifically aimed at avoiding vertical integration (Tecson 1999: 249; NEDA 1977e: 141, 144; BOI 1974b: 6n). Apart from these general issues, the ELCP did not include implementation specifics and suffered from the nonexistence of a powerful business association able to monitor the ELCP's implementation (Kuo 1995: 194). Finally, the ELCP did not (intent to) establish linkages between the consumer electronics industry subsector including its (potential) suppliers and the much more successfully exporting semiconductor industry subsector (ibid.). In the mid-1980s, the ELCP was finally abandoned but basically had been replaced by the *Progressive Export Program for Consumer Electronics Products* (PEPCEP) in 1983 (U 2005: 18; Tecson 1999: 248; IBON Foundation 1990: 44). While the PEPCEP—similarly to the ELCP but apparently starting out from no import restrictions at all—increased the local content requirements over the years, the

focus increasingly lay on export promotion (U 2005: 18; Lapid 1996: 240; IBON Foundation 1990: 44). However—also similarly to the ELCP—the PEPCEP was "never seriously implemented" (Kuo 1995: 195).

With regard to the *semiconductor* industry subsector, no industry subsector-specific industrial policy measures existed, so that the investment incentives relevant to the semiconductor industry subsector were mostly those found in the Investment Incentives Act (IIA), the Export Incentives Act (EIA) and, eventually, the Omnibus Investments Code (OIC) as well as the provisions of the Tariff and Customs Code of the Philippines of 1957 (TCCP), the Foreign Trade Zone Authority Act of 1969 and Presidential Decree No. 66 creating the Philippines' first EPZ in 1972—and as amended, respectively. In order to avail of the benefits available under the IIA and the EIA, the respective industry (sub)sector had to be listed as a preferred or pioneer area of investment, i.e. be included in the current Investment Priorities Plan (IPP) or Export Priorities Plan (EPP). And indeed, the electronics industry sector was listed in both the IPPs and the EPPs from their respective beginnings on (NEDA 1977g, 1979m; BOI 1968, 1969, 1970, 1971a, 1971b, 1972b, 1974c, 1975a, 1975b; Bulletin Today 1974b; Manila Bulletin 1971; NEC 1971a; Virata 1968). In this context, Aldana (1989: 147n) points out that although MNEs engaged in consignment production naturally did not avail of tax incentives for using domestic inputs, they enjoyed other tax benefits and generally paid less taxes than they ought to have paid. General support for research and development had already been made available in the form of, for instance, scholarships, bonuses and equipment as early as 1956 (Republic of the Philippines 1956: sec. 1). Additional support to outstanding researchers was granted through the creation of the *National Academy of Science and Technology* (NAST) in 1976 (President of the Philippines 1976a).

In 1979, Letter of Instruction (LOI) No. 900 additionally provided for the development of a special EPZ for electronics in Taguig, Rizal, acknowledging that "the Philippine electronics industry has an excellent potential among all export industries in terms of foreign exchange and employment generation" and stating that "it is a policy of the [g]overnment to provide the export sector with all the necessary support in terms of simplified administrative procedures, upgraded infrastructure, utilities and other support services; and incentives comparable to those offered in advanced developing countries in Asia, with a view of improving our competitive position in the world market" (President of the Philippines 1979c). Essentially, LOI No. 900 granted prospectively residing companies the same incentives as in the *Bataan Export Processing*

Zone (BEPZ) (President of the Philippines 1972l, 1978g, 1979c: sec. 5; Republic of the Philippines 1969). With regard to citizenship requirements, it was provided that

> "[p]riority to establish business operations in the Zone shall be given to companies with at least sixty (60) percent Filipino equity and considerably more if the technology involved is existing in the country. Exceptions to the above are companies with more advanced technology than is available locally, in which case equity ownership by Filipinos shall at least be thirty (30) percent: Provided, however, that after a certain period of time, Filipino ownership of the company shall be increased" (President of the Philippines 1979c: sec. 6).

However, until 1990 no such EPZ was actually created and semiconductor enterprises continued to rely on BMW arrangements (IBON Foundation 1990: 32n). At the same time, in 1979, the joint request for EPZ status of 16 semiconductor enterprises not actually located in an EPZ was denied, yet resulted in the formation of the first business association of semiconductor enterprises, the *Philippine Association of Electronics Exporters* (PAEE) (Kuo 1995: 193). Meanwhile, most electronics—and especially semiconductor—firms in the Philippines during the Marcos era had settled in the area of the *Greater Manila Terminal Food Market* (GMTFM)/*Food Terminal, Inc.* starting in the early 1970s and made use of BMW arrangements or located in the BEPZ or other EPZs later on (FTI 2019; Kuo 1995: 194n; IBON Foundation 1990: 32n; Pineda-Ofreneo 1985: 195; Castro 1983: 164).

From 1982 on, Executive Order No. 815 granted additional incentives to the manufacturers of semiconductors in the Philippines in order to "safeguard and promote the development of the Philippine semiconductor electronics industry" (President of the Philippines 1982b). In particular, semiconductor firms were granted further tax exemptions, the expedition of locational and customs clearance and unlimited utilization of consigned equipment (ibid.: sec. 2). Moreover, the "declaration as vital industry" (President of the Philippines 1982b: sec. 2(e)) of the semiconductor industry subsector effectively implied a strike ban. Due to the lack of enforcement of this strike ban resulting in strikes extremely harmful to the affected enterprises and the general inactivity and policy inconsistency of Marcos's government in regard to supporting the Philippines' electronics industry sector, however, Kuo (1995: 195) concludes that the industry sector faced a "close-to-perfect laissez-faire state" (see also U 2005: 28). This implies that, in addition to the lack of *promotional* industrial policy measures supporting the electronics industry sector in the Philippines during the Marcos era, also *protective* measures were absent—except for the protective effects of the ELCP as described above which were, however, dampened by import liberalization in the early 1980s (Ofreneo and Habana 1987: 102).

5.3. Government–Business Relations in Electronics

Due to this "close-to-perfect laissez-faire state" (Kuo 1995: 195), the public actors involved with the Philippines' electronics industry sector during the Marcos era were mostly limited to the nonindustry (sub)sector-specific ones, among them the NEDA, the BOI—especially in the development of the ELCP—and the PEZA. Apart from that, due to the industry sector's technological needs, the *National Science and Development Board* (NSDB) was relevant to the electronics industry sector. The NSDB was created by the Science Act of 1958 (Republic Act No. 2067) as part of the government's policy "to promote scientific and technological research and development, foster invention, and utilize scientific knowledge as an effective instrument for the promotion of national progress" (Republic of the Philippines 1958a: sec. 2, 4). In this endeavor, the NSDB was tasked to, amongst others, "coordinate and promote cooperation in the scientific research and development activities of government agencies and private enterprises," "formulate consistent and specific national scientific policies and prepare comprehensive scientific and technological programs," "develop a program for the effective training and utilization of scientific and technological manpower," "offer to, and accept from, public and private sectors, specific project proposals of scientific and/or technological research and development […], and to provide appropriate financial, technical and other support thereto," "establish and/or provide incentives, including financial and technological support, for the establishment of scientific and technological centers," "disseminate the results of scientific and technological research and to encourage their practical application" and generally "initiate and formulate measures designed to promote scientific effort and science consciousness" (ibid.: sec. 4). With regard to the industrial sector, the NSDB supported "industrial research" and "engineering research" (ibid.: sec. 10). The NSDB was composed of a chairman and a vice-chairman—both necessarily distinguished experts in science and technology, appointed by the president and subject to approval by the *Commission on Appointments* (CA)—as well as the chairmen and commissioners of several relevant government agencies including the *National Economic Council* (NEC), a university representative and one member each representing the industrial sector, scientific and/or technological associations or societies, the agricultural sector and the educational sector, also appointed by the president and subject to approval by the CA (ibid.: sec. 5, 6). Assisting the NSDB in carrying out its tasks under its supervision was the *National Institute of Science and Technology* (NIST) (ibid.: sec. 12). In the course of reorganizing the Philippine government's executive branch following the declaration of martial law in 1972, a representative of the NEDA was included in the NSDB (President of the

Philippines 1972a: sec. 2, 1974a). In 1982, the NSDB was restructured under the new name *National Science and Technology Authority* (NSTA) (President of the Philippines 1982a). The NSTA was the "primary agency" concerned with fostering scientific and technological development through "provid[ing] central direction, leadership and coordination of scientific and technological research and development" (ibid.: sec. 1). In particular, the NSTA was tasked with "[f]ormulat[ing] and submit[ting] to the President for his approval a *Comprehensive National Plan for Science and Technology* including specific goals, policies, plans programs and projects" and "[p]repar[ing] and submit[ting] to the Office of Budget and Management its annual national budgetary requirements and coordinate the funding and implementation of the *Comprehensive National Plan for Science and Technology*" (ibid.: sec. 4, italics added). In this manner, the NSTA's responsibilities in both policy making and program implementation were broader than those of its predecessor, the NSDB (see also DOST 2019).

The private side of the electronics industry sector in the Philippines during the Marcos era was, first of all, highly concentrated, with the industry sector's four biggest enterprises being responsible for almost two thirds of the industry sector's output in 1983 (Hill 2003: 237). Additionally, the bulk of the industry sector's output—over 90 percent in 1995—was manufactured by enterprises with more than 200 employees (ibid.: 241). In fact, in 1995, almost 65 percent of the industry sector's output was manufactured by companies with more than 1,000 employees (ibid.). While the consumer electronics enterprises operating in the Philippines during the Marcos era were mostly Filipino-owned, in the semiconductor industry subsector, both domestic and foreign firms were active. An example of a large consumer electronics enterprise active during the Marcos era is the joint venture of the Filipino-owned *Precision Electronics Corporation* with the Japanese-owned *Matsushita Electric Industrial Co. Ltd.* formed in 1967 and producing, for example, television sets and radios which were sold under the *Panasonic* brand, amongst others (Panasonic Philippines 2019; Moraw 1997: 203n).

Two of the main Filipino-owned semiconductor firms were *Stanford Microsystems, Inc.* (SMI) and *Dynetics, Inc.* (Kuo 1995: 168n; Aldana 1989: 137n; Ofreneo and Habana 1987: 108n; Scott 1987: 150). SMI was founded by Cristino N. Concepcion, Jr. and two other engineers who all graduated from Stanford University and initially registered with the BOI in 1970, thereby pioneering the semiconductor industry subsector in the Philippines (BOI 2016; IBON Foundation 1990: 19; Aldana 1989: 128; Pineda-Ofreneo 1985: 186). As such, SMI did not have ties to Marcos's government (Lohr 1984). Subsequently, SMI continuously expanded its

operations until the mid-1980s, allegedly ultimately becoming "the largest subcontractor in the Far East" (Pineda-Ofreneo 1985: 186; BOI 2016; Aldana 1989: 137n; Lohr 1984). In 1985, SMI had almost 7,000 employees and its buyers included, e.g., Motorola and Texas Instruments with only five foreign enterprises purchasing 80 percent of SMI's production volume (Ofreneo and Habana 1987: 108n; Pineda-Ofreneo 1985: 186). However, due to international market pressures, the economic crisis in the Philippines in the early 1980s and extremely harmful strikes, SMI had to declare bankruptcy in 1985 (Kuo 1995: 168n, 195; IBON Foundation 1990: 22; Aldana 1989: 128, 137n; see also Ofreneo and Habana 1987: 110). Similarly to SMI and other Filipino-owned semiconductors subcontractors, also *Dynetics, Inc.* went bankrupt in the mid-1980s (Kuo 1995: 168n). *Dynetics, Inc.* had first registered with the BOI in 1973 and kept expanding up until 1984 (BOI 2016). In 1985, *Dynetics, Inc.* had more than 6,000 employees (Ofreneo and Habana 1987: 108). In contrast to SMI which had no ties to the Marcos government, *Dynetics, Inc.* was closely linked to the government through its four major shareholders—the *Human Settlements and Development Co.* holding 50 percent, the *Agrix Management and Trading Corp.* holding 16 percent, the *Asian Reliability Co., Inc.* holding 14 percent and Vicente B. Chuidian holding 13 percent of the firm's shares in 1983—, all of which were Marcos affiliates (IBON Foundation 1990: 18n). Another example of a semiconductor firm operating in the Philippines under martial law yet *neither* closely linked to Marcos *nor* belonging to an MNE is *Integrated Microelectronics, Inc.* (IMI). IMI was founded in 1980 and is part of the Ayala conglomerate (BOI 2016; Moraw 1997: 199n; IBON Foundation 1990: 18n). The Filipino-owned enterprises active in the semiconductor industry subsector had close ties to their foreign principals and thus "[did] not have a life of their own" (Pineda-Ofreneo 1985: 188) while being mostly independent of the Philippine state (Kuo 1995: 198). The fact that many of them went bankrupt in the mid-1980s, however, indicates the potential need for government support at the time.

Examples of (US-owned) MNEs engaged in semiconductor manufacturing in the Philippines during the Marcos era were *Intel*, located in the GMTFM/*Food Terminal, Inc.*, and *Texas Instruments*, located in the Baguio EPZ (Aldana 1989: 130n; Scott 1987: 148; Pineda-Ofreneo 1985: 194n; IBON Foundation 1980: 1). In 1974, *Intel* was the first MNE to take up semiconductor manufacturing in the Philippines, registering with the BOI in February of 1974 and subsequently expanding its operations in 1980, 1983 and 1985 (BOI 2016; Aldana 1989: 128; Pineda-Ofreneo 1985: 194). By 1985, *Intel* employed 2,210 workers in the Philippines (Ofreneo and Habana 1987: 108n). *Texas Instruments*, on the other hand, was apparently not

registered with the BOI but, nonetheless, employed around 1,400 people in 1985 (BOI 2016; Ofreneo and Habana 1987: 108n). In addition to all of *Texas Instruments'* products being bought by the *Texas* group itself, also "all purchases of raw materials and equipment [were] made within the *Texas* group of companies" (Aldana 1989: 133; italics added), thereby exemplifying the relationship between parent company and subsidiary of an MNE.

In terms of private sector *organization*, a number of business associations were established in the electronics industry sector in the postwar Philippines. As early as 1948, the *Federation of Electrical and Electronics Suppliers and Manufacturers of the Philippines, Inc.* (PESA) was founded by a group of enterprises active in the industry sector as to "promot[e] professionalism, business ethics and cooperation among industry members as well as provid[e] assistance by studying commonly faced challenges and com[e] up with the solutions for industry members" (PESA 2019). This was followed by the creation of the *Electronics Manufacturers Association of the Philippines* (EMAP) in 1956 (Kuo 1995: 191). The EMAP's comparatively large members stemmed from the consumer electronics subsector and were mainly domestic enterprises since one of the membership requirements was that at least 60 percent of the respective firm were locally owned (ibid.). The latter statute resulted in membership oscillating around only ten companies in the early 1960s (ibid.: 191n). Moreover, in 1963, the rivaling *Philippine Chamber of Electronics Industries* (PCEI) was created by 17 manufacturers of electronics in the Philippines (ibid.: 192). However, the EMAP and the PCEI did not engage in collective action directed at, for instance, the lowering of import tariffs on raw materials or standardization of quality standards but rather represented loose collections of particularistic enterprise interests (ibid.). In fact, Kuo (1995: 191n) refers to the EMAP and the PCEI as "social clubs."

Apart from that, the *Consumer Electronics Manufacturers Association* (CEMA) or *Consumer Electronics Products Manufacturers' Association* (CEPMA) was created by producers of finished consumer electronics products (Lapid 1996: 234n; Kuo 1995: 192). Over the years, however, the CEPMA's number of members decreased from 24 in the 1970s to only nine in the early 1980s (Ofreneo and Habana 1987: 111). The opposing components manufacturers, on the other hand, were organized in the *Manufacturers of Electronics Components Association* (MECA) at the time (Kuo 1995: 192). In 1968, additionally, the *Electrical Fellowship of the Philippines, Inc.*—later renamed as *Philippine Association of Electrical Industries, Inc.* (PAEII)—was formed "by local traders who sought to make concrete their common aspiration of business for social progress" (PAEII 2019) including their desire to improve Filipino–Chinese relations. Over the years, however, the

PAEII came to host not only traders but also manufacturers and importers as well as wholesalers and retailers (ibid.). Apart from pursuing social endeavors, the PAEII has also furthered trade relations with other countries in cooperation with the Philippine government and participated in local and international trade fairs as well as organized trade missions to a number of different countries (ibid.).

Among the organizational efforts of the electronics industry sector in the postwar Philippines, the semiconductor industry subsector was a latecomer, with a first business association, the *Philippine Association of Electronics Exporters* (PAEE), being established in 1980 (Kuo 1995: 193). Moreover, according to Kuo (1995: 193), the PAEE never became active. In this context, the PDCP (1977: 47) points out the "great reluctance [of semiconductor firms] in organizing themselves into a trade association for which there would be no common purpose" due to the subcontracting nature of the industry subsector (see also Kuo 1995: 198). Subsequently, however, the *Semiconductor Electronics Industry Foundation, Inc.* (SEIFI) was founded in 1984 by 13 semiconductor firms, both foreign- and Filipino-owned, in order to "conduct, promote and undertake technical training to meet the needs of the industry and accelerate the transfer of technology to Philippine workers" (SEIPI 2016). Three years later, the SEIFI already had over 20 members including all 13 MNEs and most of the domestic firms active in the industry subsector at the time, while eight manufacturers did not become members (Kuo 1995: 193).

This myriad of different business organizations shows that, on the whole, the private sector involved with in the manufacture of electronics in the Philippines during the Marcos era was not only highly concentrated but also disorganized and, moreover, characterized by disunity, i.e. diverging interests. In this manner, the private side of the Philippines' electronics industry sector was incapable of lobbying for governmental support. Indeed, in spite of claims such as "the private and public sectors should effect a partnership to harness their resources in a directed and common strategy to develop self-reliance in science and technology" (President of the Philippines 1982a), interactions between the public and the private sector involved with the electronics industry sector in the Philippines during the Marcos era were few. However, industry subsectoral differences existed. In the *consumer* electronics industry subsector, the public and the private sector seem to have jointly developed and, on a yearly basis, reviewed the ELCP, the BOI working together with both the CEPMA and the MECA (Tecson 1999: 248; BOI 1974b: 4, 6). In fact, Tecson (1999: 248) remarks that the ELCP was even introduced at the private sector's urging in the first place. The *Industry Standards Committee* operating in the context of the

ELCP was composed of the technical staff of the BOI as well as two CEPMA and two MECA members (BOI 1974b: 6). These associations, however, were not actually powerful enough to successfully monitor the ELCP's implementation. In the *semiconductor* industry subsector, on the other hand, interactions between the public and the private sector involved with the industry subsector in the Philippines under Marcos were rare and usually did take place not between the public sector and a business association but rather between the public sector and a single company, probably partly owing to the consignment production nature of the industry subsector (Kuo 1995: 195). Moreover, in these meetings, policies were not developed jointly but rather presented to the private sector (ibid.). The fact that, on the whole, the semiconductor firms in the Philippines during the Marcos era were unable to organize effectively stands in contrast to the garment enterprises' ability to make themselves heard by the government. However, apart from that, the two subsectors exhibited remarkable structural similarities as both of them were heavily concentrated on consignment production with a high presence of MNEs, resulting in weak backward linkages and a lack of technology transfer leading to the failure to move up the global value chain. Thus, in a way, the electronics industry sector extended the textile and garments industry sector's and particularly the garments industry subsector's weaknesses well into the next development stage.

6. Conclusions

The present study has shown that the Philippines did not exhibit the characteristics of a *developmental state* during the Marcos era. For one, the Philippines' industrial policies under Marcos were contradictory and ineffective in the sense that rather than combining export incentives with the protection of infant industry sectors as in the *developmental states*, in the Philippines, protectionist industrial policy instruments—most of all tariffs—outweighed investment incentives in general and export incentives in particular. Moreover, in the Philippines, measures of export promotion were not paired with binding export targets potentially furthering international competitiveness. This lack of strategic and coherent industrial policies was complemented—or, probably more accurately, preceded—by the lack of a sound development vision as apparent from the Philippines' comparatively generic development plans and missing industry (sub)sectoral plans during the Marcos era. In this manner, the Philippine state failed to identify and promote potentially promising industry sectors. In general, the Philippine state under Marcos rather neglected the industrial in favor of the agricultural sector. H1 posing that "[i]ndustrial policies in the Philippines during the Marcos era differed from those in the *developmental states* during their high-growth phases in that they were less strategic and rather the result of political choices than efficiency considerations" can hence be confirmed so far regarding the strategy aspect. With regard to the decision-making aspect, the underlying government–business relations need to be taken into account.

And indeed, also in terms of effectiveness of government–business relations, the Philippines fared poorly in comparison with the Asian *developmental states*. This includes an incapable state, a fragmented private sector and collusive relations between the two. In particular, both the public and the private sector were characterized by several dichotomies. On the public side, the political leadership and the technocracy partly opposed each other with the former dominating the latter, resulting in a lack of autonomy of the bureaucracy from particularistic private interests with close ties to the Marcos government. At the same time, the technocracy in itself was split into two factions. Adding on to this, the rest of the Philippine bureaucracy during the Marcos era was rather insufficiently educated and appointed politically, thereby susceptible to corruptive practices. Generally, economic development efforts under Marcos were not coordinated by a powerful pilot agency in the fashion of the respective government agencies in the *developmental states*. In this manner, the Philippine state under Marcos did not possess the capacity to successfully formulate and implement industrial policies. Also the private sector in the

Philippines during the Marcos era was fragmented, consisting of large family-run conglomerates and a dichotomy between old industrialists and newly emerging enterprises, resulting in a lack of organization and the failure to speak with "one voice." Relatedly, the involvement of the private sector in the design and implementation of industrial policies in the Philippines during the Marcos era was mostly neither significant nor institutionalized. However, since the private sector under Marcos was highly concentrated, it was not weak as in the *developmental states* but rather powerful and thus able to successfully engage in rent-seeking. Consequently, inefficient enterprises and industry (sub)sectors were continuously overprotected. In colluding, the Philippines' political and economic elites, i.e. the dominant sections of the public and the private sector, were actually hard to distinguish from each other throughout Marcos's presidency (Hutchcroft 1993: 197). Hence, the Philippine state was not only not autonomous from particularistic private interests but, rather, at times even congruent with them. It follows that H1 can now be confirmed in its entirety. The Philippine state under Marcos thus failed to facilitate concerted action and remedy coordination externalities, thereby blocking economic development. The fact that extended family and kinship ties as well as reciprocity play an elevated role in Philippine society then suggests that, in the Philippines, one can speak of "embedded collusion" rather than "embedded autonomy" (Evans 1995) since the Philippine state was—and is—not embedded in society on the whole but, instead, in crony relations among the elites while being comparatively autonomous from its constituency, yet connected with it in mutual dependency.

Apart from a lack of strategic industrial policies and ineffective relations between the public and the private sector, the Philippines during the Marcos era was subject to wider institutional structures unique to the Philippines and blocking sustainable and inclusive economic development. For one, at the outset of the Marcos presidency, income inequality was high due to Spanish and American colonization particulars and the (subsequent) lack of land reforms. Moreover, the Philippines' colonizers left behind neither a significant manufacturing base nor favorable bureaucratic structures. Paired with cultural values such as the high importance of reciprocity, conformity and kinship and low levels of general trust and trust in the public sector, a system of collusive relations between patrons and clients emerged which was—and continues to be—prone to corruption and rent-seeking. Especially when formal rules are lacking (enforcement), the necessary framework enabling exchanges is frequently provided by—in this case unfavorable—informal institutions. Moreover, the Philippines' informal institutions impeded economic development because they were partly incompatible with the existing formal

rules. Aiming for a system of merit in the bureaucracy, for instance, may prove difficult in the face of strong reciprocity and conformity norms and the high importance of family and kinship. At the same time and in contrast to the *developmental states*, the Philippines during the Marcos era was not subject to any significant external security threat necessitating economic independence. Rather, the Philippines remained dependent on foreign loans and aid, mostly from the US. H2 posing that "[i]ndustrial policies in the Philippines during the Marcos era were embedded in ineffective government–business relations and unfavorable wider institutional structures promoting corruption and rent-seeking, thus blocking the formation of a *developmental state* and, by that, the generation of sustainable and inclusive economic development" can hence be confirmed.

The general findings regarding industrial policies and government–business relations in Marcos's Philippines were reflected in the textile and garments and the electronics industry sectors. However, industry (sub)sectoral differences existed. While the garments and semiconductor industry subsectors were overwhelmingly dominated by foreign MNEs and lacked proper government support, parts of the textile industry subsector were heavily protected due to close ties to the Marcos government. In this way, also the textile and garments industry sector's industrial policies in the Philippines under Marcos were dichotomous, resulting in a lack of joint development effort and potentially productive cooperation. Still, considering the similarities between the garments and the semiconductor industry subsectors, H3 posing that "[t]here were major industry (sub)sector differences regarding industrial policies and government–business relations in the Philippines during the Marcos era" can only be partly confirmed.

On the whole, the Philippines during the Marcos era can then not be classified as a *developmental state* but rather as an *underdevelopmental state* characterized by a lack of strategic industrial policies, collusive relations between the public and the private sector and unfavorable underlying (pre)conditions. In this manner, matters of both agency and structure were responsible for the Philippine development dilemma under Marcos (see Hutchcroft 2011: 571n). In regards to agency, both the Philippines' political and economic elite lacked the will to further sustainable and inclusive (economic) development since they decisively benefited from the status quo depriving the majority of the Filipino people of secure property rights and political participation. Indeed, the Philippines' political institutions throughout the Marcos era were extractive, thereby producing equally extractive economic institutions benefiting only a small group of actors.

Certainly, property rights under Marcos were neither sufficiently secure nor enforced, thereby contributing to the lack of economic exchanges in general and accumulation and innovation in particular. This insecurity and insufficient enforcement stemmed from Marcos's ability to issue decrees as he saw fit and his power over the judiciary which was, consequently, not independent. Such inefficient political and economic institutions then led to low levels of investment and engagement in rather unproductive activities such as corruption and rent-seeking. Structural impediments to Philippine (economic) development during the Marcos era lay in the lack of state capacity and the state's lack of autonomy from private particularistic interests as well as unfavorable wider institutional structures, i.e. (initial) conditions.

In its entirety, the Philippines' institutional set-up during the Marcos era then reproduced itself through a number of different channels. First of all, as just mentioned, the fact that the Philippines' political institutions under Marcos were extractive—especially during the martial law period—led to the design of extractive economic institutions. These economic institutions then mainly benefited both the *de jure* and the *de facto* political power holders, i.e. the political and the economic elite, thereby further consolidating their power and allowing them to keep economic institutions extractive as well. The *World Bank* (1993b: 122), in this context, notes "the ability of an oligopolistic economy to resist change." In this manner, initial inequalities and related elite power in the Philippines—mostly derived from land ownership—set the economy on a dependent path consisting of the ongoing reproduction of inefficient political and economic institutions, i.e. negative feedback loops (see Kondo 2014: 184). Indeed, in particular the Philippines' problematic (initial) underlying institutional structures or (pre)conditions were subject to inertia in that general institutional structures including culture are much harder to change than more specific ones and thus particularly inert. Generally, institutions tend to generate actors preferring the existing institutional structure over a different framework, so that not only the Philippine elite but also the rest of the society—albeit subconsciously—contributed to lasting inefficient institutions. Apart from cultural inertia and path dependence posing an *internal* blockade to sustainable and inclusive economic development, the Philippines' dependence on *external*, i.e. foreign, loans was subject to path dependence as debt repayment frequently necessitated further borrowing, thereby inducing negative feedback loops.

All in all, the institutional set-up of the Philippines during the Marcos era was then not conducive to sustainable and inclusive economic development but rather constantly reproduced a certain level of underdevelopment and the state—rather than furthering economic

development—actually blocked economic development. While Marcos eventually lost support by both the elites and the Filipino people in general and was ousted in 1986, naturally, the Philippines' wider societal structures persisted and corruptive practices, rent-seeking and patronage endure to this day (IBON Foundation 2016; Celoza 1997: 3). In Kondo's (2014: 176) words, "[i]t seems that the country faces the same constraints again and again." In this manner and in continuing to be mostly at the lower end of the global value chain—now also in services—when it comes to the international division of labor, the Philippines' political economy has proven comparatively stable. The decision to pay back the foreign debt accumulated under Marcos and the resulting ongoing payments may have been a critical juncture (see Pineda-Ofreneo 1991: 7). However, after Marcos, state intervention (in the economy) was connoted negatively, so that potential resources stemming from reduced debt services may not have been used for strategic development finance anyway. In fact, only in recent years, the Philippines is explicitly pursuing industrial policies again through its *Comprehensive National Industrial Strategy* (CNIS) including "industry roadmaps" for different industry (sub)sectors (DTI and BOI 2019b; Aldaba 2013, 2014). However, similarly to Marcos, the main development focus of the current Philippine president, Rodrigo R. Duterte, is on infrastructure through the "Build, Build, Build" program and, curiously, also the steel industry sector is being revived (Government of the Philippines 2019; Mogato 2019; Punongbayan 2019; Rey 2019; Danao 2016). And again, the infrastructural endeavors are overwhelmingly financed by means of foreign aid and loans—albeit, this time, to a large extent from China (Punongbayan 2019). In this manner, the Philippines is currently entering into new dependencies. In fact, in a way, the Philippines exhibits structures of dependency—both with regard to *inter*national and *intra*national relations—, thereby indicating structural similarities with Latin America.

By introducing the concept of the *underdevelopmental state* precisely combining institutional approaches to political economy—including internal and external underlying (initial) conditions—with a pragmatic approach to industrial policy and situating the Philippines accordingly, the present study has contributed to the analysis of the political economy of economic development in the Philippines and provided insights on the prospects and limitations of industrial policy in the Southeast Asian context. In how far the Philippines' current industrial policies will be able to remedy past neglects, however, remains to be seen. Apart from that, the study's limitations lie in both content- and method-related issues. First of all, even though highly important for structural change, the (nontraditional) agricultural sector has been neglected throughout the study in favor of the industrial sector. Secondly, the study had to contend with

potentially biased empirical materials from the martial law period and the inability of document analysis to capture oral and informal agreements. Finally, the fact that, in order for the concept of the *underdevelopmental state* to gain validity, it needs to be tested by conducting more empirical country studies and finding actual common ground between different cases, offers opportunities for future research. In this manner, the concept of the *underdevelopmental state* provides a theoretical framework for further analyses of blockades to sustainable and inclusive economic development—including the state—and adds to the research on the overall determinants of (socio)economic development.

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Appendix

List of Expert Interviews

#	Interviewee(s) and Affiliation(s)*	Date and Place
1	Academic, De la Salle University (DLSU)	2016/02/29, Manila
2	Private sector manager, private company / business association	2016/03/01, Taguig City
3	Two government employees, National Economic Development Authority (NEDA)	2016/03/07, Pasig City
4	Academic, University of Asia and the Pacific (UA&P)	2016/03/07, Pasig City
5	Government employee, Philippine Economic Zone Authority (PEZA)	2016/03/09, Taguig City
6	Former private sector manager / government employee, various	2016/03/09, Quezon City
7	Academic, De la Salle University (DLSU)	2016/03/10, Manila
8	Academic, De la Salle University (DLSU)	2016/03/10, Manila
9	Academic, De la Salle University (DLSU)	2016/03/10, Manila
10	Academic, Asian Development Bank (ADB)	2016/03/11, Mandaluyong City
11	Academic, Asian Development Bank (ADB)	2016/03/11, Mandaluyong City
12	Academic, Ateneo de Manila University (ADMU)	2016/03/14, Quezon City
13	Academic, University of the Philippines Diliman (UPD)	2016/03/16, Quezon City
14	Academic, University of the Philippines Diliman (UPD)	2016/03/17, Quezon City
15	Academic, private research institution	2016/03/29, Quezon City
16	Academic, University of the Philippines Diliman (UPD)	2016/03/30, Quezon City
17	Academic, Ateneo de Manila University (ADMU)	2016/03/30, Quezon City
18	Government employee, Board of Investments (BOI)	2016/04/07, Makati City
19	Private sector manager, private company / business association	2016/04/07, Makati City
20	Academic / government employee, various	2016/04/07, Makati City

*to ensure personal data protection, names and/or affiliations were anonymized

List of Archival Materials

AmCham Journal
Business Month
Central Bank News Digest and Bulletin Today, Daily Express, Daily Mirror, Evening News, Manila Bulletin, Manila Chronicle / The Manila Chronicle, Manila Daily Bulletin, Manila Times / The Manila Times, Philippine Daily Express / Philippines Daily Express, Philippines Evening Express, Philippines Herald and Times Journal / The Times Journal as reproduced in *Central Bank News Digest*
Commerce: The Voice of Philippine Business
Development plans of the Philippines

Far Eastern Economic Review
IBON Facts and Figures
Industrial Philippines
Journal of Philippine Development
Laws of the Philippines
MBC Economic Papers
PDCP Industry Digest
Philippine Business
Philippine Business Review
Philippine Development
Philippine Progress
Philippine Review Business and Economics / Philippine Review of Economics and Business
Small Industry Journal
The Fookien Times Yearbook / The Fookien Times Philippines Yearbook