The State and Industrial Transformation: Comparative and Local Insights

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THE STATE AND CAPITALIST INDUSTRIALIZATION

In the industrialization projects of the developing societies, whether in capitalist or socialist regimes, the state has played a leading and decisive role. By no means unique to developing societies, the state's major role in economic development and industrialization is equally evident in the industrialization of the capitalist metropoles(see Polanyi 1944 and Gerschenkron 1966). In developing societies, however, colonial and imperialist rule have substantially shaped the social formation, leading to a more interventionist and activist role in the economy by the state.

At a general level, the disarticulated nature of social and production relations as a result of colonial and imperialist hegemony necessitates a state structure that can oversee effectively both political order and the reproduction of the economy. In Amin's words: "The mutilated nature of the natural community in the periphery confers an apparent relative weight and special functions upon the local bureaucracy that are not the same as those of the bureaucratic groups at the center"(1976, 202).

Alavi (1972) notes the "overdeveloped state" as a special character of postcolonial societies that makes the postcolonial state a relatively autonomous structure of class mediation and preserver of the social order. Other authors, like Saul, point out the centrality of the state in postcolonial societies as shown by its privileged access to society's surplus product and dominion over the indigenous social classes(see Saul 1974).

The concept of the "relatively autonomous" or autonomous state has figured prominently in recent theories of the state(refer to Poulantzas 1969, 1973; Miliband 1970; Offe 1972; Nordlinger 1981; Block 1980; Skocpol 1979, 1985; and Evans 1985). This theorizing about the state draws from a tradition of both Marxist and non-Marxist writings, which recognize the significance of the autonomy of the political in the social formation. Thus, the concept provides a framework for gauging the extent of the state's capacity to "formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society"(Skocpol 1985, 9).Drawing on the experiences of the East Asian newly industrializing countries (NICs), Evans has also put forward the concept of "embedded autonomy" as the essential feature of the developmental state. He argues that "the efficacy of the developmental state depends on a meritocratic bureaucracy with a strong sense of corporate identity and a dense set of institutionalized links to private elites"(Evans 1989, 561).

In exploring the applicability of the concept of "relatively autonomous" or autonomous state in the context of developing societies, it is important to stress that the state's autonomy must be weighed not only in terms of its relations with local social classes but also with foreign actors. For instance, there are cases when access to increased foreign resources may serve to enhance the state's autonomy vis-à-vis the dominant local classes but without ensuring the state's stability or legitimacy as in the Peruvian example documented by Stallings(1985).

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The industrialization process in the NICs of Latin America, East, and Southeast Asia provides clear examples of states enjoying substantial degrees of autonomy from the dominant social classes as well as from those of the dominant classes. In these regions, the initial autonomy was enhanced by the general weakness of the native bourgeoisie, with the Latin American states confronting relatively stronger local capitalists and agrarian elites. In the East Asian experience, both South Korea and Taiwan embarked on their export-oriented industrialization strategies unencumbered by the presence of either an agrarian elite or a comprador bourgeoisie(Koo 1987, 172).

During critical stages in the industrialization projects of the NICs, the state managed to insulate itself from the demands of the dominated social classes through repressive exclusionary mechanism. In Latin America, this was done by dismantling the populist coalitions that underpinned the "easy phase of the import-substitution period" as a political necessity for the deepening of the industrialization process(see O'Donnell 1973).In South Korea and Taiwan, the state brutally suppressed the mass uprisings in their respective countries(see Cumings 1987). Although these actions were not immediately tied to a conscious project for the deepening of the industrialization process as in Latin America, they also resulted in the depoliticization of the masses and the elimination of popular opposition movements that could challenge the official industrialization strategy.

Another important condition for assessing the effectiveness of state intervention in the economy concerns the state's possession of a bureaucratic apparatus with sufficient corporate coherence(see Rueschemeyer and Evans 1985). In this regard, the East Asian NICs have developed planning agencies and bureaucracies that compare favorably with the Japanese model and which have proven their capabilities for short- and long-range planning, central coordination, and high flexibility in moving in and out of industrial sectors(Cumings 1987). In Latin American NICs, particularly in Brazil and Mexico, the unusually strong states have also developed "sophisticated administrative apparatuses capable of promoting and protecting local interests"(Gereffi and Evans 1981, 31).

In summarizing the comparative lessons of the industrialization processes in the East Asian and Latin American NICs, Evans singles out the role of the state. He writes:

> Perhaps the most important impact of the East Asian cases is to extend previous *dependencista* thinking on the role of the state in dependent capitalist development. In East Asia, as in Latin America, there is clearly a triple alliance behind dependent capitalist development, one in which transnational and local private capital are essential actors, but in East Asia the state is the dominant partner. Latin America produced a variety of evidence in favor of the proposition that a more active and entrepreneurial state was essential for successful capital accumulation at the local level. The major East Asian NICs increase the evidence in favor of this hypothesis by offering cases where both the relative autonomy of the state apparatus and the effectiveness of state intervention are well beyond what can be observed in Latin America—and where the success of local capital accumulation is also more pronounced.(Evans 1985, 221)

The emergence of the newly industrializing economies (NIEs) of East Asia and Southeast Asia has revived and strengthened a tradition of scholarship that has focused on the historical role of the state in the industrialization process. White and Wade succinctly summarize this perspective:

> [T]he phenomenon of successful "late development"… should be understood…as a process in which states have played a strategic role in laming domestic and international market forces and harnessing them to a national economic interest.(1984, 1)

Pushing further into the debate on the role of the state in industrialization, Evans connects differences in state performance to variation in state structure and presents a useful heuristic device by creating a continuum of states from "predatory" to "developmental." He argues:

> [W]e can imagine a range of states defined in terms of the way they affect development. Some states may extract such large amounts of otherwise investable surplus and provide so little in the way of 'collective goods' in return that they do indeed impede economic transformation. It seems reasonable to call these states "predatory." Zaire might be considered an archetypal case of such a state. Other states, however, are able to foster long-term entrepreneurial perspectives among private elites by increasing incentives to engage in transformative investments and lowering the risks involved in such investments. That may not be immune to "rent-seeking" or to using some of the social surplus for the ends of incumbents and their friends rather than those of the citizenry as a whole, but on balance, the consequences of their actions promote rather than impede transformation. They are legitimately considered "developmental states."(Evans 1989, 562–63)

Drawing on the concrete experiences of the East Asian NICs and insights from theorists of late development like Gerschenkron and Hirschman, Evans offers the notion of "embedded autonomy" as the key to a state's developmental effectiveness. Embedded autonomy refers to the state's capacity of combining two apparently contradictory features—"a Weberian bureaucratic insulation with intense immersion in the surrounding social structure" (Evans 1989, 574). As further explained by Evans:

> The comparative evidence suggests that the efficacy of the developmental state depends on a meritocratic bureaucracy with a strong sense of corporate identity and a dense set of institutionalized links to private elites.(1989, 561)
>
> Embedded autonomy depends on the existence of a project shared by a highly developed bureaucratic apparatus with interventive capacity built on historical experience and a relatively organized set of private actors who can provide useful intelligence and a possibility of decentralized implementation.(1989, 575)

In contrast, earlier notions of "state autonomy" revolved about the assumption that states "may formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society" (Skocpol 1985, 9). Thus, the concept of "embedded autonomy" highlights an important feature of the efficacy of "developmental states" that was missing from the earlier notion of autonomy. However, there exists one other crucial aspect of autonomy that has to be analyzed in the case of Third World states. Aside from their autonomy from the domestic ruling classes, their autonomy from foreign capital also needs investigation. Stallings argues that, "in theory, both would be possible, but in practice, success has come primarily with respect to the former"(1985, 259).

THE PHILIPPINE STATE AND ECONOMIC DEVELOPMENT

Protracted colonial rule in the Philippines engendered four enduring social features that have shaped the dynamics of the modern state: (1) a resilient oligarchy rooted in land and export agriculture; (2) a tradition of authoritarian-clientelistic political leadership in a politically fractured polity; (3) a history of significant popular opposition movements erupting at critical conjunctures; and, (4) a continuing marked dependence on foreign external resources.

By the twilight of American colonial rule during the Commonwealth era (1935–1941), a weak central state presided over an archipelago of dispersed local centers of power with varying degrees of autonomy. Nurtured by the advance of export agriculture from the first decades of the nineteenth century, landed elites entrenched themselves as the dominant social class in major areas of the country long before the installation of the first mechanisms of political rule by the American colonizers. With the American introduction of an electoral system for public offices starting in 1907, the landed elites found an arena that further expanded and consolidated their power, ensuring their transformation into a national oligarchy.[1]

The authoritarianism and cronyism of the Marcos regime do not seem aberrant when viewed in the context of colonial politics that reached their climax under American rule. As McCoy points out: "under the Commonwealth, a system of clientelist politics that had been evolving for almost a half century as institutionalized and perfected" (1988, 119). The cronyism that was a hallmark of the Marcos regime is not without parallel in the colonial era. McCoy explains this Commonwealth-style cronyism:

> As Commonwealth President, [Manuel] Quezon simply refined a system of patronage that he had developed as Senate President since 1917. Through force of personality and judicious use of government regulatory and financial agencies, Quezon placed himself at a junction of interaction between the state and the private corporate sector…he cultivated a coterie of the country's richest American, Spanish, and Filipino businessmen. In return for government contracts, loans, or regulatory intervention, Manila's millionaires made large donations to Quezon's Nacionalista faction and generous gifts to the President himself.(1988, 132)

The presence of a forceful leader like Quezon—a master of patronage politics and political infighting—does not alter the essential weakness of the state apparatus. To begin with, the transitional state of the Commonwealth era lacked the full sovereignty to chart its political and economic agenda. At this early period, the Commonwealth state already showed the structural weaknesses that prevented it from acting as an agency for transformative economic projects—even for policies that posed no threat to colonial power. In the case of land reform, for instance, the state was clearly a captive of vested landed interests as early as Quezon's time. Even a benign critic of Quezon's economic policies concedes that:

> For obvious reasons, such as the fact that many of his friends and supporters were from the landed class, Quezon could only proceed slowly with agrarian reform.(Caoili 1986, 35)

The state neither enjoyed the autonomy from dominant classes like the oligarchy nor had a bureaucracy with the independence to implement developmental projects. With insufficient collateral, for instance, the oligarchy's sugar bloc borrowed more than double the authorized capital of the Philippine National Bank in 1918, almost bankrupting the agency and indeed the state. As further proof of the power of this entrenched particularistic interest group, "the sugar industry absorbed over 50 percent of the country's banking capital during the American colonial era" (McCoy 1988, 141). Not surprisingly, the oligarchy's power extended over the civilian bureaucracy through its elected representatives in Congress. As Anderson observes: "civil servants frequently owed their employment to legislator patrons, and up to the end of the American era the civilian machinery of state remained weak and divided" (1988, 12).

In the Philippines, neither war nor a peasant rebellion destroyed the landed oligarchy of a strong state. The immediate postwar years, however, coincided with a major economic and political crisis that provided the state with an extraordinary opportunity to exercise a greater degree of autonomy vis-à-vis the dominant social class. Two major problems shaped this crisis: an armed communist-led peasant uprising that nearly toppled the central government, and a serious balance of payments crisis that required immediate and decisive state action. With a massive US-directed counterinsurgency campaign, abetted by the rebellion's own internal problems and weaknesses, the state broke the back of the uprising by the early 1950s.

Through their control over Congress, the oligarchy then succeeded in deflecting the central government's attempt to implement land reform. However, the convergence of two developments allowed the state to respond to the foreign exchange crisis with a policy of exchange controls that proved disadvantageous to the traditional exporting oligarchy. This policy also challenged the prevailing norms of free trade that underpinned the country's relations with the United States. First, the state adopted the policy at a time when the landed exporting oligarchy was in a politically defensive situation as a result of the armed peasant-based uprising that had yet to be suppressed. Secondly, the United States sanctioned the policy not only as an emergency measure to sustain the value of the peso. More importantly, it also conformed to a conjunctural assessment by US authorities and the internationalist business sector that controls leading to import-substitution could be promoted as long as American firms could invest behind the trade barriers(Maxfield and Nolt 1990). Furthermore, the US authorities viewed these barriers to free trade as a "temporary program until global economic equilibrium and growth could be restored in the aftermath of the war" (Maxfield and Nolt 1990, 1).

Thus, in 1949, the central government officially adopted a policy of exchange and import controls to deal with its exchange crisis. While this was conceived as an *ad hoc* measure—not as a comprehensive project to restructure the economy and society—the policy of controls, nevertheless, put the state in a more direct and active position to intervene in the economy and challenge dominant class interests. Together with a complementary umbrella of incentives that included tax emissions and the use of foreign exchange allocation to subsidize import-substituting industries, the period of controls generated the highest postwar growth rates for the overall economy and manufacturing productivity. With this new policy, the state vigorously expanded its active role in the economy as investor and manager. Golay writes about the scale of these operations:

> By the early 1950s, it [government] was operating railroads, hotels, electric power, gas, and water works, as well as producing coal, cement, fertilizer, steel, textiles, yarns, and operating a shipyard and engineering shops. In addition, the government had investments in firms manufacturing incandescent bulbs and fluorescent tubes, pulp and paper, a national domestic and international airline, and owned holding company. It was, or had been, engaged in the production of nails, lumber, footwear, sugar, textiles and yarns, food preserving and packaging, and warehousing.(1960, 82–83)

By 1962, however, the new government under President Diosdado Macapagal formally ended the policy of controls and devalued the peso. It is, of course, true that controls and the import substitution industries (ISI) they spawned operated mainly as packaging and assembly plants and, thus, continued to be highly dependent on the importation of other goods. Nevertheless, these industries breathed new life into a manufacturing sector that had suffered for decades from the competition by duty-free imports from the United States.

By abdicating controls in 1962, the state lost a potentially powerful instrument for redirecting the course of the economy. Why then was this policy abandoned? A convergence of two forces—one internal, the other external—again underscored the state's weakness. First, the oligarchy, particularly its exporting faction, emerging intact from the throes of a peasant uprising, stepped up its opposition to controls which were proving disadvantageous to its interests.[2] Through their supporters in Congress, the oligarchy had, by 1955, passed a so-called No-Dollar Import Law or barter law that allowed them to evade exchange and import controls and in 1959, Congress finally passed a law that ordered the administration to draw up and implement a program for the abolition of controls. Moreover, the ISI bourgeoisies suffered from an internal weakness that undercut any effective opposition it could muster against the move to abolish exchange controls and trade protectionism. As documented by our research, the ISI's constituency was dominated by landed capitalists whose contradictory interests, agro-exporters, and local assemblers undercut the coherence and cohesiveness of the class. Second, during this period, the US authorities had altered its policy in exchange controls and exchange rate stability. Payer explains what she calls a "fundamental shift" in attitude by the United States on this question:

> Apparently the US authorities had come to the view that exchange controls were more harmful to US business interests than repeated and sizeable devaluations of currency would be—that it was more important, from the standpoint of foreign investors to be able to take profits out of a country than to guarantee a constant value to the capital invested there. Ever since this shift in attitude occurred, both the United States and the IMF [International Monetary Fund] have been consistent advocates of devaluation and opponents of exchange controls.(1974, 61)

STATE BUREAUCRACY AND POLICYMAKING

Rooted in a lack of autonomy from dominant social groups as well as foreign actors, the postcolonial state's incapacity to effectively direct industrial development was also evident in the weakness of its internal bureaucracy. Two traditions dramatized these fatal infirmities—lack of any effective economic planning agency and pervasive graft and corruption. Until the declaration of martial law in 1972, no single governmental body effectively functioned as the center for economic planning. Partly due to the presidential system of checks and balances, there existed several competing centers of economic planning and initiative. There was rivalry between Congress and the presidency on the one hand, and among the various agencies attached to the office of the presidency, especially those of the National Economic Council (NEC), the Budget Commission, and the finance department, on the other hand. Furthermore, during the period of controls and even thereafter, the Central Bank played an important role on economic questions particularly under its influential governor, Miguel Cuaderno Sr.

In practice, the NEC proved to be ineffective even after its designation as the lead agency for national economic planning in the reorganization plan of 1955(see Milne 1960). With almost half of its membership drawn from Congress, the NEC as a planning body increasingly estranged itself from the presidency, which formed its own economic staff(Sicat 1974, 239). On the level of formal governmental structures, a major impediment to effective economic planning and implementation is the practice of placing too great emphasis on the virtues of checks and balances and too little on making the machinery sufficiently powerful and streamlined to carry out successful planning(Milne 1960, 203).

Under the Marcos government, the concentration of power in the ruling family and the arbitrariness of decision making undermined the attempts at introducing "technocratic rationality" to developmental plans. The regime's technocrats, however, most of whom were academic practitioners, had few linkages to the business community and enjoyed no support from these groups. Viewed as proponents of World Bank and IMF antiprotectionist schemes like devaluation and tariff and tax reforms, the technocrats generally incurred the opposition of the most powerful ISI groups(Montes 1989).

The social roots of the problem, however, go back to a tradition of spoils and patronage that has turned the state bureaucracies into fiefdoms of particularistic interests mediated by the oligarchy and dominant political families. Under the Marcos government, the dispensation of these privileges became concentrated, in fact, in a narrower circle of interests. In a very real sense, therefore, the state is a captive of these vested interests and has been unable to exercise any significant degree of autonomy for transformative social and economic projects.

THE STATE AND THE AUTHORITARIAN REGIME UNDER MARCOS

Whether seen as "super patron,""supreme cacique," or as "failed authoritarian modernizer," the Marcos regime did preside over a state apparatus whose structures for intervention in the economy were without parallel in the history of the country. In formalizing authoritarian rule in 1972 with the declaration of martial law, Marcos set into motion a series of events that culminated in a key change in the state's internal structure: a vastly expanded organizational capacity that enabled the regime to effectively control the country's resources. This changed state structure constituted the new element in the dynamics of the relationship between state and society and international actors during the Marcos regime. Consequently, it also defined the possibilities and limits of both "patrimonial plunder" and transformative social projects that challenge the hegemony of dominant groups and classes.

Like the postwar conjuncture that enabled the state to intervene more actively in the economy, a major economic and political crisis in the 1960s provided the immediate basis for the declaration of authoritarian rule. Amidst a deepening economic crisis that climaxed in the devaluation of the peso under an IMF plan in 1970, a nationalist movement resurged in the 1960s. Furthermore, with the founding of a new communist party in 1968 and the establishment of its military arm, the New People's Army (NPA) in 1969, the country experienced a new terrain of political contestation that the state had earlier crushed in the 1950s. More immediately, the growth of the nationalist movement that counted in its ranks respected national politicians like senators Lorenzo M. Tañada and Jose W. Diokno, forced a reexamination of economic and political alternatives to the country's future. The nationalist perspective gained increasing credence as it was incorporated in major Supreme Court decisions curtailing US control of local assets and in proposals in the constitutional convention of 1971 espousing economic alternatives along nationalist lines. For instance, the nationalist movement agitated for the nonextension of parity rights originally extended in 1946 to American nationals for the exploitation of the country's resources and which was due to expire in 1974.

In this context, a fierce contest for power among the elites erupted in anticipation of the presidential elections in 1973 under which Marcos would have been barred from running for a third term under the provisions of the existing constitution. In the increasingly divided society paralyzed by elite conflicts and the popular clamor for revolutionary change, Marcos finally invoked the rhetoric of national security, peace and order, and national reform to declare martial law in 1972.

As shown by the social and political landscape that emerged as a result of authoritarian rule, the Marcos government had no project of social transformation aimed at profoundly altering the class and production relations in society. Using the army, the cronies, and the technocrats to oversee the consolidation of the regime, Marcos, moreover, exploited fully the access to massive foreign resources, principally loans, to fund the entire system. While the Philippines received only USD 326 million in World Bank assistance between 1950 and 1972, it acquired more than USD 2.6 billion from the same agency between 1973 and 1981, the martial law years. Moreover, between 1979 and 1984, the debt repayment burden of the national government increased nine times, indicating its ability to contract huge loans.

While not a new element of regime survival given the country's history of dependence on foreign aid and loans, the state's access to foreign resources not only served as a source of "patrimonial plunder," more importantly, it provided the regime with financial resources needed to avoid mounting any serious challenge to the interest of the oligarchy and other dominant social groups like the entrenched industrial monopolies. Combined with the regime's monopoly of the trading of the major export crops, this access to foreign loans constituted the state's primary financial resource base and the motor of its intervention in the economy. One economist aptly referred to this as the strategy of debt-powered growth(De Dios 1988).

Thus, while temporarily displacing the oligarchy from its traditional base of political power—at least, during the closure of Congress and abolition of elections—the Marcos regime did not see the actual destruction of the oligarchy's economic base of power, even for its most prominent enemies. As long as foreign loans were available there was less need to politically confront the oligarchy and the industrial oligopolies and extract more resources from them. Land reform never seriously got off the ground and, in fact, exempted the big plantations owned by the most powerful sections of the oligarchy. While the state monopolized the trading and distribution of key agro-export crops, it also left the production process to the landowners.

Marking a major step in the state's intervention in the economy under Marcos, the government used foreign borrowings to directly support the operation and growth of public enterprises. In the fifteen-year period from 1970 to 1985, public enterprises increased from 65 to 303 firms and, by 1980, about 73 percent of total government borrowing went to this sector(Bautista 1986, 5–6). In spite of their huge subsidies, however, a study concluded that these firms were run inefficiently and constituted a "drag on the economy" (Manasan and Buenaventura 1986, 49). Direct government expenditures on gross national product (GNP) also increased substantially under the Marcos regime. Before 1965, government expenditures as a percentage of GNP was about 9 percent, by the 1970s and 1980s, the government's share jumped to 15 percent(Montes 1989).

By the end of 1986, the Philippine government and its agencies had incurred a total foreign indebtedness of USD 21.5 billion or about 77 percent of the country's total external indebtedness(Central Bank of the Philippines 1987). In addition, the government, through its banks and other financial institutions, had guaranteed the foreign loans incurred by private firms amounting to about USD 702 million in 1986.Predictably, this practice of guaranteeing the loans of private firms exacerbated the country's debt problem since a number of these companies defaulted on their loans. Of this debt, about 49 percent went to the Philippine Associated Smelting and Refining Corporation, a corporation jointly owned by the government through its National Development Company, a consortium of the country's biggest copper mining firms, and investors from Japan and the United States. The mining firms are controlled by leading capitalist families like Soriano, Palanca, Brimo, and Cabarrus. Through various milling companies, the oligarchy's powerful sugar bloc also received 1 percent of this state-guaranteed debt.

The key developmental issue raised by the use of foreign financial resources—loans, aid, or direct investment—lies in determining the conditions under which these could be used to push economic growth and development. In the East Asian NICs, specifically South Korea, the government also engaged in huge borrowings to finance industrial growth led by the conglomerates, the *chaebols*. Moreover, the Korean *chaebols,* like the Japanese *zaibatsus,* started from a traditional family structure that provided the basis for organizing industry, indicating that "feudal holdovers" have been an important aspect of late development in East Asia. Clearly, what proved crucial in the experience of the NICs was the presence of an "insulated developmentalist state" that could provide both effective support and sanctions to its key private economic players.

THE STATE, THE IS BOURGEOISIE, AND THE CRONIES

Among the leading local manufacturers, the cronies came mostly from the newer, nonlanded capitalists whose initial entry into manufacturing was facilitated either by access to loans from government institutions or to special licenses and import privileges from political connections. This form of entry into manufacturing cemented long ties of dependency on state institutions and demanded personal linkages with state officials. With their history as trading immigrants to the country, the Chinese-Filipino capitalists were rarely oligarchic in their social origins, but some Chinese had developed sufficient personal or business ties with the ruling family and its associates to qualify as cronies.

Anderson correctly points out that "the 'notorious cronies' were sociologically, a mixed bag, including not only relatives of Ferdinand and Imelda, but favored oligarchs and quite a few 'new men'" (Anderson 1988, 22). Among the landed capitalists in manufacturing, Eduardo Cojuangco Jr. typifies the archetypal oligarch and crony who presided over the government trading monopoly in coconut, as well as scores of other business firms in various sectors of the economy. Of all the cronies, he came closest to building a successful conglomerate and becoming a monopoly capitalist powerful enough—with state support—to take over multinational firms in the coconut industry. Juan Ponce Enrile, Geronimo Velasco, and Ricardo Silverio are the most prominent cronies among the nonlanded capitalists. Enrile, a key Marcos cabinet official before he led the military mutiny in 1986, exemplified the successful bureaucrat-capitalist who was able to establish his own diversified conglomerate. Before getting anointed as a crony and Marcos technocrat, Velasco honed his skills as manager of foreign-owned firms. Silverio, whose business empire collapsed in the 1980s, started as a lowly textile trader.

Among the Chinese-Filipino capitalists in manufacturing, two Marcos cronies stand out: Jose Yao Campos, who monopolized the distribution of pharmaceuticals in government hospitals; and Lucio Tan, who built his powerful diversified conglomerate around the cigarette industry. Moreover, some of the Chinese-Filipino capitalists, through their equity linkages with government financing institutions, controlled firms that monopolized particular sectors. The outstanding case here was the Palanca and Lim groups of Filsyn, which monopolized the manufacture of polyester.

Those among the few ISI manufacturers targeted for attacks by the regime were singled out not because of their ISI activity but because of their perceived political opposition or their ties with the regime's political enemies. Thus, one of the victims, the Jacinto family, was a major supporter of Marcos's defeated presidential opponent in 1969, Sergio Osmeña Jr. By marriage, the Jacinto family was at one time also linked to the Osmeña family, a Cebuano oligarchy. In taking over the Jacinto's steel companies, the regime invoked the family's severe loan repayments problem as the official excuse. Joselito Jacinto, however, claims that the government violated a "forward-exchange arrangement that should have insulated the company from the effects of the floating rate imposed on the peso in the early 1970s."[3] As part of the devaluation process, the floating rate impaired the company's ability to repay its huge foreign loans with the sharp drop in the peso's value vis-à-vis the dollar. More seriously, Jacinto also claims that Marcos sought to control the family's flagship, the Iligan Integrated Steel Mills, by demanding a two-thirds share of the company stocks.

Another leading ISI capitalist, Domingo Guevara, relates a classic tale of cronyism to explain the collapse of his companies in the late 1970s.[4]Guevara claims that his firm assembling radios and TV sets, Radiowealth, folded up when the regime allowed Roberto Benedicto, a major oligarch and crony, to import tax free the same products purportedly for use by the *barangays,* the barrio governments. As the franchise holder for the assembly of Volkswagen cars, Guevara also claims that he was forced to leave this line of business because of the unfair competition coming from three local car assemblers favored by the regime. In compliance with a government plan, five local car assemblers, including Guevara, were required to locally manufacture as much as 50 percent of car parts. The regime, however, allowed three other companies that were not part of the official plan to import finished cars purportedly for exclusive government use. This practice put the less favored car assemblers at an extreme disadvantage and forced people like Guevara to drop the business. As in the case of the Jacintos, Guevara claims that the ruling family through its cronies wanted to buy into the family company.

THE WEAK PHILIPPINE STATE: NODAL POINTS

In its history of direct involvement in the country's economic development, the Philippine state has always contended with two enduring forces of the social formation: an entrenched elite based on land and merchant capital, and a significant presence of foreign capital in the domestic market. Except for a short period in the 1950s, when a favorable conjuncture of local and international events allowed it to exert greater control over economic policy, the state has remained weak. Lacking the "embedded autonomy" that has characterized "developmental states" elsewhere in Asia, the Philippine state is unable to construct or oversee a social coalition for sustained industrial growth.Even the authoritarianism of the Marcos regime masked the essential weakness of a state with little autonomy. While the authoritarian regime expanded the state's mechanisms for economic intervention, it used these measures to advance the particularistic agenda of a narrow coalition of interests—the ruling family and its cronies.

For all its limitations and weaknesses, growth achieved in the "easy phase" of industrialization during the period of exchange and import controls in the 1950s underscores the centrality of the state in directing economic growth. Exercising greater control over the direction of economic policy, the state pursued a program that systematically favored emerging manufacturing elites over the traditional exporting agrarian elites. Since the state eventually succumbed to the interests of traditional agrarian elites and transnational actors opposed to exchange and import controls, there was, however, no "deepening" of the industrial process. Moreover, the manufacturing growth in the 1950s had a limited internal dynamism since it did not represent the "emergence of new class relations more favorable to new organizations of production, technical innovations, and increasing levels of productive investment" (Brenner 1976, 37). Thus, in its formative years, the domination of the ISI sector by landed families introduced a contradictory element in the developmental process—one marked by the failure to substantially transform agricultural surpluses into industrial capital.

Short of a successful social revolution ignited by worsening social capital, only a strong, autonomous state could break the continuing power of the traditional agrarian elites and negotiate more favorable trade and investment terms with transnational actors. With an autonomous state capable of leading a social coalition for industrial growth and responding creatively to opportunities posed by the world market, ISI and export-oriented industrialization (EOI) policies can, in fact, be pursued side by side as shown in the experience of the East Asian NICs.

Two key conjunctures in the Philippines' postwar economic experience illustrate the failure of industrial transformation in the absence of a strong state. The first case concerns the collapse of the attempted transition from the very easy phase of "horizontal" ISI during the 1950s to the next phase of "vertical" ISI in the 1960s for the production of intermediate products and capital goods. Without a strong, autonomous state to resolve the tensions among traditional agrarian elites, local manufacturers, transnational capital, and global financial institutions, the transition to a higher stage of import substitution could not be pursued with any success. In this sense, there was no effective "triple alliance" of the state, local capital, and the multinationals, to preside over a local process of capital accumulation (see Evans 1979). In a related way, from 1963 to 1970, the inability of the weak state to forge a new social coalition in support of EOI strategy also undermined the attempted shift from ISI to EOI under pressure from the IMF.

The second case refers to a situation under Marcos when the state used two key resources, export crops and foreign loans, to expand its financial capacity. By monopolizing the trading of sugar and coconut products, the country's leading agricultural exports, the state found a way to control a significant share of the agricultural surplus, albeit at the expense of the small landholders and workers. In addition, the state enjoyed access to massive low-interest foreign loans during the 1970s, underpinning an attempted "debt-driven" growth policy. With the state captured by particularistic interests, however, much of these resources ended up financing unproductive projects, inefficient government enterprises, and predatory crony firms, instead of promoting the accumulation of industrial capital.

In contrast to the experience of the East Asian NICs, the Philippine landed elite and its exporting mercantile fraction significantly shaped the formation of the local capitalist class. Thus, neither the "really revolutionary path" referred to by Marx in the transition from feudalism to capitalism nor the radical severing of linkages between agrarian and industrial elites found inthe East Asian NICs characterized the Philippine process. In the colonial context of class formation in the Philippines, the non-revolutionary, second path to capitalist development, described by Marx, has also failed to develop fully partly because no strong state exists to direct the transformation of merchant capital into industrial capital.

CONCLUDING NOTES FOR A POLICY AGENDA: CONSTRUCTING A GROWTH COALITION

Enjoying a little autonomy from dominant social classes, political clans, powerful families, and other entrenched particularistic groups, the Philippine state is captured by, rather than autonomously embedded in, competing and diverse social interests. With this reality, it is difficult to build (assuming its desirability) a truly "insulated developmentalist state" along the lines of the East Asian experience. First, the strong state in East Asia emerged out of a specific colonial and postcolonial context radically different from that of the Philippines. Second, the strong state in the NICs was nurtured by authoritarian and repressive political regimes whose replicability and desirability are not easy options. Third, in Philippine civil society, there exists a vibrant and militant social movement whose alternative agenda for economic growth and transformation has continuously challenged both state and dominant class power.

At the same time, however, the seemingly intractable social and economic problems in the country call for a strategy of collective action where the state continues to be a key player in a process that will have to include other players in civil society. In a situation like that obtaining in the Philippines, the state will have to intervene in addressing intractable social and economic constraints as seen in the grossly unequal distribution of assets that have stunted the development of entrepreneurial capabilities.

In one dimension, strengthening the state's autonomy can come about by decisively reforming the government's key agencies, particularly the police, the military, and revenue-generating units. An important aspect of this process will be the provision of an incentive scheme that will make the bureaucracy more competent and honest. Another important area for enhancing this process is redesigning political institutions and even constitutional frameworks to make them more compatible to both economic development and democratic consolidation. In the Philippine context, it can be argued that the system of elections (single member constituency), the bicameral presidential system of government, and the weakness of the party system have all combined to make the state more permeable to powerful vested interest groups. At the same time, these political institutions have also made it particularly difficult for popular-based movements to contest political power and make the state more responsive to legitimate people's demands. In the light of these problems, one area for political institutional reform lies in exploring the shift to an electoral system of proportional representation combined with a unicameral parliamentary system and stronger political parties with well-defined programs of government. While the foundations for a truly democratic polity will be built on the sustainability of industrial growth and the resolution of gross economic inequalities among the people, these institutional reforms can provide a firmer and broader political basis upon which policies can be formulated and implemented.

While reforming its own key bureaucracies and institutions, the state through its government will then have to construct and nurture the "growth coalition" that will underpin a strategy for sustainable industrial growth and development. As an inclusionary process, this will necessarily have to include the following as its core elements: key government officials, the most productive business elites and entrepreneurs regardless of their social or ethnic origins, the industrial and agricultural workers, the community of nongovernment organizations and people's organizations, and competent professionals in various fields of expertise. In constructing this growth coalition, the state will then be compelled to enhance its own strength and autonomy while coordinating and supporting the best initiatives and resources from civil society.

NOTES

1. For enlightening historical accounts of the formation of the country's national elites, see Cullinane (1989) and Paredes (1990).
2. The policy of controls required all exporters to turn over their dollar earnings to the Central Bank to be exchanged for pesos at a disadvantageous rate of exchange.
3. Joselito Jacinto (president, Jacinto Iron and Steel Sheets), interview by Temario Rivera, Makati, Metro Manila, March 25, 1987.
4. Domingo M. Guevara (chairman, D.M.G., Inc.), interview by Temario Rivera, Mandaluyong, Metro Manila, April 14, 1987.

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