

Vicente Paterno
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Transcript of Interview

Vicente Paterno
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Columbia Tower Ortigas Ave.
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<The group talks about Vicente Paterno's camera and photography while the research assistants and Prof. Yutaka Katayama are setting up the audio visual equipment>

PATERNO: Actually, I like this [interview session] because I am in the process of writing my memoirs.

RIVERA: We encourage you to do that too.

PATERNO: I have now written some of the materials... I started writing about my childhood, my children, and grandchildren. I have written the part when I was already a graduate in the Harvard Business School. Do you have my curriculum vitae?

RIVERA: Yes. Thank you.

PATERNO: I am now starting to write about my work. This interview will be useful to me, so I asked my secretary to turn on my recorder.

TADEM: Sir, when we have transcribed it, we will give you a copy.... We have done [a series of interviews] with Prime Minister [Cesar] Virata.

PATERNO: I saw Mr. Virata, two nights ago. He told me that you had interviewed him. So I asked him how long did it take? I thought that it would be a long time.

RIVERA: He was in government [service] for the longest time also.

PATERNO: Now that we are on [Cesar] Virata, he and Placido Mapa were the ones who really recruited me for the Board of Investments (BOI) ... in 1969. I think, he was being transferred from the chairmanship of the BOI, which was then a year old, to become the secretary of finance. There was an interim chairman but it was an agency with potential for development and he liked me to be there. This was in late 1969 and it happened that at the time I had been getting into policy difficulties with Mr. [Eugenio Sr.] Lopez. I was the chief financial officer of Meralco (Manila Electric Company).

I joined Meralco in 1964. Meralco was purchased by a group of Filipino investors led by Mr. Eugenio Lopez Sr. The owner corporation in the United States was called the General Public Utilities Corporation or GPU. Mr. Lopez led a group of people, and made an offer to purchase Meralco from GPU. GPU was already looking forward to the time when they would not be able to have ownership in a public utility [corporation] because of the Constitution and because the Laurel-Langley Agreement would expire in 1974. That was about a decade away but they did not want to get involved in a [far] fire sale, having to sell because they had to. They wanted to do it gradually with plenty of time so by 1974, they would have already been paid under a deferred payment plan. Of course, Mr. Lopez wanted eventually a Filipino management team of Meralco. In 1964, Mr. Lopez's son, Eugenio Lopez Jr., who was handling ABS-CBN and who was also my classmate in Harvard Business School, asked his father who in turn agreed for me to replace the retiring American treasurer **George Ross (check name)**, to which I agreed.

As noted in my CV (curriculum vitae), I am an engineer with finance training. You might also wonder why in the early years after Harvard Business School, I did [not] work for a non-Filipino corporation. I went into a development agency which was a joint venture of US AID (Agency for International Development) and National Economic Council (NEC). My reasoning was, "I have been taught about US business practice but I know nothing about the Philippine economy and business practices in the Philippines." I decided that I would work for a government agency, which was concerned with economic development, so I could learn a little bit of what my country was like. [Then] I had never been exposed to any business. I was a plant engineer. I had worked as a mill engineer in a sugar mill. Why did I go to business school? Because I found out that people in the front office were negotiating pesos away. We were working hard to save centavos [while] they were throwing away pesos per picul of sugar. I was in the wrong end <laughs> so I decided to go into business.

RIVERA: So was the Board of Investment (BOI) created only in 1969?

PATERNO: 1968. It was created by RA 5186. This act was the outcome of a project... of the private sector because people were saying it was time to review what we, as a country, were doing, how we were going to cope with the future. The [economic development] council entered into consultations with members of the legislature and together they evolved two Acts. The first was RA 5186 which created BOI (Board of Investments) and provided

investment incentives to enterprises which would be listed in an Investment Priorities Plan. That was an annual plan of the so-called Investment Priorities. Its companion legislation was RA 5455. RA 5455 required all foreign investments to be registered with the Board of Investments. The idea behind this was “Yes, we want foreign investors but there are some foreign investors we don’t want.” We did not want ... people engaged in activities which in the view of Congress did not contribute to national development. Those were the two functions of BOI.

RIVERA: I am trying to remember the economic environment then. In the 1960’s, it was quite restrictive in accepting foreign investment. There were numerous restrictions, right?

PATERNO: Those restrictions had existed long before. One of the major constraints to foreign investments was the Laurel-Langley Agreement.

RIVERA: Why?

PATERNO: Because as a German put it to me early in my work in the BOI, “Mr. Paterno, we are waiting for 1974 when the Laurel-Langley expires because we do not want to be treated as second-class investors in your country. The Americans have parity treatment, the same treatment that you [should] have with other nationals. But we, because we are other nationals, we are treated inferior.... That’s not the way we like to do business.” Moreover, this may be ancient history to you, we did not yet have, in 1968 or 1969, diplomatic relations with Japan. One of the reasons for that award was that I worked with the Japanese ambassador at that time, Toshio Urabe, to soften the public impression about Japan.

...One of the projects that Ambassador Toshio Urabe had that I think was a very wise one and very far-sighted, was his offer that the Japanese government would provide the grants and loans for a highway that would link Northern Luzon to Southern Mindanao. That was supposed to be called the Japanese-Philippines Friendship Highway. It had done a lot in the development of this country.

TADEM: Sir, going back to your recruitment [in government service], you said that [Cesar] Virata recruited you, but how did you come to know him, from UP (University of the Philippines)?

KATAYAMA: But before that, you said that you had policy difficulties with Meralco, with Mr. [(Eugenio Sr.) Lopez, so if it is not inconvenient for you, would you elaborate on it a little bit?

PATERNO: My policy problem with him [Eugenio Lopez Sr.] was this: Meralco was expanding very fast because the holding company of Meralco wanted to be free of the National Power Corporation (NAPOCOR). And their thinking was, “we must have control of the power supply because it is us who will be blamed by the customers, if there are brown-outs, etc.” As the treasurer, I had the task of negotiating for the capital to build those additional power plants, for the foreign loans. Our problem was that Meralco was the largest company at that time and it had already outstripped the capability of the Philippine banking system to provide guarantees for new foreign borrowings. My important task was to find ways by which we could offer collateral for foreign loans. Although we really did not have much debt at that time, we were not able to offer collateral because how could we provide it as a portion of the whole? You can not break up an electrical system into its parts. Where will you stop? And so, banks being what they were, they wanted the whole system to be collateralized instead of by pieces. We found that Meralco had an instrument for collateralization derived from US practice, which was called mortgage trust indenture.

The concept of the mortgage trust indenture is you indenture— you mortgage all of your assets or, better put, you place all of your fixed assets into one mortgage document. So you add to the value of your trust indenture as you acquire new property and deduct value from it as you subtract assets [e.g., through depreciation]. As it goes up or down, the value of your assets are reflected totally in a document.

So with a mortgage trust indenture, you are able to issue specific documented collateral against the loans that you get. If I have trust indenture for assets worth ten billion pesos, if I would ask for one billion pesos loan, I could issue a corresponding document of mortgage collateral for one billion pesos. Of course, there were covenants in the mortgage trust indenture for limiting the amount of money that you can borrow against your asset. Your collateralized loans cannot be more than 60 percent of the total value of your assets.

In 1969, we were already bumping against that 60 percent. I said to Mr. [Eugenio Sr.] Lopez, “Mr. Lopez, we now have to worry about the future. Once we exceed that 60 percent limit, we can no longer borrow against the mortgage trust indenture. We would then have to go to borrowing short-term loans from banks; that step is not good for companies that will acquire long-term assets.” I suggested that Meralco should make an initial public offering (IPO) to raise equity capital. He got mad at me and he said “What are you doing? You want me to lose control, my group to lose control?” I said, “Mr. Lopez, when you are managing, when you are responsible for the management of a company, your continued management does not depend on your continued ownership control. It depends on your continued good management.” He did not buy that. He felt that in order to manage the company, he must have the control with ownership. I wanted Meralco itself and not the holding company, Meralco Securities Corporation, to raise equity through an IPO.

RIVERA: The holding company would include not only Meralco assets?

PATERNO: The holding company was mainly built to acquire Meralco. Therefore, it had an annual need to pay for the purchase of Meralco. It was a ten-year plan, I think.

RIVERA: But was that a fairly common practice where you have private companies applying for loans guaranteed by government bonds during those times?

PATERNO: I am not sure of how common that was, but there were instances when you had sovereign guarantees for private sector borrowings. But as I have said, the holding company and Mr. [Eugenio Sr.] Lopez did not want to depend on government, even for its power supply, and even less for its financial future. Meralco had already exhausted its commercial bank capability and it was the largest Philippine company. Instead of sovereign guarantees on foreign loans to buy power plant equipment, Meralco needed first to establish the international credit rating of its mortgage indenture bonds. That was accomplished by first selling those bonds in Wall Street. We sold eight million dollars of the bonds to eight insurance companies buying one million each. Why did insurance companies like our bonds? Because they liked the insurance of Meralco.

By having established their credit rating in Wall Street, then by that fact, the mortgage indenture bonds became acceptable as collateral for Kreditanstalt für Wiederaufbau (KfW)

of West Germany, in Japan Export Import Bank, in US ExIm Bank, etc. That sale of mortgage indenture bonds in Wall Street was the breakthrough for financing the massive expansion of Meralco's power plants.

RIVERA: So that conflict eventually provoked your [decision to leave Meralco]...

PATERNO: ... I felt that I would be continuing under false pretenses and I would be dishonest by continuing to stay in a position which I knew would lead the company to perdition. I would not want to be responsible for that. I was 45; I had the rest of my professional life before me.

RIVERA: When, what year, did you leave Meralco?

PATERNO: 1970.

KATAYAMA: Did Eugenio Lopez suspect that incident had something to do with President [Ferdinand] Marcos...?

PATERNO: That was part of the suspicion....

TADEM: That was during Martial Law.

PATERNO: No, this was before, in 1970. One of the things that he [Eugenio Lopez Sr.] said was I wanted him to lose control but he did not say to whom. "You want me to lose control?" As it turned out, he was correct in that he lost Meralco because Marcos took it from him by coercion.

RIVERA: But for the wrong reason.

KATAYAMA: How was your relationship with the Lopez families now?

PATERNO: Well, that started there and it continued. Because I was really their friend, I had done something for them. Even after I left Meralco, they felt that I was still helping the family and their interests. I left Meralco in 1970. My oldest son was born in 1968 and

Eugenio Lopez Jr. was his baptismal godfather. And Oscar Lopez, even during the martial law period, his wife invited me to be the baptismal godfather of their son. I was almost part of the family before I left Meralco, and remained in good terms with the family till now.

RIVERA: By the way, were you a contemporary of Cesar Virata in the [University of the Philippines] College of Engineering?

PATERNO: No, Cesar Virata graduated in 1951 and I graduated in 1948.

TADEM: Sir, from there since you said that he was the one who recruited you into government service, what was your relationship through the years?

PATERNO: During the time I was working with the National Economic Council (NEC) joint project with US AID (Agency for International Development), I was not making enough money and I was just married so I needed an extra income, I was doing lecture work in MBA (Master of Business Administration) at De La Salle [University], Ateneo [de Manila University], and UP (University of the Philippines). We were together at that time. You find eventually that the world is indeed small.

TADEM: But in terms of ideas that you and Sir [Cesar] Virata shared about investments, when you brought those up in government, were there also other people with other ideas or was it smooth sailing from the start?

PATERNO: I had a very fortunate position. The BOI (Board of Investments) was not part of any department. It was part of the Office of the President. Therefore, while I was junior in position to the members of the cabinet, I was almost a member of the cabinet, because I was dealing with the secretaries etc. I was not taking directions from them.

RIVERA: Were you invited to join cabinet meetings?

PATERNO: Yes. By 1974 or 1975, I was a member of the board of Development Bank of the Philippines (DBP), Central Bank, NEDA (National Economic and Development Authority), and the National Oil Company. I did not feel that I had to take orders from anyone except from the President [Ferdinand Marcos]. We had a good cooperative relationship.

RIVERA: I am trying to track down the evolution of the BOI (Board of Investments). Later, was it absorbed or was it combined with one of the departments?

PATERNO: The Department of Industry. In 1974 or 1975, I was called in Malacañang one day and Marcos said, “I want you to be the Minister of Industry.” “Mr. President, you cannot make me Minister of Industry, there is no such department.” He asked, “Why?” “There is no department like that.” So he said, “Go ahead and you write out the charter for the Department of Industry.” So I did. Because I was then at BOI (Board of Investments), where you regulate investments and you regulate foreign investments, I got involved in a lot of matters and issues which normally a MITI or Department of Trade and Industry would handle.

[President Ferdinand] Marcos said that he wanted me to be a minister because he wanted somebody at a ministerial level to work on ASEAN (Association of Southeast Asian Nations), in the economic ministers’ meeting of ASEAN. The ASEAN economic summit in Bali was in 1975 or 1976. I was very much involved in that. There were two ASEAN economic ministers in our cabinet, Gerry [Gerardo] Sicat and myself. I gradually developed close working relationships with the economic ministers of the other ASEAN countries, especially Indonesia.

We ASEAN economic ministers felt that all these foreign ministers... took too long to get anything done. They had to get so many drafts, etc. and we did not have time. The Indonesian economic ministers [Widjojo Nitisastro, Radius Prawiro] and I got to talk to one another on the phone and we even had secret... meetings, one in Bangkok, to iron out the drafts of the economic declarations. We worked that closely together.

RIVERA: After 1972, what were the major policies changes that took place in terms of investment policies?

PATERNO: None. Even before I joined government, way before martial law, I was involved in the legislative private sector cooperation, in evolving RA 5186. So I was familiar with that—to promote investments and industrial production. I was not being asked to implement a law that I disagreed with. It was something which I had taken part of, through my participation in the private sector. After martial law, I am proud to say that RA 5186

continued as RA 5186. It was not amended by a presidential decree until [Roberto] Ongpin's time.

RIVERA: [Roberto] Ongpin took over... what year was that?

PATERNO: 1979.

RIVERA: That was your last year as BOI (Board of Investments) chair?

PATERNO: I was already Minister of Industry then and when [Roberto] Ongpin came in, they recombined Trade and Industry so the policies of BOI changed.

KATAYAMA: So even without the declaration of martial law, do you think the investment environment would not change or would be the same?

PATERNO: The investment environment changed a bit with the declaration of martial law but it changed considerably with the expiration of the Laurel-Langley agreement. It changed a bit when Japanese investments came in 1971 or 1972. Before diplomatic relations, Japanese entities in the Philippines had to function as liaison offices. After the diplomatic relations and the economic treaty, Japanese investments came in gradually and then stronger. But really it took the expiration of the Laurel-Langley for foreign investments to be stronger overall. I can understand why. Why should a foreign firm desire to be a second class investor vis-a-vis the Americans by virtue of a Laurel Langley Agreement?

RIVERA: So one major outcome of the expiration of the Laurel-Langley Agreement was the major influx of Japanese investments?

PATERNO: Well, of non-American foreign investments.

RIVERA: Of which the Japanese was the leading investor?

PATERNO: Yes. But they had already begun before the [Laurel-Langley] agreement expired.

TADEM: Sir, were you surprised by the declaration of the martial law?

PATERNO: Yes.

TADEM: So you had no inkling?

PATERNO: I had none. I was politically innocent. In the first sense of that word, I was a technocrat. I was not involved in politics.

KATAYAMA: What were your first thoughts when [President Ferdinand] Marcos declared martial law?

PATERNO: In order to answer that question, I have to go back to this conversation between my wife and myself. This happened in February 1970. I was telling my wife that my situation in Meralco was getting to be so difficult— that I wanted to leave. What were our choices? During my work in Meralco Securities and Manila Electric Company, I had worked with the International Finance Corporation (IFC) people. Actually, IFC had taken 5 percent equity in Meralco and I received some overtures that if [I] should want to do some international work, there was place for me with them. My wife and I had a long session about where I would go from Meralco. I said I had two choices; one was to leave the country because Meralco was such a big company at that time and to join any other company was like subjecting it to a collision course with Mr. [Eugenio Sr.] Lopez. I think you are familiar with this kind of idea. So one alternative was to leave Meralco and go abroad for an international post. The second choice was to stay in the Philippines and join the government. My choices were very clear. The decision revolved around leaving the country or not. That was the key point and after a long discussion, my wife and I came to an agreement that it was not fair to leave the country because we would be making weighty decisions for our children. It was not right. We should let them decide for themselves whether to leave or to stay in this country. In the end, three of my children are here and two of them are abroad. So they made their decision, not us. That time our oldest child was only 11 or 12. They were too young to make a decision.... Basically, it was that.

If you look into my curriculum vitae, you can see that I had never worked for any foreign company. I just don't want to be working for somebody whose interests might be different

from my own. It was not that I wanted to be in the Board of Investments (BOI), it was just a logical choice.

RIVERA: And the fact that you were invited by somebody like [Cesar] Virata and [Placido] Mapa was also another factor?

PATERNO: I would not have joined the government because I wanted to be an official of government. The reason I joined was because I had been offered a position where I think I could do good. I would not join the government for the sake of being an official.

TADEM: Even an academic with consultancy work.

PATERNO: It was a choice of jobs and there were clear choices. Either I would go to IFC (International Finance Corporation) or the government.

TADEM: Sir, when Martial Law was declared, did you talk about it with your wife?

PATERNO: No. I was already there. But to me the consequence of martial law was this, I had joined the BOI on the basis that I would just fill the unexpired term of Cesar Virata which was two and half years. When martial law came, I reminded Mr. [Ferdinand] Marcos, "Sir, I would only fill the unexpired term of Cesar Virata." "No, you will stay." And I enjoyed my work anyway even if I was paid less than a third of what was my base pay in private work. So I obeyed Marcos and stayed. I would not be able to leave until 1980.

TADEM: So sir, they were saying that some technocrats preferred martial law because they did not have to deal with Congress and the politicians.

PATERNO: I had no problem with the politicians. I had to face the Commission on Appointments because I was being appointed to a position that required the Commission on Appointments. But the Senate President called me and said, "Ting, you come tomorrow and you face the Commission on Appointments but I have already talked to them." So I went to the Senate the next day to say "Your honors, I am here to answer questions."

RIVERA: Who was the Senate President then?

PATERNO: Gil Puyat.

TADEM: Did you know him from before?

PATERNO: Yes, and he knew me. I was the CFO (Chief Financial Officer) of the largest company of the country.

RIVERA: In the Lower House, was there a very strong nationalist position, and the policy of restricting foreign investments by that time, before martial law?

PATERNO: Yes. But the foreign investment law was not changed during martial law. We continued to implement RA 5455. To [President Ferdinand] Marcos' credit, he did not interfere with me in BOI (Board of Investments) until 1978. He had one directive to me. He said, "You know Ting, I want the infrastructure of this country to be developed and I cannot do that if cement prices go up too much. Your job is to maintain cement prices." And fortunately, it was easy for me. That time the Vietnam War was ongoing in 1970s so the demand for cement was high in Southeast Asia. So [what I did] was I set up the cement industry authority and this controlled the exports of cement so that the domestic market would not follow export prices. Our paradigm was this: the more you sell domestically, the more you would be allowed to export provided that the domestic market was fully served. So the cement people found their incentive to maintain prices and even compete with one another to sell domestically in spite of a good export price. The incentive offered them was that the more you sell in the domestic market, the more you would be allowed to export and the more money you could make. I believe that without such restraints, the domestic needs for cement would not have been fully served, and undue competition from Philippine producers could also have lowered export prices.

RIVERA: But were the local companies able to export?

PATERNO: Of course. I think the export price at that time was about 50 percent more than domestic prices.

RIVERA: What sort of government subsidies did the cement industries have?

PATERNO: They did not enjoy any subsidies. They enjoyed subsidies in terms of maybe investment incentives. They increased their capacity to buy equipment.

KATAYAMA: May we ask of your impression of Mr. [Ferdinand] Marcos, his personality.

PATERNO: I was fortunate as I said, he did not really know the industry and until 1977, he left me alone. His cronies would come around and would say, "I am very close to the President, please make this." I said, "I could not give you that because it is against the rules and polices." "The President wants this." "You get a letter from the President." I did not receive any letter from the President until 1978.

KATAYAMA: Marcos did not hide that he was not knowledgeable about the industries or he pretended to be knowledgeable about that?

PATERNO: He did not pretend. He did not tell me what to do. Let me put it this way ... when he said that I would write the charter for the Minister of Industry... I asked myself what I should put in the charter about large industries when we were already controlling it in the Board of Investments (BOI). We were regulating it with the Investment Priorities Plan and its investment incentives. I said in the charter that BOI would be part of the Ministry and I would create another bureau for small industries. That was where MASICAP (Medium and Small Scale Industries Coordinated Action Program) fitted in.

Up to that time, the only attention given to smaller enterprises was in the National Cottage Industry Development Authority (NACIDA). So the idea of small industry was cottage. We said, "No, there should be a place for small-medium industries besides big industries." So I had the chance to establish a basic industrial policy.

One of the mandates of RA 5186 was to develop industrial exports and to provide incentives for that. One of the major handicaps at that time was tariff. Tariff did not distinguish whether something would be imported or exported; inputs into exports did not receive special treatment. There was hope that you could get back the duties you pay but government took so long to reimburse. The device to allow export inputs to be brought in, free of taxes and tariffs, was the bonded manufacturing warehouse. The idea of the bonded manufacturing warehouse

was that there would be a Customs person within the warehouse to log in imports and track those imports until they came back in to be exported. That bonded manufacturing warehouse had its genesis in the embroidery industry. Back in the 1950s and 1970s, there was a cottage industry for embroidering dresses, baptismal gowns, and so on. The embroidery export warehouses were conceived. Textiles came in and they were cut into the pieces required, then sent to be embroidered and then came back to be tallied. “How many pieces came back, how many went out?” —that was the genesis of the bonded manufacturing warehouses.

Eventually, it became extended to other manufacturers but it was still cumbersome because it had been founded on the basis that a piece of cloth could be cut there, sent out, and then come back, But how do you segregate an input when it has become part of an assembly? So we had to work with the [Bureau of] Customs to develop the procedure for the bonded manufacturing warehouse and also with Bureau of Internal Revenue (BIR). Early on, we established what we called joint committees, with BIR, Customs, and BOI (Board of Investments) in handling the problems of exporters who wanted to use bonded manufacturing warehouses so they would evolve into something different from the embroidery. You realize the distinction that had to be made from what you imported that would preserve its form throughout the process of preparing it for export and what you import that would merge into other forms through manufacturing.

RIVERA: The idea was not to impose tariff for these imported inputs that would be used for exports?

PATERNO: Yes, no tariff, because essentially the bonded manufacturing warehouses were supposed to be non-Customs territory or territory outside the Philippines. That evolved now into what we call export-processing zones (EPZs). That was the genesis.

KATAYAMA: According to the textbooks of political economy, authoritarian regimes just like Marcos made a significant shift in industrial policies from import-substitution to export-orientation and some scholars assumed the same thing happened in the Philippines. But as far as Mr. Marcos was concerned, was he keen or aware of the policy change?

PATERNO: Not so much. It was not a product of martial law. It was a product of cooperation among cabinet members without interference from Congress. When you have Congress, you

have politicians [to] tell you [how] to bend the rules this and that way. But we were able to make changes by interdepartmental cooperation without the need for direction.

RIVERA: This was already under martial law?

PATERNO: Yes, because there was no Congress at that time.

KATAYAMA: No more intervention or twisting?

PATERNO: Until 1978.

TADEM: Sir, what happened in 1978?

PATERNO: In 1978, I started receiving notes from Mr. [Ferdinand] Marcos.

KATAYAMA: Sir how about from Mrs. [Imelda] Marcos?

PATERNO: Mrs. Marcos?

TADEM: From his friends?

PATERNO: His cronies. Yes, from his allies also like [Herminio] Disini. Those people....

TADEM: From construction also?

PATERNO: I did not have anything to do with construction until I went into Public Highways.

KATAYAMA: But the Marcos cronies were already very active even during the early days of Martial Law so why they did not...?

PATERNO: But their first target was Finance.

RIVERA: For loans?

PATERNO: Well, both for loans and for tariff privileges. One of the worst offenders was the cigarette industry and I don't know if you remember this filter cigarette.

KATAYAMA: Blue and red.

RIVERA: So in the case of cigarettes, they were for tariff privileges.

PATERNO: Differential tax to favor the friends. So Cesar Virata was under fire.

TADEM: So who were your allies, besides Mr. Virata?

PATERNO: It was a quite solid economic cabinet. Our principal protector was the Executive Secretary, Alex (Alejandro) Melchor. He left, I think after 1975 or 1976. Alex Melchor was a navy man and his own orientation was self-reliance with respect to defense requirements, and self-reliance with respect to food and energy. Alex Melchor was an Annapolis graduate. If you look at the accomplishments of our departments, those notable were in agriculture, Masagana 99, and energy, geothermal.

RIVERA: Under [Geronimo] Velasco already?

PATERNO: But this was really Alex [Alejandro] Melchor. He was the "self-reliance, self-reliance" Guy. At one point, the Armed Forces [of the Philippines] ran short of bullets, so the ammunition plant in Bataan was born and the production of rifles, M16 was done. I was also involved because I set-up the letter of credit for the rifle. I was given the serial no. 003. Marcos was 001, Juan Ponce Enrile was 002, and I was 003.

RIVERA: You mentioned some major changes in the Ministry when Minister [Roberto] Ongpin took over. What were the major policy changes there?

PATERNO: The 11 Major Projects, the union of Trade and Industry, the downgrading of the Board of Investments.

RIVERA: Were the policy shifts fully supported by [President Ferdinand] Marcos?

PATERNO: I don't know. I wanted to stay away from big projects both for intellectual and practical political reasons. When you have a dictator with friends and you want big projects to be undertaken by the government, you are laying yourself open to corruption, that's for sure. I've been criticized for taking small projects but it was the idea, that when you have a dictatorship, you are running the risks of having his friends get the big projects. That happened in Korea and in other places. In this government, they wanted big projects with China and so on. Why? I was telling my friends, "we used to be only locked into one superpower and that is the US, now we are going to be locked with the US and China".

KATAYAMA: No more Japan?

PATERNO: Japan is too nice.

<Everybody laughs.>

TADEM: Sir, Yutaka will join the embassy here.

PATERNO: Compared to these people, Japan is too nice.

KATAYAMA: Thank you so much.

PATERNO: I put Korea in the same level as the others.

TADEM: China sir?

PATERNO: Absolutely no comparison.

RIVERA: But looking back, none of the proposed 11(major) industrial project really took off?

PATERNO: They were not feasible. The steel mill was not feasible. It would have been feasible if only it had been accompanied by other big projects. When you have a steel mill, going from iron ore or coal down to the finished project, you need big enterprises. You go to

the various stages. In order to make tin cans, you have to roll it several times. One of the subjects I studied in Harvard Business School was steel. I had a course in production management and we worked on steel and textiles, among others. I was quite familiar with the economics and industrial structure.

KATAYAMA: May we go back to your academic background? Why were you motivated to go to government [service]? Your family background, for example, because we are interested on how technocrats developed themselves.

PATERNO: Okay. My father was a medical doctor but their mother died early so his sister acted as their mother.

KATAYAMA: So how many sisters and brothers do you have?

PATERNO: We are five, two sisters and three brothers.

KATAYAMA: And you are?

PATERNO: I am the oldest. So my father was a medical doctor but his sister was married early before World War I to Mr. [Vicente] Madrigal. In 1925, his sister, who was the little mother, asked him to join their family business. So he changed from being a medical doctor to being a manager. One of his major projects was the cement plant that used to be Rizal Cement in Binangonan which his brother-in-law bought from Krupp AG. Krupp was a large German firm that had this interest in cement plant. It was confiscated during World War I by the alien property custodian. Mr. Madrigal was able to buy that so my father transitioned from medicine to industrial management.

My mother was a teacher. She was one of the first to be taught by the Thomasites. She did so well that after she finished the seventh grade she was asked to become a teacher herself. So at the age of 14, she was already teaching.

TADEM: So sir, where was she teaching?

PATERNO: Cavite. My mother is a Tirona from Imus.

RIVERA: Your father was a Manileño?

PATERNO: Yes. I am sixth generation removed from Chinese immigrants from South China.

KATAYAMA: Do you know this province from China?

PATERNO: We are not sure; maybe Fujian.

RIVERA: But no relationship with the Paterno of the ilustrados?

PATERNO: Of course, we are related to them. My great grandfather was a half-brother of Pedro Paterno.

TADEM: So, sir how old was your father when he met you mother?

PATERNO: My mother was 30 or 31, I think. He was 36.

TADEM: They met in Manila?

PATERNO: She was the dean of dormitory of Philippine Women's University. She is also a third cousin of [Helen] Benitez. So I am half-Caviteno.

TADEM: That was why you are linked with Prime Minister [Cesar] Virata.

PATERNO: Yes. We set up the Economic Development Council of Cavite in the late 1980s...

KATAYAMA: Your family was very affluent and you did not have any financial problem?

PATERNO: Not very affluent, affluent maybe, but not very affluent. My father was also stranded in Hong Kong during the Japanese occupation. So, he came back only after the war. I was the oldest in the family. I was the principal assistant to my mother and we had to make our way. The business that we evolved during the Japanese occupation was to assemble a six-

ton truck. We had a ration of gasoline so we set up distilled [gasoline] into alcohol and I was the trader. I bought goods in Manila and brought it to Quezon.

KATAYAMA: You worked even before you went into UP (University of the Philippines)?

PATERNO: Before. I was 16 years old in November 1941, too young to get in the battle but too old to avoid responsibility.

RIVERA: It was because your father was stranded in Hong Kong.

TADEM: Sir, where did you study in the elementary and high school?

PATERNO: That's another thing. My mother insisted that we get what the equivalent now of pre-school or kindergarten but by tutoring at home. We had a teacher who tutored us in Spanish. We learned through the Caton. We learned to read and write before we went to school. My mother told us to start schooling in public school so we would know how to deal with different kinds of people. I was brought to public school, Santa Cruz Elementary, but since I already learned how to read and write; I was promoted to the third and the fourth grade in one year.

TADEM: You are like your mom, already a teacher when she was 14.

PATERNO: When I graduated high school, I was 15 years old. I was probably seven years old when I entered first grade but I finished my fourth grade when I was only eight years old. I was very young. I finished high school at the age of 14. I was not a normal person in my high school. I was too young.

RIVERA: Where was your high school?

PATERNO: La Salle. I stayed there throughout my high school. So you can see my mother's influence on us, because my father was too busy with business management.

TADEM: So sir, when you went into Harvard, was it your personal savings?

PATERNO: Partly my savings but mostly from my parents.

TADEM: But was it already in their minds that after UP (University of the Philippines), you would be going to have your MBA in Harvard?

PATERNO: No. I informed them, after working as a mill engineer for three years that I intended to do that. I just made that decision and then I asked them if they could help me.

KATAYAMA: So did you take mechanical engineering just to be able to run your company?

PATERNO: Well, when you go into college, you're not really going to have a life plan in mind. My taking an engineering course was really a product of circumstances. I wanted to get into chemical engineering but I studied in Ateneo [de Manila University] in a course called industrial technology. Ateneo closed in December 1941 and did not open. The University of the Philippines (UP) was the only university that was open from 1942 until 1945, so I went there.

RIVERA: I did not even know that UP was open during the war.

PATERNO: We were the last class out of Padre Faura that graduated in 1948. We celebrated our 60th alumni reunion last June.

KATAYAMA: So were you comfortable with engineering majors?

PATERNO: Yes. I thought I was comfortable until I found out that I was in the wrong discipline. People were making a lot more money in the company than we were. We were slaving our lives away to save centavos in the cost of production per picul of sugar while the people in the head office were earning bigger salaries and they were wasting what we had saved by their mistakes in management and marketing.

RIVERA: Just out of curiosity, what happened to Rizal Cement?

PATERNO: It was eventually sold to Holcim or Cemex.

RIVERA: Was Holcim the former Bacnotan consolidated?

PATERNO: Yes. That's right. Cemex, I think was the one who bought Rizal Cement.

TADEM: Sir, about your Harvard experience, did you have Filipino colleagues there?

PATERNO: Well, [Eugenio] Lopez Jr. was one of my colleagues. I had three or more other colleagues.

KATAYAMA: So why Harvard?

PATERNO: Business school?

TADEM: [It was] the place to be. Mr. [Armand] Fabella said, "Where else would you go?"

PATERNO: As far as business schools were concerned, that was the best place to go, at that time.

KATAYAMA: Not so prestigious, the Wharton University of Pennsylvania at that time?

TADEM: It was Harvard, Yale, and UCLA (University of California, Los Angeles)

PATERNO: At that time, it was probably a choice between Harvard and Stanford.

RIVERA: We also noticed that many technocrats of that generation were Harvard educated actually.

PATERNO: Cesar [Virata] went to Wharton

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TADEM: He did not know that he would go to Wharton because when he arrived, they just said that he would go to Wharton.

PATERNO: Well, his father was himself a professor. I wanted to go to Harvard and at that time, my mother told General [Carlos] Romulo or General Romulo's wife that I wanted to go to Harvard. He facilitated that.

KATAYAMA: You did not find it difficult to survive in Harvard as an international student? Many Japanese students had a hard time.

PATERNO: We have the facility in English and secondly, I had a good fortune of having been called by my marketing professor one day and he said "You know, Vincent, you are good for my class because you participate in case discussions but I want to tell you that I might have to give you a failing grade." I asked why and he said, "You know my assessment is you study too hard." And it was true. I was sleeping at two or three o'clock in the morning. He said that "I think what is happening to you is, you are not seeing the forest because you are concerned with the trees. You are too much immersed into details. You have to sit back and relax and think to get the bigger picture." That was very good advice. It stayed with me for a long time up to now. Well, I graduated with distinction. I started relaxing from that day on.

TADEM: Sir, I was to ask about your social life. How did you meet your wife?

PATERNO: I did not meet her there. There is an eight-year gap between us. So when I was 25 she was 17 years old. We were not in the same age range...

RIVERA: Mr. Lopez was in the same class as yours?

PATERNO: Geny [Eugenio] Lopez? Yes, but not in the same section, only in the same year.

KATAYAMA: How was his academic performance?

PATERNO: Not as good as mine. He was already married.

RIVERA: So looking back at your stint as [head of] BOI (Board of Investments) and later as Minister of Industry, what were your major achievements and accomplishments?

PATERNO: My concern about economic policies was the over-emphasis on integrated industries and that to me was a major policy fault. We were under foreign exchange controls for quite a while. The allocation of foreign exchange was biased towards integrated industries, which from my engineer's point of view, was a big fault. I refer, for example, to the textiles industry.

The manufacture of cloth involves three major processes: a) Spinning where raw cotton fibers are spun into yarn; b) Weaving where the yarn is woven in looms into meters of cloth; and c) Finishing where the woven cloth is converted into the finished fabric by color [dyeing] [and] printing with different designs – e.g., floral, and applying other finishes – like wrinkle-free, starched, etc. Following this approach of encouraging only integrated industries, the Central Bank preferred to allocate its limited foreign exchange to companies who would set up spinning, weaving, and finishing equipment in the same factory. But being so fully integrated, the range of products that a textile mill can finally produce is very limited because the factory must choose the thickness of the yarn it will have to spin, the range of yarn, and the fineness, either coarse or fine yarn. The weaving department must also choose the width and versatility of its looms — you cannot also cover the whole wide range of weaves. Its finishing range is also limited by its choices on spinning and weaving. For example, the same mill cannot produce dress or shirt materials together with denims or trouser materials. The result was a lot of smuggling so the Divisoria retailers could satisfy the yard cloths that local mills did not supply. Companies were receiving foreign exchange allocations for raw cotton but actually importing the finished products they could not produce and selling imported textiles to the Divisoria merchants. So, we had a lot of business people who got foreign exchange allocations for raw materials and diverting their textile mill's allocation into the smuggling of finished textiles.

The Central Bank ideally should have channeled foreign exchange allocations into separate spinning, weaving, and finishing factories so each could have specialized into different kinds of yarn, different weaves, [and] different fabric finishes as the market and changing fashions demanded.

Textile garments were probably the first exports really assisted by BOI (Board of Investments) to set up their bonded manufacturing warehouses. Remember the name of the GTEB (Garment, Textiles and Embroidery Board)? That was its genesis. Embroidery started

the idea of exports with bonded warehouses which BOI helped to become garment exports, using the imported textile clothing materials that the foreign customers demanded.

RIVERA: Aside from garments, what were the other successful cases in the export of manufactured products?

PATERNO: We had a good member of the BOI board supervising the exports department. He evolved the idea of promoting [in our terms] non-traditional exports which would also cover small and medium enterprises. In order to manage something, it must be measured. So we asked Central Bank to set up in its reports specific categories of non-traditional exports. Instead of lumping all exports containing textile materials into textile exports, for example, they could be categorized as bags, shoes, [and] garments all made of textiles. Thus, Central Bank reports provided more detailed information on the kinds of non-traditional articles exported. BOI also provided incentives for the export of those articles by its registered enterprises, beginning in 1974. Again, the genesis of this diversification of non-traditional exports sprang from the bonded manufacturing warehouse leading to the idea of promoting non-traditional exports by small and medium industries as against the foreign exchange allocation bias for big integrated industries.

The second innovation that I am pleased about was the BOI (Board of Investments) starting the idea of what I called at that time “horizontal integration”. What do you mean by this? It is any industry of the country which is essentially integrated in-country from raw material start to finished product but not within a single company. One of the things that impressed me during the time when I had to stay in Japan for many days on Meralco business negotiating for Japanese power plant equipment was seeing many small trucks going around, carrying different manufactured products, in the suburbs of Tokyo, Kobe, Nagoya and other big cities. These were products made in small plants for assembly in big companies. The idea of what I called horizontal integration was to bring about industrial production through coordination by big companies, which would be the assembler, designer, and marketer of a final product but the producer of most components would be small enterprises. One product which we actively assisted to expand through horizontal integration was poultry. In BOI (Board of Investments), we said that investment incentives would not be provided to Magnolia, RFM (Republic Flour Mills) and other large sellers of chicken if more than 40 percent of their sales of the chicken products would be actually grown or raised by them. So by this rule, BOI forced them to

become what is now called integrators, which provide the feed mill, technology, and the market but production is dispersed. The BOI mechanism for that was, “We do not give you incentives unless you do this.” That strategy was carried out into other products.

The third innovation that BOI provided was termed “progressive manufacturing.” This was applied to electronics and cars. I was asked why cars and electronics, why not trucks, which were considered the more basic for the economy? We said that cars were considered luxuries at that time and were subject to high tariffs, which provided enough profit incentives for local parts manufacture. Besides we had too many brands of cars in this country. This was inefficient because if you have ten brands, you would have ten kinds of parts in stock, since you could not fit a Ford part into a Toyota car and vice-versa. Maintenance was also inefficient because somebody trained by Ford was not going to be good in repairing General Motors cars. So I said, “Let’s limit the number of brands.” And when we do, “Why don’t we impose requirements on those allowed to continue selling their cars here?” The requirement was having a progressive increase in the amount of the local content.

RIVERA: That was why it was called progressive manufacturing.

PATERNO: How did we define local content? Is the amount of local content measured as the percentage of components of the car manufactured in the Philippines? Again, against my engineering training, we discussed this for a long time in the BOI (Board of Investments) Board. We ended defining local content as that percentage of the car’s value that was locally-produced. And that percentage requirement would increase over time. The first items submitted for local content were the simplest, the least capital intensive to make—car seats, upholstery, wheel rims, wiring harness, etc. The tendency was to export a larger number of such items accepted as local content than the number required in the locally-assembled cars. So if the domestic content of car seats in the locally assembled car amounted to one percent of the car value, the car assembler could theoretically buy 30 sets of locally made car seats and export 29 of them to the parent company. In this way, he would receive 30 percent local content credit for each locally assembled car. So that was our definition of local content, the percentage by value of the assembled car that consisted of local value added. We defined local content not physically, but in terms of domestic value added. Some car assemblers got the idea of building cars which have more locally-made components than others, so they would be credited with higher local content. So there sprang up the idea of the Asian Utility

Vehicle, a vehicle which could have more local content because it would not have a stamped, but merely locally fabricated car body.

That genre has persisted until now, in the Toyota Tamaraw [and] the Isuzu Crosswind. Another product of Progressive Car Manufacturing Program thinking was the manufacture of major car components – some transmissions and engines by Toyota and Mitsubishi – and the ASEAN (Association of Southeast Asian Nations) car complementation program, by which such major components are produced in ASEAN countries like Thailand and the Philippines and exported to each other.

RIVERA: We now locally produce the batteries.

PATERNO: Well, batteries are part of the local content.

RIVERA: But have the concept and the practice now been overtaken by recent developments or are we still doing it?

PATERNO: No, we are not providing incentives under a Progressive Car Manufacturing Program. But BOI (Board of Investments) still provides investment incentives. But it is gratifying to know that the initial impetus was supplied by the Progressive Car Manufacturing Program.

KATAYAMA: Sir, in your policies, did you have any models among the East Asian countries?

PATERNO: Not exactly. Ideas, yes. It was a process of evolution, not something that came out immediately. It also evolved through consultation with car manufacturers that were eventually selected. Actually, I only wanted three... in the Program, but Mrs. [Imelda] Marcos came in and said, “You know, my friend Ford has to come in.”

RIVERA: Vaux Wagon [Volkswagen] was also one.

PATERNO: Yes. Volkswagen, Ford, Toyota, Mitsubishi, General Motors Australia.

RIVERA: Honda.

PATERNO: Not Honda.

KATAYAMA: Isuzu.

PATERNO: Not Isuzu.

RIVERA: Nissan?

PATERNO: Not Nissan. General Motors Australia. They did not have a good car. Alex (Alejandro) Melchor asked me once, "What car do you recommend?" I said, "It depends on what you use it for." "I used it for going to the province." "Get the Holden." Later, Alex told me "No thanks to you, you gave me a bum steer."

RIVERA: Did you ever entertain the idea [of developing a national car] like the Malaysian Proton?

PATERNO: No. Having a national car in a country that does not have enough demand to sustain production of a car at prices competitive with other countries does not make sense. That feeds the ego rather than national advantage.

RIVERA: It was never taken seriously then?

PATERNO: No.

RIVERA: But going back to the logic of providing more incentives for foreign investors...

PATERNO: We did not provide more incentives for foreign investors, at least in my time. You can provide regulation of foreign investors but there is no way that you will give more incentives to foreign investors than domestic ones. That's illogical.

RIVERA: At least in your time, that was not done?

PATERNO: None that I know of....

RIVERA: Because one popular perception is that martial law in fact weakened the support for the local industry.

PATERNO: I don't think that was true. We did not weaken the local industrialists. Just examine the BOI (Board of Investments) records to see if local investors were prejudiced vis-a-vis foreign ones. I want to refer you back to 1974. The year 1974 was a key event because of the end of parity and therefore you had more foreign investments as a result of that equalization.

RIVERA: So it was the expiration of the Laurel-Langley [agreement] that was the critical point.

PATERNO: That was a critical point. I was involved in that because I was negotiating with the commercial attaché of the US embassy, with respect to how to phase out US land ownership.

RIVERA: Owned by the Americans?

PATERNO: So we evolved certain ways, like a long-term lease of 25 years where the US companies would pay a negotiated amount each year and the lessors would become full owner at the end of the lease. The Boy Scouts of the Philippines, for example, ended up owning a big Makati property at end of the 25-year period. Or the US companies would enter into a joint venture [agreement], a 60-40 joint venture which would make the land 60 percent owned by Filipinos, and often it was the company's retirement fund. That was an important event.

KATAYAMA: May I ask about Alex (Alejandro) Melchor. Your remarks about him seemed to indicate your respect towards him. Did you have any stories regarding how he left the [President Ferdinand] Marcos administration?

PATERNO: It was never clear to me why he was eased out and I had the feeling that it had to do with the military, not with economics. Alex Melchor was a navy man, an Annapolis

graduate. His father was also a military man. Alex had these ideas of self-reliance. He might have bumped against cronies with respect to the production of military materials and or against [factions in] the military themselves.

KATAYAMA: Some said that [Alejandro] Melchor tried to build up his own power base.

PATERNO: Where was the power base? It might have been a military base, not a commercial or business power base. We would have known.

RIVERA: Now among the leading officials during that period, it looks like one distinct advantage that I see that you had was your very effective linkage with the private sector. Did that help a lot?

PATERNO: Oh, yes.

RIVERA: It did. But did PM [Cesar] Virata enjoy that kind of linkage?

PATERNO: Yes. We had our own constituencies. My own constituencies was the industrial-commercial people and Cesar Virata was the financial- bank people.

RIVERA: Did you ever have the chance to work with Ting [Sixto] Roxas?

PATERNO: No. Not in the government.

RIVERA: Armand Fabella?

PATERNO: Yes.

RIVERA: But Armand was more into reorganization, the Program Implementation Agency (PIA).

KATAYAMA: We are also interested with the think tanks? Who or which [agency] worked out the designing of Martial Law? Of course, one of the candidates was the Development

Academy of the Philippines (DAP) but as far as industrial policies were concerned, you did not have that kind of think tanks?

PATERNO: Well, consultation yes— [Cesar] Virata [and] Alex [Alejandro] Melchor. Alex would provide the national security dimensions. Cesar would provide the financial dimensions. I would provide the industrial engineering dimensions.

RIVERA: How about Gerry [Gerardo] Sicat?

PATERNO: We were not attuned to each other. Gerry Sicat was very much concerned with the present thinking [on neo-liberalization]... and I was more inclined to, let me say, guided industrial development. He was more for market forces. Market forces are fine for countries that are already established but you know, our country would have to build up our industrial capabilities. Maybe, it was my engineering training; I had a lot of hope for our engineering industries. I thought that the developments in the late 1970s with respect to getting away from assembly lines and into more dispersed kind of production were favoring us all this time. Machine tools were evolving toward more flexible ways of manufacturing.

RIVERA: Does that mean that you were uncomfortable with the export processing zones?

PATERNO: No. I was not uncomfortable with that. For me, export processing zones (EPZs) were a device, a device to get away from stifling tariff and tax that prevented exports from coming. That was why there are export processing zones.

RIVERA: But when you say guided industrial policy, you made it very clear that you were against the idea of the big industrial projects being set up by the government...

PATERNO: I was against big government projects except in things like infrastructures.

TADEM: Sir, did you have debates in the cabinet with regards to policies?

PATERNO: Well, there would always be debates and tensions. Gerry [Gerardo] Sicat and I were on the opposite sides of the pole.

TADEM: Who settled it, was it Prime Minister (PM) Cesar Virata? How...?

PATERNO: Well, he [Cesar Virata] came from the Board of Investments (BOI) and he was also an engineering student so I did not have any problems with him.

RIVERA: Interesting dichotomy among the technocrats. Who were more or less aligned with Gerry [Gerardo] Sicat at that time among the economic planners or ministers? Trade?

PATERNO: Trade was not an entity. The poor guy was Teddy [Troadio Jr.] Quiazon. I understand that Ernie [Ernesto] Maceda was angry at Quiazon for giving up the industry portfolio because of his obsession with NACIDA (National Cottage Industry Development Authority).

KATAYAMA: So at that time, the International Monetary Fund (IMF) and the World Bank (WB) [were not yet influential?]

PATERNO: Not yet. They started exerting their muscle on me in 1978 or 1979. I remember once that World Bank said that their people would provide us with a very soft loan. I don't remember how much, some 200 million dollars on the condition that we revise the tariff structure and I said, "No. You will not tell us what we are going to do." But [Roberto] Ongpin agreed to that. He took the 200 million dollars.

TADEM: So sir, you were moved into Public Works and Highways, what was the reason for that?

PATERNO: Well, the reason is quite simple. The minister, Baltazar Aquino had been found out to have a ghost project of 70 million in Cebu. [President Ferdinand] Marcos wanted me to be there to deodorize the ministry. So you can see a little bit of the way I handled things. It was really a corrupt ministry. It had always been so I wanted to make the people feel that I did not want to be part of that corruption. Two weeks in the ministry, I asked some of my MASICAP [Medium and Small Scale Industries Coordinated Action Program] people in my former department in Industry to come and be the Commission on Elections. I held elections and the elections had this question, "Please list down the names of three officials/employees of the Ministry of Public Highways whom you believe to be the worst offenders in bringing

down the public esteem for the department.” The results were very interesting. Number 1 got 72 percent of the votes, number 2 got 60 percent, and number 3 got 52 percent. This was out of 1,000 employees so it was quite clear that people knew who were the most corrupt among them. But I had to get MASICAP people in there with the ballots so it would be a clean election. I got the evidence from the votes. Then I went to President Marcos and said, “I have done this and can I have your okay to get rid of them.” He said, “Number 1, get rid of him; number 2, he’s the brother of a Congressman who has helped me a lot, just talk to him; and then number 3, get rid of her.” Number 3 was the finance officer and she was very confident that she could not be persecuted since she did not receive money from contractors. She only sold diamonds to them, maybe a half-karat diamond that she was selling for the price of one karat. Anyway, we got rid of the two and just talked to number 2. I made my point. I didn’t make many sermons.

And then there was another instance, I used to bring a lot of office papers home. My driver would bring to my car two or even three brief cases for me to work at home. One day, I was following my driver and there was a security guard I saw smiling. I asked our cook to send empty boxes of milk with the car. So starting the next day, all papers I brought home were in milk boxes carried to the car by my driver so anyone who saw these would not think or suspect that I was bringing home corruption money.

TADEM: Really?

PATERNO: This is the way I opted to make my statements. Do not preach, merely do things that will convince people that you mean what you do. For example, on inspection trips, I would board the Ministry plane in a t-shirt and khaki pants, and rubber shoes like I was going to a field trip. The district engineer would greet me with Rolex watches, and high-priced brand shoes. And when they see me, they would say “I will meet you in the office.” They would go back home and change into a more modest attire. Those things you don’t do by saying but by behaving and showing.

TADEM: Sir when you were in Public Highways, what were your major projects?

PATERNO: I did not have any. My major accomplishment was getting district offices to know the drainage locations. The worst enemy of the roads is water. In order to get rid of the

water or to prevent water seeping into the road foundation, the design engineer would build drains or culverts so the rain or excess water would pass from one side of the road to drain to the other side. In at least half of the time that I went on inspection, the staff did not know the location of those culverts. They did not maintain them; that was one big reason why the roads became eroded and their foundations softened... So my major project was to improve the maintenance of the roads. There were no big projects and I cancelled several projects because it was full of corruption, like that guy I removed.

RIVERA: But you did not stay very long?

PATERNO: Of course not. I told Mr. [Ferdinand] Marcos when he asked me to take charge, I said, "Sir, my family does not want me to take this post." And my wife was present, negotiating with him. She brought a list of 12 people, "Mr. President, these are the 12 people who are more qualified than my husband for the position."

RIVERA: Your wife did that?

PATERNO: Yes.

KATAYAMA: Did she do that to Mr. Marcos?

PATERNO: Yes. But she had to take two valiums. We scheduled two visits to talk to him after the visit of the American Chamber of Commerce so I knew exactly what was going to happen. She said she wanted to go to with me and then she brought a list of 12 people. I was telling him, "Mr. President, you need a civil engineer for that and I am not one, I am a mechanical engineer. It is a different thing." And my wife brought this list of people. Some of them were our friends. Marcos said, "Sorry for our friends but you come first."

RIVERA: So who eventually replaced you after you leave?

PATERNO: The contractor of Malacañang. [I only stayed there for] 16 months actually. That was my bargain with him. The only way that my family would take this post was if you allow me to leave the government, and his reply was "But why?" He said, "Do you know that after you have been a member of the Marcos cabinet, you're too big to take the presidency of any

corporation in the Philippines?” I said, “Mr. President, don’t worry about me. My needs are simple and I can take care of myself.” “No, no, what position do you want?” “No. Mr. President, I think it is time to go back to the private sector. My family is growing and I am not able to see them enough.” Finally, he agreed that I would stay for one year; it ended in 16 months when Imelda [Marcos] said “I have a replacement for you.” The contractor who did the renovation of Malacañang...

RIVERA: What was his name?

PATERNO: Jesus Hipolito. But I found out what [Ferdinand] Marcos meant by “I am too big to be a president of any corporation.” I could not be a president of any corporation.

RIVERA: It was a grave threat in effect.

PATERNO: So, how did I survive? Fortunately I have friends in the UN (United Nations), UNIDO (United Nations Industrial Development Organization), UNDP (United Nations Development Programme) and I had short-term consultancies for two years. When I left, I was already 55.

RIVERA: So you left in 1980 right?

PATERNO: I was born in 1925. So I was already 55. There was no way I would have a long— term corporate job enough for decent retirement. I had to find a business and the 7-11 was it.

RIVERA: What is the arrangement, you are a franchiser?

PATERNO: No, we have the license for the Philippines.

RIVERA: From the Japanese?

PATERNO: Well, from the Americans, although by now, it is already the Japanese who own 7-11. Thank God, the company progressed and we now have 340 stores.

RIVERA: All over the country?

PATERNO: Just in Luzon.

TADEM: Sir, what about Wendy's (Hamburgers)?

PATERNO: Well, this belongs to my brother-in-law's family. I sold my shares to him. I had a 1/3 share and I told him that it is his family's corporation and he should not have somebody else in it. He can manage it on his own.

KATAYAMA: May I ask why your family did not like you to stay in the Ministry of Public Works?

PATERNO: Do you know how much a government official receives?

KATAYAMA: I have an idea. It is very minimal.

RIVERA: If you are not corrupt.

PATERNO: It was my wife who was earning money. She was doing exports during that time.

TADEM: Sir, in the BOI (Board of Investments), you did not have the same problems like those in Public Works?

PATERNO: No, the BOI was clean. It was a clean organization. People did not really receive a fair salary and I could not increase their salaries because we were subject to government regulations. But we were able to keep people on two counts: first, we could not increase salaries but we provided study grants; second, I was telling the key technical people, "The longer you stay in BOI, the higher your corporate salary becomes when you leave." So I said, "Let us agree on this, you will not leave BOI until at least you get 50 percent over the salary that you have now. Once you get that offer, then you are free to go." I was really appealing to their long-term career and clearly, they had the chance to show themselves because we had companies who were our clients and so, there was also the incentive to deal

honestly because they were exposed; so, transparency was the order of the day. There was a way to combine the employees' long term interest with good service.

KATAYAMA: Was it only the BOI with that kind of tradition or practice among all government agencies?

PATERNO: Not many had that.

KATAYAMA: How about NEDA (National Economic and Development Authority)?

PATERNO: I suppose that NEDA has the advantage of being able to offer study grants but they do not have the advantage of exposing their employees to the private sector.

RIVERA: And I think they got pirated by UN agencies also.

KATAYAMA: Your explanation was very interesting and it was the first time for me to hear those kinds of ideas.

PATERNO: You would find a way by which your employee's interests are served by doing well in the agency. It is the same thing here in 7-11; our marketing people who are exposed to the suppliers don't last very long. That's what I tell them, if you get 10 percent increase in salary that's nothing, compared to what you can get when you are better known. My idea with respect to technical people is I would really be worried if my best people stayed longer than four years. So, we had to do constant training. Other employers will say that they want their employees to stay forever. For me, no.

TADEM: Sir, you were a member of Kilusang Bagong Lipunan (KBL), right?

PATERNO: Yes.

TADEM: Because I remember I was in La Salle that was when you resigned from KBL?

PATERNO: No I had already resigned by that time. As Pepe [Jose W.] Diokno said, “Do something that will please them.” I said, “I will resign” although I was out of it, I no longer have to resign.

TADEM: Sir, but during this period [after the assassination] of Ninoy (Benigno Jr.) Aquino, did Mr. Marcos ever talk to you?

RIVERA: That was 1983 already. Because in effect, you have left the government in 1980, about three years before Ninoy’s assassination, you must have been one of the very few who left before the Aquino assassination.

PATERNO: Yes.

TADEM: Gerry [Gerardo] Sicat also left.

PATERNO: Before the assassination of Ninoy Aquino?

RIVERA: We have to confirm that. I am not sure now.

PATERNO: He left... for the United States.

RIVERA: IMF (International Monetary Fund) or World Bank?

PATERNO: I am not sure.

RIVERA: By the way sir, it’s already...

PATERNO: It’s past 12. There are sandwiches there. Maybe, you can have another 45 minutes.

TADEM: Thank you.

PATERNO: ... please, have some sandwiches.

<The group talks about Vicente Paterno's recorder.>

TADEM: So sir, you were in the private business before you again joined the government.

PATERNO: Yes. I have entered into a licensing agreement with the US 7-11 in October 1982.

TADEM: Sir, were you active in Makati Business Club by this time?

PATERNO: Yes. Well actually, I had severed my relationship totally with KBL (Kilusang Bagong Lipunan) after I did my privilege speech in the Batasang Pambansa. A few days after the assassination of Ninoy (Benigno Aquino Jr.), I stood up and said, "What are we doing here, we are not even taking cognizance of a very important national event. We are not discussing what the nation should do." Of course, that was resented. I was grilled for two days. I stayed in the floor to answer questions.

TADEM: But sir, did your friends, like PM [Cesar] Virata, talk to you?

PATERNO: I talked to him in 1981. I said, "Cesar, it's time to leave." He said, "Who would take my place?" he was worried that all the things that he had done would collapse. I said, "Well, I'll tell you this as a friend, it is up to you." Please... <pointing to the sandwiches for the team>

< The team starts eating while continuing the interview.>

KATAYAMA: You have already answered almost all of the questions. Do you think that Martial Law was necessary? Even without martial law, Marcos could have achieved the same things that he did.

PATERNO: I don't think so because his term would have ended. He needed martial law in order to continue.

KATAYAMA: That was one reason and the other one....

PATERNO: Let me tell you the story so you can understand how I think it developed. I think in January 1978, he [Ferdinand Marcos] called some members of his cabinet to Malacañang. He said, "I know that no grass grows under the banyan tree. It is time for you or for some of you to get out of my shade and be in the sun so that in the light of public scrutiny, you can show what you can do. Some of you will be selected to run for the National Assembly." There were about eight members of his cabinet who were selected. I was one of them. So, I became a member of the National Assembly.

I was very encouraged by his words because in effect he was saying "I want a succession but you have to prove yourself." So if he wanted a succession, that meant he was going to relinquish the presidency at some point in time, right? And he implied that he would continue as president but somebody else could eventually assume the post of prime minister. In other words, he would be the head of state, gradually relinquishing power to the prime minister and the parliamentary government. I was very impressed by that but later that same year, it became clear that it was not meant to be....or maybe not [in] the same year, but early in the following year. I am afraid the change of mind was because of his lupus, his kidney problem.

RIVERA: So as KBL (Kilusang Bagong Lipunan) official, you never really had what we might call, KBL-centered meetings that really decided on key political issues?

PATERNO: KBL was not a party, it was an instrument.

RIVERA: Going back to one of the more crucial economic issues, of course the debt problem, and from what we know in the literature, the Marcos administration relied a lot on accessing foreign loans, like one economist referred to as a debt-powered growth strategy, which eventually led to all kinds of problems. But given your guided industrial policy, was a debt-powered strategy consistent with that kind of strategy?

PATERNO: No. I was against big projects except for infrastructure. The big projects did not come about until I left. The debt problem surfaced in 1981.

RIVERA: But the loans were incurred much earlier, mid-1970s?

PATERNO: But they started to make the U-turn only, U–turn meaning money was borrowed and then recycled back to foreign sources, the financial problems did not surface until 1981, triggered by Dewey Dee. Dewey Dee merely triggered but not really caused it. He exposed the problem. To me, the main crime of [President Ferdinand] Marcos was not as much for stealing money, as in taking money out of the country. He impoverished the country. [Mohammed] Suharto had probably stolen even more but most of it stayed in the projects for Indonesia.

RIVERA: Yes. That’s the main difference. But in the case of the Laurel-Langley loans I think one major problem had to do with the sovereign guarantees for the cronies, right?

PATERNO: Not my problem, that was Cesar Virata’s problem.

TADEM: Sir, when you were joining the anti-dictatorship campaign after the assassination of Ninoy [Benigno Aquino Jr.], was your family also worried about you during that time?

PATERNO: Yes. But you know having declared myself in the parliament, what else did I have to fear?

TADEM: But you knew Mrs. [Corazon] Aquino then?

PATERNO: Not well. My wife knew her better. I still remember, back in early 1970s, Ninoy was saying, “When I become a president, I want you to be in my cabinet.” That was the only encounter I had with him.

TADEM: Sir, when you ran as senator and became part of the government, what were your policies then that you still wanted to pursue, when you went back in the government?

PATERNO: My major concern at that time was the more equitable development of the regions, particularly Mindanao. Second, I was concerned about the imperialist Manila syndrome. Having travelled through quite a few portions of the country, whether as a BOI (Board of Investments) chairman or as a Minister of Industry or Public Highways, I saw the difference of the government’s treatment of the region and Metro Manila. One thing that stuck in my mind was that question of one Muslim datu in Mindanao, “Minister, can you

please tell me why is it that in Manila you build bridges even without rivers and here we have so many rivers but no bridges?"

...One time, somebody from Maguindanao or Lanao, a mayor wanted so badly to see [President Ferdinand] Marcos. Marcos told me to attend to the fellow. He wanted to ask the President how to set up a factory to make durian candy. I mean, this should be attended to by somebody in the government who could give technical advice on such a simple thing and yet, he had to go to the president to find this out. What kind of service were we providing?

And then of course when I was Minister of Public Highways, governors would bring me [to places], as if I were a prince of some sort. A governor would bring me somewhere and we would stop at the intersection of a highway to interior roads. He would ask me to stop. There would be a table [and] a barangay council there to hand me their petition for a road construction or maintenance. It showed me that the government was not reaching the people. I think that was true, and it was probably more true then because government was really very authoritarian, and government people were not subject to popular pressure. That old mentality is still around. That is why I am now a member of Former Senior Government Officials (FSGOs).

RIVERA: You read in fact the latest statement in Globe Filipino...

PATERNO: Oh, yes.

RIVERA: Let's hope we find an end soon. I doubt it very much. Not soon obviously.

PATERNO: Oh, you haven't asked me about MASICAP. When the Development Academy of the Philippines (DAP) people found out that I was creating a Bureau for Small Industries, one of their consultants came to tell me about the Medium and Small Industries Coordinated Action Program, CAP (Coordinated Action Program) and MASI (Medium and Small Industries). And I said, "Fine. I like that." MASICAP was a program which took students in their senior year of university in business administration, economics, and accounting and trains them to do feasibility studies and loan documentation so small businesses could obtain loans.

I was a member of the board of Development Bank of the Philippines (DBP) which has an extensive branch network and so, I said that I liked the idea. Students are not bureaucrats; they are willing to go visit the farmer and treat him with respect. One of the problems with respect to credit is that many small people do not want to talk or visit government offices. Why? The office is air-conditioned; they are not used to it. Number two, they are talked down to. "I am educated and you're not so, I must tell you what to do and you do not tell me what to do." And number 3, there is a lot of documentation requirements in order to get anything done. Students who are trained would visit the clients and they would tell the farmers [clients] that "We are here to help you prepare your requirements." Because they are younger, they are respectful and they get cooperation; the bureaucrat will not condescend to do anything like that. We helped a few thousands of the projects. What was of equal importance was the social development of hundreds of young people who now still consider themselves alumni of MASICAP [Medium and Small Scale Industries Coordinated Action Program]. So in 2000, there was an alumni reunion of MASICAP and they asked me to revive it and I said that I would revive MASICAP on three conditions: it has to be limited in area coverage, it cannot be national, it will not be a government but a private sector [program], and eventually, it should be self-sustaining so it can remain a private sector [program].

MASICAP now is operating in ten local government units. The local government unit (LGU) must shoulder the operating expenses of the field team members. It is thus market-driven; unless the teams deliver results why should they receive LGU funding? We started in five areas only as pilot projects just to demonstrate that the teams can accomplish something. MASICAP 2 has now been going on for five years. I left it already. They are on their own so they have to raise overhead expenses. The administrative requirements are also large, involving costs for recruitment, training, and administration. Maybe it will be one million to one million and half pesos a year.

RIVERA: So this is purely a private sector [initiative]?

PATERNO: Purely private sector but the field team operations funds are from LGUs (local government units). If you ever want to visit them, they have an office in Davao. Why Mindanao? Because it is far away from Manila.

TADEM: Sir how was your experience as a senator compared to being part of government?

PATERNO: I don't think I enjoyed being part of the Senate as much as being in administration.

TADEM: Because your work in the Senate was all policies.

PATERNO: Worse than that, I worked hard on three bills which were vetoed. They passed in the Senate and the House but they were vetoed by President [Corazon Aquino].

RIVERA: What were the bills?

PATERNO: One bill was to authorize the Central Bank to create what I called regional commercial banks. All commercial banks now are national. They are based in Manila. My theory is that 50 percent of deposits in bank branches flow into Manila and what is the result of this? It impoverishes the provinces. It moves capital away from the provinces. Second, it also discriminates against loans to provincial companies which are not known in Manila because the Board of Directors is here and the bank branch manager has very limited discretion. If the commercial bank is based in the region its ownership and directors will be from the region and they will know the region much more than the people in Makati who would be making decisions about something in Cotabato. Third, of course, it will result in more development of regional people and eliminate the bias of credit [in favor of] the provinces. You know many banks will not accept collateral for property from places that are unknown to them. They have all sorts of biased questions.

Why was it vetoed by President Cory [Corazon Aquino]? Because Jose L. Cuisia, Jr. who was the governor of the Central Bank at that time, said, "Mrs. President, they want more incentives to be given to regional commercial banks, it is discriminatory against the bigger commercial banks." I thought that was a very stupid thing, "it was discriminatory against big banks?" It will only require smaller capital. It will allow the banks to operate longer hours so that the farmer can go there, to the branch. "It is discriminatory against the commercial banks," what can I say to that? And you know she accepted that reason, and she vetoed the bill.

The second bill that she vetoed that also passed both houses was the Mindanao Economic Authority which was vetoed because Dondon [Cayetano Paderanga] said, “Mrs. President, if you allow this, what is to prevent Bicol from asking the same thing, etc.” and the President agreed to that. I mean, who else is better equipped to plan the areas’ future than the people there? People from elsewhere hired to do their planning in Manila? So you see how the imperial Manila syndrome was operating. The third one was a simpler bill but again it passed both houses. It was really a bill to create a legislative-executive cooperation group.

RIVERA: Different from LEDAC Legislative-Executive Development Advisory Committee (LEDAC)?

PATERNO: It predated the LEDAC.

RIVERA: Oh yes, LEDAC was [President] Fidel Ramos’ time.

PATERNO: Ramos’ time. LEDAC was along the same lines. I told President [Corazon] Aquino that her contact in the opposition should be not only through newspapers. That was an unproductive way to develop cooperation. I would like her to sit down with the leaders of the opposition and the leaders of her party to iron out things. That was agreeable in theory to her but she asked me, “But that does mean I have to sit down with [Juan] Ponce Enrile?” I said, “Yes.” I could understand a little bit of the thinking there since in her view Enrile was the assassin of Ninoy [Benigno Aquino Jr.] but she was not able to rise above that. A lot of the coups could have been prevented.

TADEM: Jovito Salonga was there, Joker Arroyo.

PATERNO: I was the Deputy Executive Secretary. I was his deputy for Energy but he said to me, “Ting you handle, the fuel portion of energy, I will take charge of National Power Corporation.” And as such, I had an occasion to visit him. If you had ever been in his office there in Malacañang, he had no secretary in his office. His filing system was [having] pigeon holes behind his desk. He would take a piece of paper and put it in the pigeon holes. He did not know how to administer. No management skills.

KATAYAMA: Literally shelves or pigeon holes.

PATERNO: Yes. A lot of the problems of the power [sector] like black-out problems arose from that neglect and poor Ernie [Ernesto] Aboitiz suffered and was called the Prince of Darkness because of that, because of Joker Arroyo's inability to handle administrative tasks. So you see why I am in FSGO (Former Senior Government Officials)?

RIVERA: Are you in favor of some suggestions to revive the nuclear power plant?

PATERNO: It is too old. Well, number one, it has been in mothball for 20 plus years, you know how sensitive those nuclear power plants are. It needs good maintenance and good operation. Second, the steam was only 600 psi, the steam pressure, it is not efficient. Third, is the question where to put the nuclear waste is unresolved.

I was asked by [President Fidel] Ramos to do something about that [the nuclear power plant] and I participated in the litigation against Westinghouse. But unfortunately, we lost the case. I still feel that we should not operate.

TADEM: Sir, when it was being built, what do you think of it?

PATERNO: I sent a memo to [President Ferdinand] Marcos which was quoted by *New York Times*. I was misquoted but more or less at the same lines, "We are buying power plants for the price of two."

RIVERA: Corruption.

PATERNO: Well, [Herminio] Disini, who was the principal agent of that, later became a count in Austria.

TADEM: Aside from the nuclear plant, where was Disini engaged?

PATERNO: He was in a pulp and paper project. He was one of the people for whom notes were given to me.

RIVERA: I think Disini's connection was more with Imelda [Marcos].

PATERNO: Not mainly, his wife was a relative of Imelda but his links were directly to [President Ferdinand] Marcos. [Herminio] Disini [and] Carding [Ricardo] Silverio [had direct links to Marcos] but Carding to his credit did something; he was the Philippine partner of Toyota. He also set up a small but not very efficient engine plant...

RIVERA: We have taken so much of your time.

PATERNO: I think we've finished most of it.

TADEM: Sir, we will give you a copy so you can edit it.

PATERNO: Just removed the one on Alex Melchor.

TADEM: So we would send you the transcript.

<Some chattering.>

<End of interview>