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Philippine Economic Nationalism

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Abstract

Not seeing that the power of taxation of the state is the true expression of national patrimony in economic matters, the framers of the 1935 Constitution introduced provisions on the use and disposition of land and natural resources vesting exclusive rights of exploitation to citizens. This also meant restricting foreign investments in public utilities. The provisions were not revised but even elaborated in subsequent revisions of the Constitution. These provisions set a train of restrictive economic policies that helped to compound the mistakes of early industrialization policies. By tying the hands of future generations of Filipinos to deal with specific economic issues in their own time, the Constitutional provisions provided barriers against solving economic problems with realism as called for by changing times and exigency. Judged as the most likely to succeed in the early years after independence among many East Asian economies, the Philippines became the economic laggard among a group of highly performing economies during the second half of the last century. The brand of economic nationalism that was fostered was exploitative and heavily protectionist in character. It built an economic and political framework that discouraged competition, enhanced monopolies and inefficiencies by nationals, inhibited the growth of international trade and hence postponed by a large margin of time the growth of economic specialization based on comparative advantage. A new kind of nationalism based on principles of competition and comparative advantage is needed. This will be helped greatly by the removal of stringent Constitutional provisions that affect foreign investments. An enlarged regional free trade within ASEAN and accession to the World Trade Organization are factors that will help to sustain this new ethos which will strengthen economic and national aspirations.

Subjects: Economics and law; economic nationalism; trade and industry; Philippines; and economic development.

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The reforms that come from above are nullified in the lower spheres owing to the vices of everyone; for example, the avidity to get rich quick and the ignorance of the people that acquiesces in everything. *Noli me tangere, 1886*

The most commercial and industrious countries have been the freest countries. France, England, and the United States prove this. Hongkong, which is not worth the most insignificant island of the Philippines, has more commercial activity than all of our islands put together, because it is free and is well governed.

“The Indolence of the Filipinos,” *La Solidaridad*,
August 31, 1890.

Jose Rizal

The subject is economic nationalism and internationalism in the context of Constitutional reform. My approach delves briefly into historical perspective.

At the outset, it is better to be clear. The version of economic nationalism that has often shaped thinking about economic policy in our country has emphasized the fear of exploitation by foreigners. Our leaders over a long span of more than half century have erected a system of laws, beginning with the Constitution, reserving to the state the role of providing cover and protection for the Filipino, defining his exclusive rights over others. Many of the laws defining economic action have helped to constrict the degrees of freedom with which we can solve the main challenges of the times. Although we have achieved some progress, that progress has been so uneven that we are gripped by the poverty of a large segment of our people. If our nation continues to face an ever-increasing task to overcome the poverty of our poor, the blame for the severity of the challenge is not on foreigners but on our leaders and us.

My version of economic nationalism is a positive one that rests on the strength and capacity of the Filipino. It is a belief that, given circumstances that are fair and openly competitive, our country men can achieve as much as others nationals of great nations to help them become great and prosperous. I will elaborate on these points later.

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So, please forgive me for seizing upon this occasion to put forth my frustrations over the years. Realizing that I am writing for a wider audience, rather than to my economic colleagues, I have written a long paper that is even made longer by seven annexes. I hope that it challenges us to rethink our experience, and let pass our old assumptions and our deepest convictions through a fresh filter. For three-fourths of this paper, I hope to analyze the roots of our malaise, the wrong steps that we took, where we should have been and where we might likely end. Luckily, I see an optimistic future. And that it seems that that future could be sustainable. However, to attain that future still requires enormous efforts on our part to take the right steps. Among the things that will accelerate that move towards greater sustainability, our leaders have to deal correctly with the Constitutional questions.

Nationalism debate

In the letter inviting me to this forum, I was reminded that this seminar is also in honor of Salvador Araneta whose writings on the subject have been influential. I was pleased to receive copies of his work from the Sahara Heritage Foundation, a cosponsor of this forum. His writings on economic development, economic nationalism, economic reform, and on Constitutional issues are articulated in many of these works.¹ His books contain collections of his speeches, writings, notes, and newspaper columns. Surely, he truly spoke his mind. These writings represent the vision of one man conditioned by his experience on grand issues and by his participation in them.

These works remind me that Araneta participated in three major debates on economic policy that caught the national attention during the 1950s and the 1960s. These debates have a bearing on the topic of discussion. First of this was the debate on exchange rate devaluation or controls. Together with Alfredo Montelibano, who was also a high official in those years and who was a vocal advocate of realistic exchange rates for the agricultural export sector, he criticized the Central Bank policies maintained by Governor Miguel Cuaderno. (Controls won.) Later he proposed massive deficit spending, thinking that this would promote employment and induce output, not inflation, a subject that the Central Bank governor also disagreed with. (Cuaderno thought he won.) During the 1960s, Araneta and Montelibano would be on opposite sides of a question when the issue was industrial protection.

¹ Noteworthy among these works are two books that deal with economic issues for the large part. Salvador Araneta, *Christian Democracy for the Philippines: A Re-Examination of Speeches and Studies on the Subject* (1958, reprinted by Sahara Heritage Foundation, 2002) deals with work and notes covering the period when he served as Secretary of Economic Coordination and Secretary of Agriculture. The second, published in 1965 is entitled *Economic Nationalism and Capitalism for All in a Directed Economy*.

Debate on nationalism and economic policy has a history older than the Republic

The outcome of that debate had been settled long before it was fought in words. For far grander issues had been fought along the same lines before but in 1934, it was fought on Constitutional fronts, when the idea of our independence had already become inevitable. The acerbic words spoken in battle in the 1950s provided good description of the divide between industries that ate up dollars and those that earned them.

But the earlier debate was trying to define a conception of economic independence. The content of the policies that produced restrictive industrialization were essentially written in the 1935 Constitution. That was the mantra or the mainstream thought that controlled the flow of events. And that was still the same song written into the 1973 Constitution. And it remains ever stronger in the longer language of the 1987 Constitution.

Our leaders – beginning with Manuel Quezon to the succession of presidents of the Republic, strengthened further by the influential nationalist rhetoric of Claro Recto – had worked along economic policies that had to be built around the Constitutional provisions that defined our actions.

All the leaders of our Republic brought together the brightest people in the land to disentangle our problems to bring us better economic times often only to be beset by failures to overcome the key problem – how to get foreign capital to contribute more to our national progress.

What Economics has to offer to understand the issues

Let me begin by stating some well-known economic principles that people understand. The first two of them are etched in the experience of anyone who has ever bought anything in a market. The others are easily understood upon reflection.

Competition is good. Competition leads to lower price and higher output (compared to a state where competition is absent).

Whenever there is competition between participants in an economic process, the price is likely to fall to a level that is reasonable. Producers who face competition often end up accepting lower prices and selling more output.

Monopoly is bad. Monopoly leads to higher price and lower output (compared to a state where competition is possible).

Whenever a group or a firm has some power over demand or supply, the outcome is higher price. The output is also likely to be lower as a consequence. Monopoly output is what economists call inefficient outcome. The price is higher than it should be. The output is lower than it could be. The consumer loses some welfare. The monopolist

pockets the difference. And some buyers that are able to buy at a lower price are excluded from the market because that lower price does not materialize.

Thus, the outcome is an inefficient outcome, because price could be reduced without the seller losing and output could as a consequence also be raised. Because of the profits that monopoly brings, producers always love to be monopolists, although they will compete with others when challenged.

Trade is good. *Trade when unimpeded enables buyers to obtain goods where they are cheaper.* A country benefits from buying goods from the cheapest suppliers. Consumers benefit from cheaper goods. It stretches their budget. Relatively free trade is the analogue of competition among countries. The availability of more goods also makes us understand where and what the competition is.

When trade is impeded, and goods disappear from the market or are pre-selected for us by those who have power to exclude them, we lose access to the available goods and our welfare as consumers suffers. Those were the lost years before import liberalization restored the landscape.

Specialization is good. *Production of goods based on the best use of (freely priced) economic resources creates an advantage over other countries in terms of costs.*

This is what economists call the principle of comparative cost advantage. Any country will find ways of producing the best possible use of its resources. And if someone tells you that your comparative advantage is only to become a peasant without protection, be sure that your informant has not fully surveyed the alternatives, or he is ignorant of them, or he has a hidden agenda. The evidence that poor countries can make enormous gains from international trade by specializing in goods that they can produce cheaply – whether from agriculture or from industry – is no longer debated at least in learned discourse.

What used to be doubted was whether this was possible beyond agricultural or mineral resource production. Ample evidence from Asia (especially from our neighboring countries) has dispelled these doubts. The problem was that through many internal measures often adopted to give special favors to powerful economic sectors, these resources are not freely priced at the domestic level.

In an imperfect world, a government can undertake useful interventions that overcome disadvantages that arise from the international trading and industrial system.

This will be explained in due time. But it comes in two parts.

First, the industrial countries with the economic power and even political power to impose make most of the rules of trade and payments in this world. They are, however, governed by their own internal politics and by the relations that they eventually must develop with other countries as powerful as they, who represent their own competition.

Second, as a developing country we must make those rules fair to us when formulated in international negotiations. But even as disadvantageous some of those rules might be, there are ways that government policies can alleviate their adverse impact. The point is that our government can overcome those through interventions that restores the competitiveness that might partly be lost by unfair rules.

But wait and be prepared for my *assertion*. Philippine government policies arising from the mainstream nationalist line of economic policy worsened rather than improved our efforts at development in the decades following independence. The government often faced ever-deepening economic crises with policies of adjustment that were incomplete. They always had to go halfway because they were almost always forced to pay attention to the restoration of the *old order*. In addition, the shackles of the provisions of the Constitution stand in the way of improved adjustment.

The original sin

The original sin began with the economic provisions of the 1935 Constitution. At the culmination of our nation building, just 10 years before promised independence, our Constitutional forefathers thought that the control of capital and all natural resources should belong only and fully to our people.

Our Constitutional forefathers had a good idea. That the capital and resources exploited in our midst should benefit our people. Influenced by the fear that foreigners – especially Americans – would continue to exploit the nation despite independence, they borrowed from the language of the great socialist constitutions around about the use of natural resources and capital and restricted the provisions on foreign capital in public utilities. To write that in the Constitution would mean to protect the nation from any exploitation.

These grand principles could have been put in the preamble. The Constitutional framers could rely on the principle that a truly independent country could use its sovereign powers to put the use of all economic resources to serve the interests of the people. The power to tax is the final sovereign weapon. It could be employed to assure that the benefits from all economic resources such as land and mineral and other natural resources would be used for the benefit of the Filipino people when they took charge of their government.

There would have been no problem about these grand principles if they were not so specific later. But, indeed, they became specific on the citizenship provisions and all other details in the supreme law of the land. By doing so, they raised the fear by foreigners in the country that their assets could be confiscated or their values forced down. It became therefore a matter of time that when the right time came, foreigners (mainly Americans) would call on their ultimate protector, their government, to protect them from the threat of confiscation and deprivation of assets that they had acquired before.

Quezon's well-known dictum, "I prefer a government run like hell by Filipinos than a government like heaven by Americans" might have been said only for rhetorical effect. Deep down, he probably felt that Filipinos could run their affairs better than Americans. But in pushing for this provision and others that specified details about how Filipinos should govern the future, our Constitutional forefathers provided us, the future generations, with large blinders with which to see and define our own world of the future. To put it in another metaphor, *they had tied us to their own vision*. Or to put it in another way, they had leashed us to a post with a short rope from which we could only move with limited freedom.

One of the advantages of the U.S. constitution was that a few men of common mind who just wanted their country to be rid of a foreign ruler wrote it. And they were writing it while they were still under threat of conquest and subjugation for they had not yet fully won their independence when they crafted it. As a result, they only had time to make sure that the guarantees to personal and human rights were clearly written down.

That was also their great advantage.

In contrast, our Constitutional framers had the leisure to think about all these social and economic visions. And the time – the 1930s – were a time of ferment, socialist ideas, and economic depression all woven into one. The Philippine Constitutional fight was essentially a political fight. The fight for independence was nearly won, and what was needed was for them to fashion the future structure of government and to state national aspirations. In so doing, they overdid it, for they put in details that could have been simply enacted as warranted by changing circumstances. (See *Annex B*.)

I do not want to be misunderstood. I am not in favor of changing to a minimal Constitution now that we have created a maximal constitution. And given our experience, every time we convene our wise men to write a new Constitution it becomes even longer. Our record at brevity is not good.

Twice we amended the constitution, and we ended up with longer and more provisions defining details of the future policies. And yet, in essence, we only changed the political framework of the Constitution and expanded its coverage of details of social and economic programs. The expense and the distraction alone would not be worth the exercise of a comprehensive remaking of the Constitution. But the key provisions affecting economic issues have to be addressed. They deal principally with *citizenship* requirements regarding economic participation of foreigners and foreign capital in our economic development.²

² The only other urgent issue deals with the manner and choice of national officials and the form of government. This is so substantial a constitutional agenda that if given a choice between the most important issues, I would focus on the economic provisions. But my brief for a change of government is to favor a cheaper and more direct form of government, a parliamentary system. To do away with a system of political contests that require a president, vice president and senators to spend enormous amounts of money just to win elections is likely to have beneficial outcomes by reducing corruption and influence peddling by interests. A parliamentary system will also assure that the contest for leadership will be among the most competent, the most experienced, and the most politically astute leader. A parliamentary system can get rid

The original sin sinks into the national psyche

Then came the war and independence in 1946. Americans, fearful of the consequences of the nationalist provisions about capital and land, pressured their government to protect the interests that they had accumulated in the country. This included land and businesses owned, covering all sectors of the economy. Independence would further expose these properties to forced sale if the economic provisions were to take effect.

Moreover, Americans feared that the value of these assets had to be protected against the possibility of devaluation. They already introduced this as part of a safeguard provision in the Philippine Trade Act a provision of national treatment for American citizens and another provision that the peso could not be devalued without the approval of the American president. The American government responded with the only means that it had at the time. Push had come to shove, and it decided to apply political and economic power. National treatment required an amendment of the Constitution.

The parity amendment – which gave parity of treatment to Americans the rights reserved to Filipino citizens in the Constitution – was exacted as a price to be paid for the war damage act and the promised aid for rehabilitation. With the parity amendment, our leaders were made to swallow their pride.

This sank deep into the national consciousness. This reinforced the nationalist rhetoric about the problems of foreign economic domination. The Commonwealth government was new and Manuel Quezon was president when businessmen and politicians were calling for national economic protectionism. Senator Claro Recto in the 1950s said that it was better to borrow the capital to invest and have Filipinos invest it in their own industries. Carlos Garcia was president when the loud noise within the government said, “Filipino First.”

When he tried to run against Ferdinand Marcos with whom he served as Vice President after he lost the nomination, Fernando Lopez, candidate for nomination for President, had this to say (*italics supplied*):³

“How is it that in the face of development, Filipinos have remained poor? ... Filipinos, by virtue of their subjugated position in their country, did not benefit from the fruits of colonial

of corrupt leadership more quickly than a presidential. Former Senator Juan Ponce Enrile, now president of the Philconsa, states that the most conservative estimate at present to elect a president requires expenses of 2 billion pesos, which is the current equivalent of the salary of that office at present rates for 2,886 years. Another winning senator in the elections of 2001 said, when confronted pointblank by a television interview, and with hesitation, that he spent about 35 million pesos for his campaign. Given that this was an admission before a public audience, that might have been an underestimate. See for Ponce Enrile’s speech, see “Constitutional Change: the Less Travelled Alternative” (address before the Philippine Constitution Association, July 31, 2001).

³ Araneta (1965), p. 258.

development... The evidence will show that *the fruits of development were siphoned out of the country...* because it is dominated by foreign interest.

“Any development under this setup will be colonial in character, and, therefore, harmful to the Filipino people; at any rate it can not do us much good. The other type of development is ... a nationalist development of the economy... dominated by nationals and (which) benefits the nationals...”

“...The fundamental objective of economic policy is the *Filipinization of the Philippine economy.... Real industrialization cannot be achieved so long as foreigners dominate our economic life.*”

The above sounded incontestably like I.P. Soliongco, Renato Constantino, or Alejandro Lichauco. The speech was given broad publicity in the *Manila Chronicle*, the now defunct newspaper owned by the Lopezes. It appeared uncharacteristic of the gentle politician that was Lopez, who was brother of the powerful industrialist and sugar baron. It was Eugenio Lopez, who bought the controlling shares of Meralco, the public utilities firm distributing electricity to Manila, as original American investors sold out. And it sounded also like Jose Ma. Sison.

Men of goodwill, and those who thought ill of the government and who wanted to overthrow the political order and institute their own, have thought the same on the subject. Their analyses were different, but their perceptions and their conclusions were the same. This was the mainstream of economic nationalism that deepened further after parity amendment.

But as the years went by, we discovered that we needed foreign capital to supplement our meager capital resources. Congress passed an investment incentives act, which was designed to attract investments, including foreign. But the resulting law, steered through legislation by Senator Jose Diokno, was designed to attract investments in industrial ventures which was tilted more towards encouraging investment projects that would be governed by a system of control of capacity expansion. Moreover, there were quite a lot of provisions which governed more the incentives for projects that were designed to meet domestic market requirements and not external market growth. This was, of course, the law that also created the Board of Investment. Further efforts were fashioned later to make the provisions more friendly to foreign investments, but each time, the proposed revisions always reached the wall – the Constitutional wall.

The country later passed a law on promotion of foreign investments that was remarkable in its many features. It gave tax and fiscal incentives about where and how investments would be, how much foreign equity would be allowed here, and how much in that venture. The law instituted many other concepts that added to the complexity and gave discretionary powers to those agencies and officials that reviewed and implemented the investment promotion laws: measured capacity, excess capacity, annual priorities, pioneer and preferred industry. In an earlier version, these were new and necessary industries, basic industries and the like.

Before this, many laws and regulations were passed that defined the nationalist framework of our economic policies. Import trading was Filipinized in conjunction with import controls. When the Central Bank and General Banking Acts were passed the subject of foreign banks was left to banking regulation. But there was a strong opposition

to the concept of foreign banking participation. As a result, no foreign banks could be admitted into the country. The four banks already operating in the country were allowed to continue, but the operations of these banks were restricted to their main head offices. This decision could have severely restrained the growth of bank financing especially in international trade, since the domestic banks created were largely new, undercapitalized, and inexperienced. Later experience with domestic banks with limited capacity to expand credit because of their low capitalization and problems with respect to the prudential aspects of lending made it essential to pursue reforms to raise banks and open the banking system to foreign equity.

One of the defining laws in the early years of independence was that on retail trade nationalization. This really meant Filipinization. The public debate on this law emphasized the need for the small Filipino retailer and the poor sari-sari vendor the opportunity to grow. It was directed mainly against the Chinese control of retail trade, but it had significant impact on large-scale distribution in which American interests were still present. What it did was to reserve to citizens a very profitable segment of trading and marketing to citizens, and put the writing on the wall for foreign interests to stay out of retailing. Slowly, the substantial American retailing interests would sell out to Filipino corporations.

This law probably had caused one avenue for future export growth in industry to be closed. In countries where foreign retail establishments were allowed to function, the trade opportunities of buying potential products from local suppliers for international supply chains was lost. In addition, the retail trade nationalization encouraged the monopolization of the domestic retail trade among a few large establishments. These were partly the reasons for the amendments opening the retail trade to foreign entry. (See Annex D.)

Less dramatic in the public eye were the restrictive laws that were placed on in the laws on procurement, on public utilities, interisland shipping, transport, on professional practice and employment. The import and exchange controls were clearly designed to discriminate in favor of domestic enterprises. Tariff protection defined protection for domestic industries. The preferential credit system in credit policy, the lendings of the government financial institutions, and many other provisions were there.

From independence in 1946 until 1973, the Bell Trade Act, which was the economic adjustment act after independence, that was amended by the Laurel-Langley Agreement, was to dominate our politics and our policies about trade, industry and investment. And in 1974, special economic relations ended, and so did the parity amendment. But in dominating domestic politics, this issue also helped to fuel some hostility regarding foreign investment despite the recognition of the need for saving. In a country where the saving rate just hovered at around 20 percent of GDP – a rate that is lower than the rate achieved by more dynamic neighbors some of which exceeded 25 percent of GDP, the impact could only lead towards constraining rather than expanding investment.

Public utilities formerly owned by American capital gradually shed their control, requiring a sizable amount of Philippine capital to buy into repatriating American capital. The public utilities – those formerly privately owned in the private sector – suffered long periods of poor service partly because the former owners had no incentive to expand their service and indeed had to sell out at the end of parity. PLDT's bad service was legend, so that when the former prime minister of Singapore, Lee Kuan Yew, mentioned in a talk in Manila in the early 1990s how long it took to get telephone service in Manila, some Filipinos took umbrage at the apparent lack of diplomatic finesse.

Capital had become scarcer as development needs increased and the costs of early mistakes in industrial policy had begun to wreak their toll on the nation. And yet capital was being divested at the end of the Laurel-Langley Agreement. Today, this is widely recognized as the energy blackouts of one decade ago and other kinds of poor service in public utilities had become apparent. The need for large investments in public utilities and in public infrastructure in the country is never more urgent as today and the capital needs to be harnessed. The government now recognizes that focusing on the constitutional restrictions on public utility ownership is a key aspect of the solution.

Lost opportunities

In the early 1950s, the Philippines was judged to be the most promising country in the Asian region by the knowledgeable international community, next only to Japan. The opportunities available to the new nation were large. The Laurel-Langley agreement assured preferential trade with the largest market of all – the US market. American reconstruction aid had restored many investments. American investments were hugely in place. American aid was significant because of support of the military bases and further fueled by the Korean war and its after-effects. And, of course, the bounties of sugar protection from the American quota further assured the country of bonanza. The reparations from Japan added further resources for investment.

By the late 1970s, South Korea, Taiwan, Hong Kong and Singapore were being widely called the Asian tigers, the NICs (newly industrializing countries), the Asian miracles. Thailand had caught up with us in our early economic lead and its industries were beginning to show results. And Malaysia was beginning to attract foreign investments in industry. Indonesia was awakening.

The four Asian tiger countries turned their profits in the markets from garments and textiles that relied mainly on the US market and carried these into savings to widen further their thrust in exports in other industries and strengthen their domestic investments in infrastructure. Further success carried them to many other export ventures, and their economies rolled in with further success. The years were favorable for exporting countries, for despite the shocks of oil, exchange rates, and inflation in the world economy, foreign trade was booming and new opportunities were opening up in the newly rich Middle Eastern countries.

But what was happening in our country? From the years after independence we were busy supporting the growth of domestic industry designed to replace imports and to reserve that for domestic industry through a high level of protection. The great advantage of the preferential tariff arrangement with the American economy was largely ignored by policy. Our exports continued to be agricultural exports – coconut and sugar – and we added logs. Moreover, wealthy Filipinos, now in industry and banking and commerce, were anticipating the day when they could acquire control of the public utilities that remained in the hands of American interests as the Laurel-Langley Agreement terminated the provision of parity.

In the early 1960s, Diosdado Macapagal coming in as president abolished exchange and import controls. He did the right move. But he missed to follow through with the structural changes that were needed to promote an even keel for the development of exports from industry as against the import substituting demands of industrialists of the time. Because no sooner had these things been done, the government put in place high tariff protection to replace the controls. Tariffs and continued indirect subsidies through tax exemptions and tax-free imports of raw materials gave new lease of life to the import substituting industries. With credit subsidies to extend further support, the import substituting industries continued their heyday.

This was happening during the Araneta and Montelibano debates on protectionism. Araneta defended to the hilt the flour milling industries and the import substituting industries. Montelibano decried the inefficiency of highly protected industries. Interestingly, Araneta accused Montelibano of seeking to prolong the favored protection that sugar has enjoyed in the US market through the quota arrangements.

But the old order of protectionism had won long before, because of the mainstream nationalistic framework with which economic policy was influenced. The import substituting industries continued to flourish. So, for a long time, the domestic industries based on import substitution ruled the day. When they faltered precisely because they were dependent heavily on imports and on a peso exchange rate that was unrealistically overvalued, they still received further assistance.

Domestic industry argued that, in time, it would become less dependent on protection. *But they always pleaded for more time to keep their tariff protection. Otherwise, the extended argument went, employees would lose their jobs.* This mainstream thought, now beefed up by a heavy layer of import substituting industries, continued to hold sway with high protection from tariffs and other subsidies for new industries and the restrictive policies of industrialization placed on the expansion of new capacity. They consumed precious foreign exchange, earned little of it in a few cases, but in great many cases, even dissipated the precious commodity. Under these conditions, we tried to set up heavy and intermediate industries.

The interests of the import substitution industries remained strong throughout the Marcos years even though the policy intent was, as in other presidencies, to improve the thrust into exports. Tariff reform to reduce rates was undertaken in 1974. That agenda was interrupted in part by the energy shocks of that period. Yet over the years efforts to

attract foreign investments in new industries began to have a measure of success, but our neighbors, the Asian tigers and our ASEAN partners were beginning to get the large share of the flows.

The government was hampered by many factors originating from what I called the original sin: the Constitutional legacy that was hostile to foreign investment. Why do I say this? The package of incentives that the Philippines offered was usually no better than what other countries offered investors. Some of them had the advantage of having sufficiently clustered industries to enable economies of scale for a new entrant because of the presence of suppliers. Among Asian neighbors with markets geared to exports, such clustering of industries was sizable to enable orderly growth with domestic supply.

In addition to the above, foreign investors were also met with friendly rhetoric by our Asian neighbors. And their labor costs were enormously better, with their labor markets free from raucous labor militants who were always radicalizing the employees. The domestic labor market and how it has become relatively high cost is a topic all its own. Suffice it to say that in our context, minimum wages were set at a national level for years and they represented a cost threat to some labor-intensive industries.

Moreover, the countries with which we compete appeared to present a more credible front when it came to negotiating location sites for new foreign investments. They hardly needed to discuss the issue of acquiring factory sites except the price. The land question is one of the thorny aspects of foreign investments. The solution is to have property owners who would lease land sites or join in the venture, if only to be able to get assurances of land sites. They did not encounter contradictory rhetoric about anti-foreign investment sentiments nor the mazes of *ifs and buts* that had to be measured in the language of the investment promotion law, and in the Constitutional provisions.

The parity amendment was a psychological block in the process of bilateral trade and investment relations because the other parties demanded national treatment for their investments. National treatment is what foreign investors feel safe about, and they almost always seek to get their governments to obtain these privileges. But “national treatment” is at the very heart of the parity amendment. The Constitutional provisions on limitations to foreign investments and on land ownership were precisely the cause of the insistence of American asset owners in the Philippines to insist on equal rights with Filipinos or they would have been made to make a forced sale. National treatment and freedom of profit repatriation are the most important issues that foreign governments demand for their investments. That is the assurance of freedom from confiscation or other forms of discrimination. If the Constitutional framers just remained silent on these issues of law, then the parity amendment would not have been necessary. And therefore, issues such as those confronted later would have been less problematic for Filipinos as it has been less problematic for other governments in accepting foreign investments.

In international relations, the government encountered obstacles in negotiating improvements in the bilateral economic relations whenever the foreign investment issues touched on the Constitutional wall. Bilateral treaties of trade and friendship were made more difficult by the obstacles posed by demands for most-favored-nation (MFN) clause,

an item of common usage in international treaties. As long as special relations existed, negotiation of treaties bumped into the MFN issue. Under these circumstances, it was difficult to move forward, since exceptions to MFN are not a staple acceptable to any country. The issue of national treatment is the equivalent of the non-discriminatory aspects most-favored-nation clause in trade treaties. Tax and investment treaties, although they got negotiated more and more, after the expiration of the Laurel-Langley Agreement were still hampered by these reciprocity issues.

The special relations with the US also led to another problem. Philippine trade participation in the multilateral trade system became a low priority, or in fact, one could say, that special relations made it seemingly unnecessary to put high priority to such an important issue. The government debated membership in the General Agreement on Tariffs and Trade (GATT), the trade body that was the precursor to the World Trade Organization. But that issue was irrelevant as long as the parity amendment and the preferential trade arrangement with the US stayed. And even afterward, many of those in the import substitution industries had no interest in the benefits of multilateral trade rules because these were not salient to their interests. Nevertheless the government, even while remaining outside of GATT, would participate and monitor the multilateral negotiations in the Kennedy, Tokyo, and, later, the Uruguay rounds, three momentous rounds of multilateral tariff reduction rounds designed to improve the international trading order. This was done, if only to be mindful of protecting the country's trading interests.

Consequences of the protectionist policies

The consequences for the nation of the four decades when protectionist policies dominated industrialization policy were costly. Some of these cannot be quantified because they were *opportunities lost for not being taken*. Studies of protection and their impact on resource allocation are noted in a short annex. (See *Annex C*.)

But the opportunities not taken were precisely the essence of what might have been. New export industries failed to grow as they did in neighboring countries in Asia. The country, with an enormous supply of labor, was not producing exports that employed labor resources unlike the other countries in the region. Most newly approved industrial projects were mainly for the domestic market, and many of them had little employment impact. The fiscal and other incentives for industry were geared mainly for import substituting industries, even though by the late 1960s an export incentives law was in place. That law placed more incentives for exports to enterprises that were already in production to improve their prospects for exports. But these industries were high cost and not competitive enough even with additional export incentives. The export incentives were not particularly geared towards attracting new projects for exports. In fact, there was a contradiction. By controlling excess capacity in some industrial projects, the government put a bar against enterprises that were mainly destined to produce for exports. This required a special type of treatment, that is, through separate industrial export zones rather than being integrated in the general domestic economy. (But even these escape routes for exports were for later, by the middle 1970s).

Interested parties were mainly domestic corporations trying to fill up existing demand with import replacing industries. The foreign corporations that expanded capacities were essentially assuring themselves of keeping their Philippine market. In this way, subsidiaries of foreign companies continued to expand only as permitted by domestic demand. To acquire machinery and equipment, they needed foreign exchange. And they had to borrow a large part of it from either government financial institutions or from suppliers credit (which required amortization installments in foreign exchange). To sustain their raw material demands, they often had to import. To sell their products, they demanded a high protection rate to guarantee their profit. To import their raw materials, they wanted low tariff rates. It was also likely that, given business practices, there were built in profits for the investor just to invest in the machinery and equipment. In this way, there were profits to be gained even before the investment pushed through, thereby hampering the cost of the operations as a functioning enterprise later.

Because of the country's energy dependence, the import substituting industry was already heavily dependent on foreign exchange if only indirectly. The need for imported materials made this more direct. Without any dollar earnings, the import substitution industries were a recipe for disaster in case of balance of payments crises. This was, in fact, what happened. Not only that. In times of disaster, they could not service the loans that they had. So they affected their creditors, that happened to be in many cases the government financial institutions.

So, many of the industries promoted for import substitution not only squandered the foreign exchange resources of the country. They contributed to the balance of payments crisis because of their insatiable demand for dollars. And they penalized consumers for their high prices. Moreover, they heaped on the government financial institutions non-performing loans and thereby squandered the country's scarce savings.

In contrast to our development, our Asian neighbors did very well. This they did without having any preferential market through the Laurel-Langley Agreement. Of course, later, there was to be the *General System of Preferences (GSP)* in trade for developing countries negotiated through the United Nations Conference on Trade and Development (*UNCTAD*). But this was available to all developing countries, including us. The growth of these countries was propelled by the US market's insatiable taste for cheap goods, made from cheap labor, especially after the prosperity of the years following the Second World War.

When I was a graduate student in the early 60s at *MIT* in Cambridge, Mass., I saw a Bob Hope Show (Bob Hope was the original TV stand up comedian) in which his sidekick proudly showed him a thing that he had bought in a department store. Bob Hope wisecracked, *Yes, everything in the US is made in Japan*. By the late 1960s and through to the end of the last century, Bob Hope could have said, *Yes, everything in the US is made in Korea, Taiwan, Hong Kong Singapore, Thailand, Malaysia, China, yes, the Nike shoes in Indonesia, but not in the Philippines*.

Geographically, our country is right smack in the middle of these countries! Yet, we got a portion only a tiny bit of that market when trade and industrial economic

reforms began to take hold, although our electronics export industry is now no longer small. (See *Annex F*.)

Economists talk about a concept of *deadweight loss* when analyzing economic welfare. This is a concept about economic welfare loss of consumers and producers caused by low efficiency. This is due to policy interventions (or to subsequent developments arising from these interventions) in the market that force consumers to pay a higher price for goods and lead producers to operate at lower levels of output. Put in a positive way, you could make all parties better off without making any one worse off if you got rid of the cause of the loss.

By tilting major incentives in favor of import substituting industries through excessively favorable policies, the nation paid a high price. It was not only a cost to Filipino consumers in the market place – that is you and me and the working masses with their hard-earned keep. Many of these industries – and the power of their lobby – caused the country to dissipate the large resources of foreign exchange that the country was earning in the early decades of independence. Their never-ending need for foreign exchange with which they were supposed to save the country was not sustainable, because they were not configured to produce foreign exchange. They were thus a recipe for national disaster, because given the costs that they were incurring, and the high prices that they were charging for their prices, they were handicapped from the very beginning to pay their own way in terms of exports.

Others would observe that during the years of import substitution policy and high protection, many foreign investments did come to the country. And what did they do? These investments were either subsidiaries of foreign corporations or joint ventures with domestic partners. They did exactly what domestic import substituting industries did. Foreign drug companies, personal care cosmetics companies, tire companies, and a long list of other industries took advantage of the high protection rates to control the domestic markets for their products. They hardly sold any of their products to any other country.⁴

These industries were precisely the industries that the nationalists were decrying as exploitative foreign investments. This follows on the long criticisms of the role of multinational corporations in developing countries. The criticism centers on many

⁴ Years ago, during the 1970s, I was in a hotel in Bangkok eating a quick lunch before a scheduled afternoon meeting. I ordered a burger and was served my meal with all the garnishings, including a bottle of Del Monte catsup. The catsup label indicated that it came from the Del Monte subsidiary in Italy, and not from the Philippines where the company sold a Del Monte catsup in the local market. This demonstrates in part the principle of comparative advantage, but the main reason why the Del Monte catsup came from Italy was that there was hardly any incentive for this company to export from the Philippines. The protectionist policies were stacked up against the industry to export their products although they were geared for pineapple exports. Perhaps, given the cost of growing tomatoes at the time, there was no way by which the raw material for catsup could have matched the cost of production from Italy. Then, Del Monte was just making enormous profits from selling repackaged catsup. Until domestic sauces like banana catsup became effective competition to Del Monte, the monopoly profits from catsup must have been comfortable for a firm wanting to make additional product lines to its main line, which was to grow and can pineapple for exports. This incident so flabbergasted me that I mentioned it incidentally in a discussion with newsmen who were tracking me at NEDA. Tony Lopez, then a reporter for *Asiaweek*, took the discussion to heart and landed me on the cover of that magazine for a long story on multinationals.

important issues like property rights, patents, limitations on market agreements, and so on, which corralled developing country industrialists – especially the import substituting domestic industries including those with joint venture agreements with foreign enterprise – with limited market agreements. They could not export their wares beyond the domestic market. The problem was, however, the framework of the market, the policies of the host countries that made it possible. In short, in our case, it was the set of government policies that promoted import substitution to the hilt with high protection rates and willingness to deed the domestic market to inward-looking industrial interests.

The foreign investments in this case were freeloaders of the protectionist system of policies. They exploited the domestic markets as much as the Filipino industrialists who were able to set up their industries under the blessings of protection. They fed on the system that was promoted by the policy of protection.

Even American capital opted for domestic import substitution. They were there only to keep and develop their own market shares. They did not develop new markets in other countries. They developed their Philippine market only. They became freeloaders of the home grown industrial policy. Our Filipino owned companies got technological contracts that limited their markets to the home market. And many businessmen became insular in their outlook.

The government was to blame in part because it always yielded to pressures for reversals in attempt at reforms. For years, the Philippine Chamber of Commerce and Industry was a watchdog against government moves to reform aspects of trade and industrial policy. In contrast, in the countries that I mentioned, the chambers were in the forefront of telling the government to expand markets, create more opportunities outside the country, and enable conditions at home to make business further reduce costs.

In the eleven years that I spent in the government, much of what I heard from the Chamber of Commerce and Industry, was essentially to hold back on the needed reforms because domestic industry could not compete. They needed more protection, more fiscal incentives, more time, and so on. At the high plane, there was always the exhortation to expand economic growth and exports. But when the chips were down, what they or their industry committees wanted for the government to do was to lower tariffs for their raw materials or to raise the tariffs on competing products if not to hold off a planned tariff reduction.

One of the national dangers that we face today is that now, the agricultural sector is seeking high protection. If we seek a repetition of history, just look at what protection has done to the sugar industry.

If only the interests of business and industry were more balanced at the time, then the dominant control of economic policy by the domestic industries that were mainly import substituting would have been blunted. For instance, if the industrial interests had a strong export sector that was earning dollars, if the foreign investments in the country were good export earners, as the situation now appears to be, then these demands for high protection would have fallen down more quickly.

These were the years when the American Chamber of Commerce was already much eclipsed, and during which American investments in the country was mainly piggy backing freely on the import substitution strategy. The Confederation of Export Industries was still weak. The Chamber of Agriculture and Natural Resources which was once a dynamic bastion for the traditional exports was now busy, happily cutting down our forests and joining in the parade of more import substituting industries and economic activities restrained by citizenship requirements. But by then, quite a number of its leading lights – including Montelibano – were also engaged in import substituting industries and the weight of their economic interests were aligned with the Chamber of Commerce and Industry or in domestic services like banking and trading. The Makati Business Club, finally frustrated also with the import substitution strategy, had begun to develop a well- rounded voice for business.

Until exporters gained in size to express their problems and to get the attention of the government to deal with them, it was difficult for the government to balance various economic interests. For oftentimes, export industries did not have concerns that coincided with those of industries serving only the domestic market.

What is the Nationalist issue in economic development?

The industries that are designed for the domestic market or for import substitution have common demands. They insist on high tariff protection for years or a guaranteed domestic market that assure them profits. They want a cascading tariff structure to give them a built-in profit. This means high tariffs on rival, imported products, low tariffs on the raw materials. They desire long years of protection. When reminded of the need to reduce the tariff, or to have a program of tariff reductions, they do not want to have any “premature” reduction of tariffs.

In addition to this, they wanted the preferential access to credit from the government that, in the past, even took the form of governmental guarantee when the project accessed external loans. The record of credit payments of many of these industries is poor, basically because of their crisis prone nature. The other part of the equation that explains this behavior was that many of them got arranged as projects because of their political connections. In fact, what I had not discussed here is that the import substitution industries promoted by the government can be explained from another perspective. Politics and cronyism often get involved in the project selection process.

Most of us would understand this sufficiently if we but put the EDSA “revolutions” in context. The years 1986 and 2000 are just time demarcations, but the corrupted process began in its rapacious manner during the late 1940s as soon as import and exchange controls got instituted. And they got grafted into our political culture and then into the industrialization process which heavily depended on political patronage and behest loans.

Just look back and review the bad loans that the DBP and the PNB that finally got turned over to the Asset Privatization Trust in 1986. The list of companies that date back to the early 1950s are included in these books, and many of them were designed,

according to their proponents, to raise domestic industrial output by replacing imports. These two major financial institutions, in the end, paid the burden of financing many of the import substituting industries. Quite a good list of enterprises – including steel and other large-scale industrial projects – were in this list. But who in the end paid for these failures. It is not these two financial institutions but all of us.

In the end, all Filipinos paid for these failures. It is not only the additional tax burden that had to be paid for these failures of industrialization. It was a burden of present and future generations. The early cost to past generations of consumers whose welfare were cut enormously by the high priced products that were imposed by the protected industries are not even factored into these. These were only the financial losses.

In addition, interesting names will be found who own these enterprises, if one but made a little research. I must add that the companies and persons who ventured into these ventures are not linked to any period of any presidency but to several. The link between import substitution industries and the corrupted political process is entrenched in practices that allowed projects to proceed, not on economic efficiency, in the sense of world economic efficiency, but on their alleged economic feasibility with the help of high and sustained protection rates.

Dependent economic nationalism is an exploitative brand of nationalism

The mainstream economic nationalism is a nationalism dependent on the government to provide protection, unequal rules in favor of citizens in all areas, patronage, and so on. It is a dependent type of nationalism, reliance on giving an edge to countrymen for production at the expense of consumers. It is not fair play.

It is time to use the economic criteria that I enumerated at the beginning. What are the common characteristics of the demands of those who want to promote industrialization based on what I called mainstream nationalism? This is the normal meaning attached to those who want to promote industrialization based on economic nationalism.

Competition is good. But they want to eliminate competition. If they say this is not so, they want to have an *edge* over the competition. This is the meaning of their demand for protection.

Monopoly is bad. But they want monopoly, or some element of it. They want higher prices for their products. In short, they want to make a gain at the expense of consumers. The nation is asked to support them with higher costs. If “consumers” are a bunch of other industries that produce other products for the market, they want to make the costs of these industries higher so they can keep their profits. But these other producers will have to pass on their costs to consumers eventually.

Trade is good. But they want to impede trade by raising taxes on imports. If they can get a gullible government to ban the import, they will want it.

Comparative advantage is good. But they do not want comparative advantage. They say that the rules of trade in the world are so stacked up against developing countries that it is better to develop our own domestic industry. So, they say that we will never develop comparative advantage. They do not make calculations that economists would ask: At what costs and at what levels of efficiency?

The government can undertake targeted interventions to correct deviations from the above principles of economics. But they want government intervention to favor their interests. They want rules so that cards are in their favor. Other governments will protect their interests and the Philippine government should protect Philippine interests. But the rules that the government should foster should be based on fair rules to enable Filipino enterprise to thrive in a harsh, not pampered world. That is reality.

Economic nationalism based on a competitive ethos, fair play, and economic efficiency

It is time to find a better definition of economic nationalism. That definition involves the principle of “competition” as a central element. Economic agents – our producers and consumers – when faced with competition always lead to a solution that improves the outcome for all. When Filipinos find themselves in a competitive environment, they do as well as other nationalities. How else do we explain the fact that we have a lot of country men who excel in the field of management and in technical work when they are placed in entirely foreign settings? One of the most hostile environments is when a person works abroad in a foreign company without the normal protection of his own government. Competition need not drive out social justice and fairness. There is a big place for that, through the actions of the government. But for the rules of business and daily affairs, competition should be central, or else, we will become, as we have become, a nation propelled by undue coddling – cronyism, favorites, unfair rules, opaque processes, etc. At home, there is a tendency for a lot of producers to seek the shelter and patronage of the government.

Competition implies the acceptance of open trade environments and the rejection of monopolies as a way of organizing the economy. It also means promoting the best use of the country’s resources, supplementing those resources that are most lacking so that the resources that are abundant are able to play a useful role in economic life. Other countries try to attract foreign investments by giving them a welcome equal to the opportunities available to citizens. In our country, there is a tendency to make rules convoluted and difficult. Of course, it begins with Constitutional provisions that we should revise if we are to attract investments effectively.

Economic nationalism should not promote the welfare of the small minority of rich countrymen at the expense of the poor, large majority. The demand for monopolies, special advantages, and accommodations that tilt the playing field only for citizens create opportunities for monopolistic positions of the few who could take advantage of those opportunities. The result is monopoly position over certain opportunities. Many of the ills

of the country can be traced to the measures undertaken by the government – on the backing of nationalistic xenophobia – to require a *citizenship* qualification for many types of economic activities. The current demand to expand opportunities and the role of outside capital has been the result of citizenship requirements that impeded progress in the country.

To be truly independent, *the citizenship requirement for public office is the most important and perhaps the only one that matters*. Extending that to many areas of life is likely to constrict many opportunities available to our people in realizing the best possible growth of economic opportunities. But aside from that, the rules for business should be made fair for all, with the rules of the game being made equal rather than tilted. That is the way we can promote greater competition and more openness and, above all, improved performance and productivity for the nation.

The coming age of competitive policy and comparative advantage

An important elaboration needs to be said here. For years, the most frustrating argument that I heard in government and outside was that it would be difficult to have comparative advantage in industry. I was told that we had to shape the domestic market first, get the import substituting industries do a better job, and then, as they became better and competitive, they would earn exports. There is a germ of truth to that, but it was risky. What if they remained forever infants in the trade?

The opportunities that we missed were caused precisely by waiting too long in trying to shape the domestic market for perennially dependent industries to become competitive. As a result, the country lost by default the industrialization that would have ensued via the economic opportunities offered by garments, textiles, furniture shoes, and other labor-intensive products of a bygone era of preferential trade agreement with the US and GSP with the rest of the industrial world. Our garments exports to the US was measly compared to what became Hong Kong's major initial market for growth. That was only Hong Kong... (Remember the other tigers?). Part of the problem was that the garments and textile board failed to reward the best export producers with large quotas but subdivided them among small producers with inadequate and unproved capacity.

In addition to the failure to incite the garments export sector, the government favored the setting up of small textile industries with high protection rates. These textile factories were made only for the domestic market, and their operations were unduly hampered by highly protectionist rules that prevented the entry of competition and of low priced raw materials. In the meantime, the textile industries that were established ahead fought tooth and nail to fight smuggled textile imports from entering. The best solution for the problem would have been low tariffs, but this was not what they could bear either. The rules preventing the entry of foreign capital for an industry like textiles prevented what could have been the first engine of growth of the early postwar period the way the industries all the Asian tiger economies prospered during those years.

Then, in the late 1980s our exports of electronic goods and other labor using goods began to rise. They were mostly exports produced by foreign enterprises located in export zones. They began to employ more Filipino labor, used that inexpensive labor to sell electronic industrial parts. And so, suddenly the export receipts were rising very rapidly.

Export industries in the world looking for good sites began to take notice of the Philippines by the 1970s, but in part the political crisis of the early 1980s slowed this to a halt. During a great flow of investments from Japan, Korea and Taiwan in the late 1980s and 1990s, we further captured a few of the industries, but only a smaller fraction than did our other ASEAN neighbors. Today, the presence of these export companies in the whole industrial scene is more dominant, since they account for a large part of Philippine exports. The import substituting industries argued that you encourage and protect the industries until they had learned their business and then they would go into exports. That was at great cost of protection. These industries were pure assembly activities and there was no direct market for the products at home. The exports were distinctly for factories around the world that would need these assembled products. These export industries came in without any pretence at doing something for the home market. What they needed were cheap production sites.

The electronics industry alone began to account for 60 percent of total exports by 2000. The companies now located in the country export semiconductor devices, electrical machinery apparatus and appliances, telecommunication/ sound and video apparatus, electronic offices and auto data processing machines, and consumer electronics products. The markets for these exports are directed towards manufacturing sites all over the world – the US, Japan, Taiwan, our ASEAN neighbors with complementary factories using Philippine assembled products as raw materials, and Europe.

The electronics companies affiliated with the Semiconductor and Electronics Industries of the Philippines (SEIPI) by 1999 included 23 Philippine companies (29 percent), 21 American companies (27 percent), and 20 Japanese companies. The American companies that came to the country in the 1970s include Intel, Texas Instruments, the biggest of them. Japanese companies include Fujitsu, Hitachi, Toshiba, Epson and Sanyo.

In other countries, too, the invitation is to attract professionals and managers to come. In fact, one of the inequities of the world immigration system is that rich industrial countries, home to the best minds in science and technology, select the immigrants by creaming off the best professionals in many countries and offering them incentives. And yet, in our country, we have very xenophobic requirements about employment of foreign professionals in the country. This is another element of policy that should be given full attention. We might have a large outflow of brain through migration and of overseas contract workers (OCWs), and yet our work and employment regulations have processes that prevent foreign professionals from working here. At least, the procedures are cumbersome and discouraging.

At the same time, Philippine professionals manage well in competitive managerial and labor work places. Many Filipino managers and professionals work all around Asia with great facility and in other developed countries. If there is a more liberal professional policy for work in the Philippines among professionals, it may be possible to attract back a lot of Filipino professionals who went abroad to seek better opportunities. As competitive companies at home become strong, they will create a demand for management talent, engineers, scientists, and will moreover demand that our educational institutions do a better job. The net effect of this is to create a homeward pull for the brain drain, whereas it has been pulling out the best and the able from the management pool available in the country. (See *Annex H*.)

This means the following. Philippine labor is severely in excess of the available employment opportunities. But capital is so inadequate, for reasons that I have by now made clear. To tilt that balance so that our countrymen can find the jobs that they need in their own country, it is important to augment capital supply. Technology, innovations, and managerial manpower accompany capital wherever capital goes.

Role of internationalism

A large part of this essay is on the dismal aspects of wrong roads chosen and opportunities lost. It is time to end with a note of optimism. And this is where the idea that *internationalism* is compatible with the version of economic nationalism that I have suggested. This is the right way for our country to go.

The swirl of world developments is that countries are being affected by a constantly shrinking world. Along with this is the growth of institutions that define the way that we adjust to the world.

After years of slow progress as a regional organization, the *Association of Southeast Asian Nations (ASEAN)* began to develop broader areas of cooperation. This was in part affected by large global forces and by regional cooperation in other parts of the world. The key development was the growth of Western Europe as a single commercial entity through the *European Common Market* and by the *North American Free Trade Association (NAFTA)*. ASEAN economic cooperation grew stronger with the passing of years⁵ and as a consequence of the agreements in multilateral negotiations over several decades that culminated in the agreement to found the *World Trade Organization (WTO)*.

As signatories to these two major treaties, our country really managed to cross the divide between protection and comparative advantage. There is just no turning back, unless our leaders mess up the road that is already mapped for us by the obligations that we agreed to as signatories. Without the increasing trend towards economic cooperation,

⁵ For a backgrounder on the acceleration of economic cooperation, see G. P. Sicat, "ASEAN Economic Cooperation Accelerates: Appreciating Professor Widjojo," Philippine Review of Economics and Business (vol. 36, June, 1999), pp.

it would have been difficult to break the yoke of the economic policies and the wrong notions about dependent economic nationalism that had caused our country to lag behind our neighbors' rapid economic growth.

Economic cooperation has reached the conclusion of a prospective *ASEAN Free Trade Area (AFTA)*. That itself is the force that committed us a larger regional market of more than 250 million people where competition among the member countries will bring down barriers of prices and costs. It has already led to major restructuring of many industries. This has also already caused many joint ventures across countries. The major multinational corporations that have a stake within the region have been rearranging their production lines as regional trade expands. Although the industries nurtured by protection over many years are still fighting the trend, it is to them a losing battle if they do not adjust their markets and their products. My prediction is that in time, not only will *AFTA* move towards a common market framework. The number of countries that will cover this market will enlarge further.

It is not inconceivable that China will want to move within that market framework. Indeed, today, there is a flurry of bilateral efforts to improve the prospects of free trade arrangements initiated from South Korea and even Japan. At least, official discussions are entertaining such possibilities. The Asia Pacific Region itself is under pressure to multilateralize at least within such a region moves that tend to enlarge free trade regional arrangements. All of these trends should signal to Philippine industry that the age of dependence on government patronage and on favors at the expense of Philippine consumers is at an end. (See *Annex G*.)

The *AFTA* challenge provides the hammer on which to forge Philippine industry in the future. (See *Annex C*, latter part.) But it cannot end there. To partake of the benefits that are in store, the sinews of the Philippine economy need to be strengthened. This requires that a more open approach to foreign capital be developed. Attract foreign capital into Philippine shores rather than have them exploit the opportunities in the other ASEAN member countries. This is why the Constitutional restrictions have to be lifted, so that we can strengthen many aspects of foreign participation in the Philippine economy. It is very important to revise the provisions on public utilities especially and to liberalize the transportation sectors, where domestic trade is hampered from developing fully because of restrictive laws on citizenship requirements. The country needs efficient and strong public utilities and infrastructure investments have to improve immensely. This could be accelerated by a welcoming posture for foreign capital because domestic capital is insufficient.

As for WTO, there is much heat about the controversies of WTO negotiations. This is part of the process to get a better result for the rules of trade. But a proper perspective has to be taken. Agreements will eventually come to closure. The rules of trade that are presently in force are more advantageous to the industrial countries in many areas of trade. But this has to be seen with caution, too. It is not as one-sided.

A proper perspective in respect to the WTO negotiations that will take place over many issues of trade and industry standards is that even among the big countries, there is

a divergence of interests. For instance, most of the cases that have been brought before the tribunal of the WTO to resolve trade issues involve disputes among the major industrial trading powers. A positive side effect of this is that the interests of small economies are likely to be promoted by these disputes. As bystanders, they do not even have to expend time, energy and funds. This is in part reassuring, but it does not provide room for complacency.

The true interests of the Philippines are on the side of developing countries through the common denominator of ASEAN support. Developing countries need to get a fair shake in the negotiations for improved rules for trade, in all aspects of the many trade rules and standards that are being negotiated with all countries. Recognizing the multilateral character of the negotiations provides assurance that there are many little Davids that can unite on common issues and that there are two to three, not one, Goliaths that are likely to be in contention.

Finally, it needs to be said again. Economic nationalism must shift from policies borne of fear of foreign exploitation to a more positive definition – that of attracting full foreign participation and creatively utilizing it as one (of many) means of promoting economic development in the country. We begin by doing away with xenophobic restrictions that are found in the Constitution.

January 30, 2002 (revised, February 28, 2002)

Annex A.**POVERTY IS OUR MAIN PROBLEM: DON'T BLAME OTHERS FOR IT**

Poverty is the main problem of our times. There is a tendency, however, from some sectors to blame foreigners and other institutions for the poverty that has engulfed the country in some areas. But it must be said that part of our poverty has been caused by mistakes committed in our nation building. One of which was industrial policy. In fact, because of these mistakes, the country has failed to generate sufficient employment for our labor force.

The obvious outcome of this failure is the resulting poverty of those who cannot find work. This means that many households have difficulty sustaining their families. Take the case of statistics about the nutritional problems facing our young people – the infants, the under five year olds that by definition of child rearing depends on the nature of the well being of the parents. (Our country has become a favorite of students of poverty in the world community. Expect to find ourselves in such studies as we continue to fail to solve poverty!)

Table. Rates of Under 5-Years Stunting, Underweight and Wasting by Quintile Equivalent Consumption in Percent

Country	STUNTING RATE		UNDER- WEIGHT			WASTING RATE			Rich
	Poorest	Richest	Poorest	Richest		Poorest	Richest		
	20%	20%	Rich	20%	20%	Rich	20%	20%	
Bangladesh	56.0	43.0	1.3	59.0	44.0	3.0	28.0	21.0	1.3
China	38.0	14.0	2.7	21.0	6.0	3.5	6.0	2.0	3.0
Indonesia	54.0	35.0	1.5	46.0	33.0	1.4	14.0	11.0	1.3
Philippines	21.0	8.0	2.6	26.0	13.0	2.0	29.0	16.0	1.6

Source: Wagstaff and Watanabe (2000), "Socioeconomic Inequalities in Child Malnutrition in the Developing World,"

These numbers surprise even Arsenio Balisacan, the foremost Filipino expert on poverty issues. Could they be the illusion of numbers? Recognizing that the data for the Philippines are apparently taken from a limited sample found in depressed areas in Cebu and could not possibly be representative, the information conveyed is nevertheless bothersome. Among the poor, the stunting rate of Filipino children under five years old is severe. That it is still relatively better than in other poorer countries is not a source of comfort. The sample is selective, it involves the poor countries.

Underweight rate among Filipino children is alarming. It has intruded into the children of the richest 20 percent. Remember that the rich in our country are a much smaller percent. And so among this "richest 20 percent" are our upper middle class income groups. Alarming as these numbers are, wasting – which I interpret to mean the

impairment of biological and even neurological attributes – is even more alarming. It is severe among the poor and even among the richest 20 percent. The comparisons with other poor countries and the numbers as I see them makes the future bleaker if we don't do what's best in the present.

How do we interpret these numbers? I can only say that we have reached a stage of crisis. Here, in the bastion of our intellectual fount, the UP, we find this problem staring us in the face. Not only have squatter communities continually eroded our passageways and boundary spaces, they have also intruded into the beautiful rolling hills of Diliman on the fringes and even inside the campus. We even find what resembles poor housing for staff and even in some areas occupied by faculty. If our legislators do not see this when they visit the campus or drive by, they ought to see it every day in the areas surrounding the Batasang Pambansa or in the reclaimed areas near the Senate.

The future of our children is our present responsibility. And since our Constitutional fathers put obstacles before their children in solving the problems of their time, we have the responsibility today to find the causes of the malaise and help to cure them ourselves.

Annex B.

CONSTITUTIONAL PROVISIONS ON THE ECONOMY AND ON SOCIAL JUSTICE

In my view, the most basic and important provisions that should cover a constitution are those dealing with the political framework, the division of the government, and the manner of choice of leaders, and the duties of each principal officers. Every other provision on details of economic, social and other relations should be matters of specific law. That does not prevent us from making a declaration of the lofty aims of our Constitution and our nation.

The gift of those who framed the American Constitution to their people was that it was brief, simple, and it focused mainly on the structure of government and on the rights of the people. Because it was a minimal constitution, it gave the future generations of Americans the wide course of actions that they themselves determined for themselves as the challenges arose.

The British did it even better. They fought their King, their ruler, and forced him to accept certain rules affecting the liberty of the subjects. And the succeeding generations of British people confronted all their social and economic crises with reform legislation applied to those times, without being told that they had to amend first their Constitution. For their constitution is the body of laws that the parliament approved.

Having said all of the above, here are two possible courses of action. If I were president of the country and I had the backing of all good men (a foolish wish perhaps), then I would seek a Constitutional Convention or Committee to rewrite the Constitution for approval by the nation. That Constitution should be simple, and that it deal with the

principles of government, the structure of the state, and with the preamble to describe the objectives of the nation. And I would add that the bill of rights be included to protect the people from state abuse.

The second course of action is more pragmatic. Focus on the amendment of a few provisions to liberalize ownership and disposition of natural resources, land, and the requirements that limit the participation of foreign investments in public utilities. And I will emphasize in the debate on seeking approval of the changes that the inherent power of taxation of the state and the collateral authority to regulate will assure that our leaders will take care of the nation's interests.

Note: Prior to writing this article, I reviewed some aspects of the Philippine Constitution. Instead of filing these notes away, it occurred to me that many in our country would find them of interest, if only to challenge their thinking. They represent one man's view, and I must add, only while on a quick rereading of them after many years. My own intuition is that our Constitutional framers have put almost all the imaginable situations that are the subject of detail in law to be passed by Congress. ***The Constitution, which should be flexible and a guidance to general principles, should not be made into a set of prejudgments that are no different from the actions of parents who think they know what is best for their children for all time.***

The Constitution as written (1987) contains virtually a wish list, covering an innumerable list of topics that are in the nature of legal details or an admonition to put in some detail through legislation later. The constitution attempted to cover almost the whole area of attention of the government.

The provision on the national economy and patrimony alone has 22 sections. Many of these are already covered in the body of laws of the country. The provision of the article on social justice and human rights is likewise a long list of provisions. It has 19 sections and detailed sub-provisions. There is also an article on education, science and technology, arts, culture and sports. All of 19 sections.

Article XII – National Economy and Patrimony

22 sections that contain detailed statements of economic relations, including limitations on the role of foreign capital and citizens in

- Acquiring land
- Protection against unfair trade practices and competition (sec 1)
- Natural resources – regalian doctrine: all minerals, coal, etc. found either in public lands or in private lands belong to the state. Regalian doctrine is the premise for the recognition of the power of the state to control the exploration, development and utilization of our natural resources.
- Exploration of natural resources limited to Filipinos – utilities (Sec. 11) is limited to proportionate share of capital. Limitation to equity participation is not necessary since the Constitution expressly provides that the activities shall be under the full control and supervision of the State—
- Why is not the above principle applicable to ownership of land... it seems a provision sufficient for the power of the state to tax land...

- Size of landholdings, or lease of land limited to 1,000 has per corporatio or association. Private individuals may not acquire more than 12 has of private lands... alienable lands subject only to lease... (sec 3)
- No private lands shall be transferred or conveyed, except to individuals, corporations, assns qualified to hold lands of the public domain, save in cases of hereditary successions... (sec 7)
 - Only Filipino citizens
 - Corporations with 60 percent Filipino ownership (sec. 2, para. 1)
 - Aliens but only in hereditary successions (sec 7)
 - Natural born Filipinos who have lost their citizenship except as provided by law (sec 8)
- Provision on NEDA and economic planning body, sec. 9
- Sec. 10 is worst: Congress shall reserve, upon recommendation of planning agency, when the national interest dictates, reserve to citizens or to corporations at least 60 percent of whose capital is Filipino, or higher percentage (!) as Congress may prescribe, certain areas of investments. The Congress shall enact measures that will encourage the formation and operation of enterprises whose capital is wholly owned by Filipinos.
- Preferential rights to qualified Filipinos of rights, privileges, and concessions covering the national economy and patrimony (sec 10) – (Leaves no doubt as to constitutionality of the legislation of discrimination... against foreigners...)
- State shall exercise authority over foreign investments within its national jurisdiction in accordance with its national goals and priorities (sec 10)
- Franchise for public utility reserved to corporations with 60 percent Filipino ownership (sec 11)
- Foreign participation in board limited to 40 percent or less
- Broadening of equity base in public interest
- Note: Filipinos travel to Hong Kong at the marvel of the tunnels that connect Kowloon with Hong Kong island or the airport now constructed in Lantau... If they had worried about the intricacies of public utility laws that are in force in the Philippines, I wonder if those things could be built at all; yet, go further – the power plants, the public utilities of Hong Kong, just to name a few.
- Foreign investors complain about the lack of infrastructure facilities, yet our resources cannot fully cope with modernizing the facilities that we have. We always have a major bottleneck in some part of the economy which is infrastructure – take note of our transport problems – the traffic gridlock and the limitations of mass transit in Metromanila, or even the lack of attention to housing for the poor... at market prices. Some of these can be met with more liberal foreign investment policies. We should have no hangover on who owns the capital. What we should be happy about is that they would come to help fill a gap that we cannot fill ourselves...
- State shall promote preferential use of Philippine labor, domestic materials and locally produced goods, and adopt measures that help make them competitive (sec 12)
- Anachronism – why protect if you want them to be competitive; you want employees to be competent, with proof being in the market, not preferential determination by others outside the corporation or employer...
- TRADE POLICY conducive to equality and reciprocity... (sec 13) → not needed, a redundancy because this is so;
- Science manpower development.. another redundancy (sec 14)
- Practice of profession – to be regulated by law, another redundancy
- COOPERATIVES DEVELOPMENT → redundancy (sec 15)
- CORPORATION LAW → redundancy (sec 16)
- TIMES OF EMERGENCY → Redundancy (sec 17)
- OPERATION OF VITAL INDUSTRIES IN THE INTEREST OF WELFARE, ETC. (18) – A redundancy?
- REGULATION AND PROHIBITION OF MONOPOLIES → Redundancy (sec 19)
- CENTRAL MONETARY AUTHORITY → Redundancy (sec 20)
- FOREIGN LOANS IN ACCORDANCE WITH MONETARY AUTHORITY AND LAW → Redundancy (sec 21)

- PENALTY for violations (sec 22) → Redundancy

Sections on Social Justice and Human Rights → FULL OF REDUNDANCIES... covering almost all aspects of life; this are the subject of specific laws...

- The constitution is full of redundancies – defined as subjects already dealt with in existing laws, and which add little additional substantive provision, except that they get encrusted as provisions of a constitution that are difficult to amend. Yet, some of them are only provisions in name and have no operative meaning in the provision of law, except to mention them...
- A lot were accommodations to special groups that needed to be mentioned... women, cooperatives, fishermen, landless
- Provision on Labor also full of redundancies because substantive provisions are already in the LAW...

Annex C.

THE COST OF PROTECTIONISM

The cost of high protection rates for industry could be posed in the following manner. For every amount of value that is created by the industry to the economy, what is the per unit domestic cost of production compared to the alternative world production cost? The answer to such a query provides an understanding whether the country has a comparative advantage or a disadvantage in the production activity.

Calculations of these types were used to study the resource costs of Philippine protection. Two industries that figured in the Montelibano-Araneta debates over import substitution industries were flour milling and animal feeds. These industries were not enormously protected with very high rates of protection, but they nevertheless imposed a penalty on consumers that were substantial. The penalty originated first on the cost of production.

The domestic unit resource costs calculated for flour milling ranged between 7 to 26 percent higher than world unit cost of production for the years 1969 and 1974. The costs of animal feeds, stayed in the range from 6 percent and 8 percent in those two years. These were calculations on the cost side.

Protection rates however refer to the additional tax on the value of the good when imported. It is the actual cost that consumers have to face if the product were imported and not bought from domestic sources. To give the industries an edge in the market over foreign goods, the rate of protection is very significant. Economists calculate nominal rates of protection – similar to the protection rates given to commodities in the tariff and customs code – and the effective rates of protection. The latter is a better measure of the protection rate, because it takes into account the series of interactions of the product with other users until the overall effect is derived. It is not surprising that the effective rates of tariff are much higher in general than the nominal rates. This is explained by the structure

of tariff rates that favored high tariffs for the main producer and low tariff rates on the raw materials in production.

Studies of the rates of protection and domestic resource costs were made during the peak period when Philippine industrialization was practically dominated by import substitution activity. The nominal rates of protection for animal feeds in 1974 was 33 percent and the effective rate just slightly higher. But for flour milling, the nominal rate was 41 percent and the effective rate more than 1,000 percent. The high effective rate was due to the resulting impact of flour milling on the other industries dependent on flour for their product – the interindustry input-output effect.

Romeo Bautista, John Power, and a host of Filipino economists focused on these issues in the 1970s. They made estimates of *effective protection rates* and *domestic resource costs* for the whole range of Philippine industries for which data were available. For instance, in the mid-1960s, of 100 product lines, more 16 products had effective tariff rates of 100 percent, some of them even reaching 400 percent. By the 1970s, the government undertook the realignment of these very high rates of tariff. The tariff reduction program in the country began as part of the structural adjustment program. Efforts were begun in the early 1970s and the program was accelerated in the 1980s. The country's political crisis intervened, but the program resumed quickly after early 1990s.

Reforming the tariff system: liberalization and ASEAN. The tariff reduction program is part of a concerted program to align tariff rates and to reduce them to levels that are commensurate with current levels in other ASEAN countries. This is significant in the course of transitioning towards the ASEAN Free Trade Area, to which ASEAN countries are committed. This will be achieved through a scheme called a Common Effective Preferential Tariff (CEPT). Within a 15 year period beginning in 1993, tariffs among ASEAN countries will be reduced to rates ranging between zero to 5 percent. Today, almost 99 percent of Philippine tariff lines are included in the CEPT.

The tariff liberalization and ASEAN economic integration aspects of government efforts are analyzed in two separate papers. See Myrna S. Austria, "Liberalization and Regional Integration: The Philippines' Strategy for Global Competitiveness," Journal Philippine Development (vol. XXVIII, No. 1, 2001), pp. 55-86 and Gwendolyn R. Tecson, "Where Are We in Tariff Reform," Public Policy (vol. III, No. 3, July-Sept., 1999), pp.55-68.

For the studies of the cost of protection, see J.H. Power and G.P. Sicat, *The Philippines: Industrialization and Trade Policies*, Oxford University Press, 1971 and R.M. Bautista, J.H. Power, and Associates, *Industrial Promotion Policies in the Philippines*, Philippine Institute for Development Studies, 1979.

Annex D.

PHILIPPINES VS. THAILAND: OR, HARRY STONEHILL VS. JIM THOMPSON

In the 1950s, we were economically ahead of Thailand. Today, despite the effects of the economic crisis that burst the bubble part of the Thai economic achievements in 1997, Thailand has a per capita GDP about twice that of our country. Part of the story is a difference in attitudes and experience regarding foreign enterprise and foreigners.

Over the years, many criticisms have been leveled against foreign investments in the debates on economic issues in our country. Domination by foreign economic interests is a fear that has been planted often enough in the minds of Filipinos.

Perhaps, Philippine experience was highly colored by the Harry Stonehill scandals of the 1950s and 1960s. But the policies that bred his operations were partly to blame. Stonehill was the case of a quick-buck American entrepreneur who was adept at taking advantage of a rent-seeking atmosphere fostered by the interweave of industrialization policy, political corruption and personal networks. His legacy still is found in the Manila Bay reclamation project and the cigarette making industry, two activities designed largely to meet domestic market needs.

Imagine what would have happened to Thailand, during the same period, if the government of that country enacted a retail trade nationalization law that would have forced Jim Thompson to close his Thai silk souvenir store in Bangkok. Jim Thompson was the link between the small silkworm cultivators, the village weavers, and the cloth designer. In addition, he was the focal point of interest among tourists from Europe and America who flocked to his store that made him a legend. The growth of the silk industry was one of the major factors that made the Thai tourism industry a major force in the economic development of Thailand. Diligence, botanical knowledge, experimentation and social relations might have been involved in this success.

The openness to foreigners and to ideas from abroad made the Thais develop the travel industry and, in time, it probably infected many other sectors. It is this openness that made the travel industry suddenly push Bangkok in the center of flights from Europe to Asia. Incidentally, that started when their domestic airline was insignificant and our PAL was flying across the skies of Asia and the Pacific, secure in the protection of its air routes by the Philippine government.

Live contact with foreign people and ideas helps to give birth to sound and efficient economic activities. When I was travelling in the 1970s to Thailand, one Filipino embassy official told me that the wood carving industry of the Thais was being helped by the importation of a few carvers from Paete who were teaching the locals how to do it. I suspect that the orchid industry grew out of this openness, perhaps by borrowing ideas from orchid growing in Singapore which had developed relatively earlier. The market presence of major department stores owned by foreigners in Bangkok, Singapore and Hong Kong helped to cement contacts between local suppliers of products

and the world markets represented by these foreign enterprises because it facilitated travel among buyers and suppliers.

And while I am on this topic, only a few years back, the government of Fidel Ramos tried very hard to induce General Motors to come to the Philippines to set up a major automobile manufacturing factory. GM went eventually to Thailand and promised to leave some small activity in our country. We lost to Thailand the chance to become the manufacturing hub for automobiles in Southeast Asia.

Thailand's automobile industry copied a lot from the Philippine progressive car manufacturing program without the mistakes made in becoming all too demanding. In time, assemblers began expanding their activities and suppliers were attracted to complement the main automobile assemblers. Finally, the agglomeration of companies supplying the chain of automobile parts in the automobile became the major attraction for other automobile plants to consider benefits of location in that country. GM in fact made clear that this was one reason why they find the prospects lower costs of production in automobile making in Thailand.

Annex E.

THE PLIGHT OF OVERSEAS CONTRACT WORKERS

Filipinos dream the good life like every one. That is to have a good and secure job and a future for the family children.

How else do we explain that from 1990 to 2000, the number of "deployed Filipino workers overseas" as defined by the Migrant Workers and Overseas Filipino Act (RA 8042), increased from 446 thousand to 842 thousand? According to a survey of Overseas Filipinos, conducted annually by the National Statistics Office, an estimated 1.04 million Filipinos left the country to work abroad from April to September, 1999 alone.

This survey provides interesting demographic data about our countrymen who have worked abroad. Many of them are employed in countries on both sides of the wide Asian continent—West Asia (what Europe calls the Middle East) and East Asia, where we are. Eighty percent of them are skilled laborers, 40 percent of them are women. But they are scattered all over the continents. John Encarnacion, the son of the late Dean of the School of Economics, a Ph.D. geologist by profession, recounted to me his experience a few years ago. He thought he was going to be the first Filipino to visit Antarctica. But that was until he shortly met the Filipinos who had been serving in the research station commissary.

The average age of these workers is 37 years, with women two years younger. Many of those working in Hong Kong, Taiwan, Singapore and Malaysia work as chambermaids to make family life more comfortable for the women of these countries.

About half of those working in Japan – women with average age of 27 years – on the other hand are in the entertainment industry. In the other countries, many are factory workers and service workers. There are also professionals and managers who have joined these jobs.

Experience with hardship and tragic cases that have figured in our national consciousness among some overseas workers reveal to us that these workers work in hostile environments unprotected by our laws. They work where the rules of justice and public understanding make them second rate to the nationals of these countries. Many of them have one thing in common. They escaped to other work environments because our country could not find them decent jobs to earn a living on.

The reach of our labor laws cannot protect them when they work abroad. Many of them have also been victimized by having to pay high transaction costs prior to recruitment overseas workers. Rent-seeking has crept into the labor recruitment industry, both from the side of the local recruiters and their foreign counterparts. In addition, from many stories of separation of breadwinner and wife and children, some families have become dysfunctional and alienated.

In some cases, therefore, some of the overseas contract workers suffer the pain of a triple whammy! Even then, the need to grab the dream of a better life is powerful and keeps on encouraging others to become contract workers abroad.

If economic policies had fostered greater openness and fear of foreign domination had not marked our early policies of industrialization, many of our workers will have been working at home, in the comfort of home and country and assured of prosperous family lives. Our country as a result will also become a better place to work in.

Annex F.

BOB HOPE'S WISECRACK, OR PHILIPPINE OPPORTUNITIES LOST IN THE US MARKET

In the thirteen years that I lived in the US while working on international development issues at the World Bank, I would spend weekend hours at least during the critical changes of the seasons in the Washington area shopping malls of Northern Virginia and Maryland doing a little investigation. The time was mainly spent touring the big department stores like Sears, Woodward and Lothrop, Hecht's, Bloomingdale and Nordstroms. In these places, as well as in other stores where the best products from the world are sold on display for consumers, we have a laboratory of what's wrong with our achievements as nation.

The best time was to do this towards Christmas time, but any seasonal change marks an astounding revision of displays. The garment sections were always a good place to do comparative research. And so is the electronics, housewares, and gift sections. But for the kitchen and household goods, I would go to the specialty stores like Circuit City for consumer electronics and appliances and the hardware stores like Hechinger's. For

children's toys there was Toys R Us. All these places are very large stores that source their supplies of goods for sale from all over the world to sell them to American consumers. Periodic visits to the groceries for supplies was always an interesting experience, too. This was more regular, as I accompanied my wife for the shopping. This included the less frequent visits to the Asian grocery store to buy rice and other special products for the longer haul supplies.

The visits to the department stores became mainly an occasion to do an impressionistic research on prices and origins of consumer goods on display. This helped the shopping later, but that was not the primary reason. This was a habit that I picked up, quaint perhaps, when I was a poor graduate student and my wife and I had to scour the shelves of Woolworth (low end retail store chain) and the bargain basement at famous Filene's Department Store in Boston to find the best bargains.

Here are my offhand observations, why you will find that Bob Hope's jokes was salient in my experience.

The four Asian tigers dominated the garments in these stores for a long time and these days they still contain high end garments. China was all over the place, competing with anything on any kind of department with their inexpensive items. But by the mid-80s, garments from Thailand, Malaysia along with a few other countries began to be occupying those shelves. Whenever there was presence from Philippine garments, they represented essentially the low-price end of the lots. More and more, the countries that were ahead in the garments trade began to be selling more and more of the high-price end of garments.

When it came to the products found in the kitchen and the house, the predominance of the utensils came from Taiwan, Hong Kong and lately China, but Thailand had begun to be a serious presence. Philippine products in these areas were hardly present.

But in the hardware stores, the dominant sources of supply appear to be South Korea, Taiwan and Hong Kong. An amazing amount of tools for the carpenter, housemaker, and for the professional are made from Taiwan, the country just north of our main Luzon Island. The worst experience I had was when I encountered wood panels being sold in Hechinger, the hardware store. There were panels made of Philippine mahogany. But they were fabricated in Singapore!

When I went to the electronics sectors, the dominance of products made from our neighbors – Singapore and Malaysia – was as clear as day becoming a threat to the dominant list of producers from South Korea and Taiwan. The last impressions I had was around four years ago. Perhaps more and more, Philippine presence has entered the consumer market products sold in America, especially since electronic products are finally being assembled at our end. But if not, those consumer products have many parts – the semiconductor chips, the wiring, the boards, etc. – fabricated from Philippine factories.

Even the shelves of grocery chains Safeway and Giant were beginning to fill slowly with products from some Asian neighbors. Sardines, tuna and other fish canned goods from Thailand have appeared in these shelves and were beginning to find a more permanent presence. Thai canned pineapple had been giving the similar Philippine products a good price competition, although Dole and Del Monte have name recognition in the US. But in the Asian grocery store, there were a wider variety of Thai food preparations than Philippine food preparations. It is clear from this that Philippine products were at a tail-end of the competition. Philippine products were more ethnic in appeal – appeal only to Filipinos – because of their poor packaging and relative high prices compared to the competition. The Thai products kept their Thai ethnic appeal, but are packaged more professionally and better priced, and probably crossed the purely ethnic Thai to Asian boundaries. This meant that they had a more Asian or regional appeal. Of course, the Asian grocery is dominated by Chinese products and a lot of Japanese and Korean specialties.

The Philippine lag behind our neighbors in the most simple exports for consumers is completely evident. Over the years, the government tried to promote domestic industry that only replaced imports and did not pay attention to international *efficiency*, the country failed to hone the skills of Filipino business to take advantage of the great boom in consumer products in the developed world. Philippine labor resources could have helped to produce for the world. The comparative advantage that was possible was not developed because of a misguided industrialization policy. Instead, that alternative course of policy sapped us of hard earned export dollars, our savings, our efforts, and created in time a huge amount of unemployed labor in the country. These import substituting industries failed to produce good employment opportunities and redirected precious resources away from more efficient use.

Annex G.

THOSE BALIKBAYAN BOXES AND CONSUMER WELFARE

The OCWs (overseas contract workers) who live and work abroad and when they come home they stuff the balikbayan box with gifts. Their remittances and their hard work has caused some of our leaders to call them our modern heroes. Most of them voted with their feet and sought better paying jobs abroad, jobs that they cannot find at home. (See *Annex E.*)

Each *balikbayan* box is like two to three big suitcases put together. They are cumbersome. But they are the best thing to the Filipino traveler going home. It allows space big enough to stuff into it all kinds of small items. They, of course, cause congestion and queuing wherever homeward bound flights to Manila occur in major international airports were filled with countrymen going home.

Those boxes have annoyed me for years for one reason alone. They almost always reminded me of how badly Philippine consumers have been treated by the government over the years of import controls, high tariffs, and import substitution. This continued

until we began to liberalize the economy, and along with it opening the country more openly to trade with the world. For those boxes contain consumer goods that could be bought cheaply abroad but not at home because of protectionist policies that favored producers of high cost products at home. They were not available either because they were banned from imports or, when available, sold at prohibitive prices.

These days, those boxes are getting fewer. But it will be some time when our balikbayans will find out that most of the goodies that they stuff into those boxes can now be bought at home. The same quality. Roughly the same price, sometimes better.

The big balikbayan boxes might become a thing of the past, but not because of the new security rules after the terrorism of September 11. The import liberalization of the last few years has begun filling up the shelves of our stores. When they find that they can do their shopping at home, balikbayans will save themselves the trouble of carrying cumbersome boxes.

Department stores and specialty boutiques in our country now sell a wide variety of imported goods along with domestically fabricated goods. Our producers now see the competition. They will be forced to elevate the quality of what they make to win the vote of the consumer. In fact, foreigners will find the shopping with variety and the prices much better than in many places. (Remember when Hong Kong was the moneyed Filipino shopper's paradise?)

The Filipino consumer is becoming sovereign. Because of her choices in the market, the consumer will force the Filipino producers in the country to do better. For several decades back, this was not the case. From the years of import and exchange controls and excessive protection rates for the products produced by domestic import substituting industries caused the disappearance of competing goods from abroad. Producers were favored at the expense of consumers. Choices were limited to those products produced by high cost producers.

The skeptic of this phenomenon will ask, what is the use of the appearance of foreign products in the market place if people have no purchasing power to buy them? The answer is to give the producer true competition so that we get a fair shake as consumers. It is true that relative poverty in the country has limited the market for goods. Poor people cannot afford many of the goods on display. But, as purchasing power and incomes rise within the country, the consumer gets a better deal with a wide choice of goods available at prices determined by competition. Sustained rising incomes at home result from efficient industries employing labor, not heavily protected industries with little hope of survival once they faced an ounce of competition.

Competition of foreign goods has brought down the prices of domestic consumer items. The goods that are in the consumer basket of lower income consumers have likely been held at better prices, because of the wider competition that takes place in the market place. The import liberalization program has forced producers to face competition more fully, because the support that they used to get from the government from high tariffs has been reduced. For a period of four decades, producers have been highly protected.

The other effect of this is to make producers look for alternative markets, to discontinue lines of production that are not competitive, and to find other activities for which they can find lines of production that have a decided cost advantage over foreign producers. In short, it will cause them to adjust their outlook by examining business ventures that have potentials of survival in the market place.

Annex H.

EFFICIENCY ETHOS IN THE PHILIPPINE WORK PLACE: TEXAS INSTRUMENTS, INTEL AND FEDEX IN R.P.

When export oriented foreign companies began transferring to the Philippines, it was because of the *relatively* inexpensive domestic labor and the comparative advantage of Philippine resources. These industries arrived late almost three decades late in our industrialization. That was because the government in the early years of industrialization focused on protectionist policies. These new factories began coming in trickles in the late 1970s, later in the 1980s, and much heavier by the 1990s when economic liberalization had become more extensive demonstrates what the country had missed for many years..

I have made a few visits to some of these plants and talked with their executives wherever my travels in the country led me. My impression from these visits and discussions makes me optimistic about the future of our country. My regret is that they arrived about two decades later, and we let go the benefits of opportunities lost by default that I have recounted. Nevertheless, development comes piece by piece within a continuum. If we learn our lessons well, we should be able to move forward and overcome the mistakes of the past.

These companies are world class. If they were not, they would lose their markets and die. Their impact on their employees is enormous because they raise their incomes and their productivity. They also have the potential to absorb a large part of the Philippine work force and induce, through secondary activities, other job creation in the economy. They sub-contract with other firms located in the country. So, there are major benefits of their agglomerating together in relatively short distances. They provide steady, primary jobs as long as demand for their products do not slacken. Indeed, a few plants were affected by the world demand downturn due to the recent recession. They train their workers with the requirements of the jobs that are high tech or middle tech. In the process, they create higher productivity for these workers in their jobs. Of course, they are dependent on the business cycle. So, the recession of the present period is affecting their operations.

I had the pleasure recently of talking the Texas Instruments manager in their Baguio factory. The general manager of the operations is Norberto Viera, a Filipino. As an engineer in the plant, he rose from the ranks. The company has around 2,000

employees, with a stable of 800 engineers, graduates even from UP, San Carlos, Central Philippine University, Tarlac, UST, Mapua.

Only around 10 percent of the knowledge gained by locally trained engineers is directly productive to the company. So, additional training of engineers is needed. Pressed to cite examples, he says the engineering curriculum is outdated. For instance, there is no coverage of “DSP”, or digital signal processors; “device physics” is not taught, and all the above are important in understanding how chips power cell-phones, for instance.

Since the equipment in the company requires different kinds of skills among engineers, there is a big amount of training investment undertaken by the company. Therefore, new hire engineers need additional training. Before that new hire who at point of hiring is only 10 percent usable in his knowledge and skills becomes 100 percent productive from the company’s perspective, the company has to expose him to a four year cycle of training programs. After the first year, the engineer hire will have become 20 percent productive.

Even so, the engineer hire is taken at a fairly high level of salary, in general, that is competitive in the market place. That salary rises by around 16% per year. And within four years, he receives more than double the hiring salary. The pure training dollar costs of this in-service educational investment is in the low five digit levels. The training undertaken is in training facilities in Japan and the United States. At any one time, 20% to 30% of engineering resources are really undergoing training. A consistent flow of newly trained cadres is important for company success.

I was also impressed by the visit to the office of the general manager. It took me a long hike traversing a long and wide corridor that facilitated a flow of workers changing shifts (at the time of my visit). And then, I find a small room with a medium conference room and a solitary employee in charge of the office – a secretary. The general manager’s office is a small room that is comfortably connected to the rest of the world by a computer terminal. The other important information as one entered the manager’s reception at the entrance is a small picture chart of the company’s organization. Out of about a complement of around 15 to 20 officers, only one in the picture – the treasury operations man – is not Filipino or Filipino looking. This is a company with 2,000 workers working in three shifts, with a payroll equivalent to \$20 million a year.

Viera is the first Filipino to head the Philippine Texas Instruments plant. His own impression of his employer is that it is an “equal opportunity employer.” Pressed to answer a question whether Filipinos are also working in the corporate headquarters in Texas, he said that there are around 20 to 25 Filipinos working in different senior capacities work, some of them harnessed from the Philippine plant.

The plant of American giant electronics manufacturing company, Intel, located in Cavite, had a Filipino manager long before Texas Instrument had its Filipino manager. That was before, but now it is a foreigner again. Managerial talent is very competitive. The point is that these companies could appoint Filipinos to the top posts in the

subsidiary, as indeed there have been many Filipino managers in many foreign companies in the country. Intel is on an expansion program which is to double its capacity.

I become very optimistic about the future when I encounter good examples like the talk with Viera. But the next experience further reinforces my impressions about how and why Filipinos do a good job under a good competitive and conducive environments. The only thing is that they should not be pampered and protected to do it but challenged.

What I saw in the Subic Freeport Zone about the capacity of the Filipino worker dazzled me. Tonight I was to see the way an air mail hub center operated, disposing of tons of mail from all over the world and then switching them into new packaging crates for their proper destination. Subic is the only hub in the Asia Pacific region for FedEx. It has another foreign mail hub, located in Paris, France. In the US, there are four such hubs: Memphis, Anchorage, Oakland and Indianapolis. UPS, the competitor of FedEx, has now committed to set up a hub located in Clark Field so this will become another major operation of the same kind.

At the moment, the Asia Pacific hub is not as large as that of the other hubs. Yet, it is massive by any experience that I had yet seen before my naked eyes. The normal schedule was that around 19 airplanes of different sizes would be arriving. Flights of Airbus, McDonnell Douglas jets, and Boeing jets would converge one after another and position their cargo into the mail sort center. At midnight tonight around 12 airplanes are expected to arrive and exchange mail, a low night compared to other nights in terms of operational intensity. The jets arrive within minutes of each other, immediately off-loading their mail cargo in the tarmac and then moving these to the mail and package sorting equipment where the warehouse is located. They come from America, Europe, China, Bangkok, Hong Kong, Singapore, Korea, Taiwan, Japan, and Australia.

The mail sorting machines and all the laborers are positioned to work on the sorting of mail and packages. As the cargo is off-loaded, the mail and packages go through a sorting system by conveyor belt. These conveyors have exit channels that electronically respond whenever a correct package or envelope was properly read from its label. That mail makes a turn and it drops into the correct bin. There, a worker is positioned to do the necessary electronic tagging as well as oversee that the channeling by electro-mechanical means was working well. By the time the last of the arrivals have arrived, much of the earlier mail had gone through the sorting.

Within a period of around three hours, all this work would be done, the airplanes will have gotten their new cargoes to fly back to where they came from. That's how modern mail exchange takes place, and there is a state of the art operations. On this particular night, as in other nights, Filipino workers oversaw the entire operations. They had of course a manager, an old hand from FedEx with 20 years of operational service experience, but he came from Asia, too.

FedEx employs around 700 people. The Subic operations employ a fraction of this work force. When it began in the country, it had 102 employees. So, the nearly

seven-fold increase of employment mirrors the increase in the volume of the business. The growth of FedEx operations reflects in part the growth of Asia. But the growth of operations in the Philippines is also captured by this growth.

What impressed me in these visits is that I saw operations at world class standards right here in the Philippines, done by Filipino workers. It was a job undertaken at precision clockwork. The workers were doing their time like the pieces of a well-coordinated clock. And the workers were our countrymen.