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POSTWAR PHILIPPINE ECONOMIC DEVELOPMENT: An Overview

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Like most other new nations in the less developed parts of the world, the Philippines is preoccupied with problems of how to create an economy which will provide higher levels of welfare for its citizens. This requires the task of promoting economic development, the raising of its per capita output and along with it, the growth of institutions -- economic as well as noneconomic -- which will make such gains self-sustaining. This paper will be concerned with a review of the economic aspects of development of the Philippines after independence in 1946. In view of the shortness of space, there will necessarily be omissions of some more interesting topics.

The Philippines is one of the nations severely shackled by the Second World War. From 1946 to 1950, the country was engaged in rehabilitating its postwar economy to prewar levels. We shall be concerned more with the development of the economy after the rehabilitation efforts, for this aspect is more interesting from the standpoint of understanding present efforts at economic development.

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It is essential to summarize a few salient features of the Philippine economy:

First, the Philippines is composed of many islands -- about 7,000 of them, of which a dozen islands account for most of the land mass. It has no contiguous boundary with any other country. The Philippines is therefore an insular-archipelagic economy. The land area of the country is one-fifth of the size of Indonesia, about two-thirds of Japan or of Thailand, but about ten times bigger than the island of Taiwan.

Second, its population of about 33 million at present may be viewed as a relatively large basis for a domestic market. Theoretically, economic activities serving such a high population base should prove sufficient for home-destined production. But the income base of the population is low and therefore restricts the relative size of the markets for certain goods. While the per capita income of $150 is perhaps higher than many less developed countries of Asia, this income level puts a limit on the expansion of the industrial sector.

Third, the agricultural sector of the economy dominates the structure of production. About 32 per cent of total output is currently derived from agriculture. This sector also supports about 65 per cent of the economic livelihood of the population.

Fourth, the Philippines has, for a long time, specifically after 1900, been exposed to the benefits of world trade. Exports at present constitute some 10 to 12 per cent of total incomes generated within the economy. The pattern of trade is largely dependent on a few basic commercial export crops which, as a result of a long history of trade with the United States, still continue to play significant roles among exports -- sugar, coconut products, and abaca. But the post-war period has also seen the growth of new exports -- mineral products, forest products, and other agricultural products -- and the pattern of geographic trade has continued to shift away from American as the dominant buyer of exports. Japan, Western Europe, and Australia are beginning to play the role of important trade partners.

Fifth, the industrial sector currently contributes about 18 per cent of total output, above one-half of the current contribution of agriculture. This is a contrast to the industrial sector of 1950 when manufacturing output was only about 1/5 of total agricultural output. However, manufacturing supports, on the basis of known information, only about 10.5 per cent of the total employed labor force.[1] A little over four-fifths of one million workers are engaged in manufacturing and related mechanical occupations, in contrast to 5.16 million engaged in agriculture.

We shall have occasion to touch on the last few points later in this paper.

Basic Givens About Philippine Economic Institutions

The Constitution of the Philippines is the basic document of the land. It has provisions concerning the protection of private property and specific liberties to be enjoyed by all individuals. It reserves the right of exploitation of the country's natural resources only to its citizens or to business enterprises controlled and owned by Filipinos.[2]

The ideological basis of economic activity in the Philippines is private initiative. The government's essential functions consist of administering traditional government func-

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[1]"Staff Notes," First Conference on Population 1965, Population Institute and University of the Philippines Press 1966, p. 500.

[2]The last provision was amended in 1946 to pave way for Americans to engage in the exploitation of the country's natural resources. Known as the parity rights amendment, this allowed American nationals to mine Philippine resources, but in 1974 parity rights will not be extended. There is a basic question that has yet to be interpreted. Will parity rights granted prior to 1974 be abrogated or will they be allowed to continue? This is a question that will be a subject of discussion of the current Philippine-American trade negotiations defining the relationships of the two countries after 1974, the year when the current Laurel-Langley Agreement terminates.

tions -- defense, administration, and public works. But in addition, the government has taken more positive steps in attempting to promote what it considers essential for speeding up the rate of economic development. Direct encouragements of private activities have been made in order to promote specific economic activities. The basic premise of reliance on the private sector is the essential wisdom and accuracy of private calculations of profits and costs. Although economists can point out many cases where private calculation may not be ideal from a social viewpoint, such as the provision of public goods like defense and public works, such a premise allows the government to do as little as possible and therefore frees it from committing gross errors in the management of economic affairs.

Nowhere is this special effort made more evident than in the promotion of industrial growth in the Philippines in the period after 1950. Tax exemption of new and necessary industries attracted new industrial establishments to be set up. When foreign exchange became a hard commodity in the 1950's, foreign exchange controls were instituted. The allocation of foreign exchange resources essentially favored the manufacturing establishments being attracted by the laws on new and necessary industries. Moreover, import controls and foreign exchange controls protected them from competition. In addition, long term credit was made to new industries at relatively generous terms. All these efforts were actively promoted by the government.

The relative wisdom of allowing private initiative to undertake the task of setting up enterprises is supported by the experience of the government with government enterprises engaged in commercial and manufacturing activities. Government enterprises -- textile, cement, chemicals, and shipbuilding -- were set up primarily to pioneer in specific activities. But experience has shown that pioneering activities have been inefficiently performed so that they tended to waste rather than add resources to the economy. The essential question that should be asked in this regard is whether the industries that the government had pioneered in could have been encouraged in the Philippines under private sponsorship more profitably. The answer is an apparent yes, in view of the fact that industrial promotion in the Philippines has covered quite a wide range of economic activities and has in fact included those activities in which the government was supposed to have pioneered. While the government enterprises were having difficulties, the private ones were thriving.

Patterns of Growth

It is now important to give quantitative content to the experience of the Philippine economy during the postwar period. We begin with 1950, which marked the return to post-war levels of activity of most of the economic sectors.

The Philippine economy grew substantially between 1950 to 1966. This growth of total net output is on the whole impressive. From 1950 to 1960 the growth of total output per year was roughly placed at 7 per cent and from 1962 to 1966, about 5 per cent per year. If we recall that the recorded growth of population is at 3.2 per cent per year, such per capita output growth was nearly 4 per cent per year from 1950 to 1960 and close to 2 per cent per year from 1962 to 1966. The growth trend of the economy from 1950 to 1966 has been from a higher growth rate to a relatively lower one. Perhaps, this pattern of growth is only temporary, because the early years of the 1960's are a period of adjustment. Some policy adjustments being made at present which emphasize new economic objectives are bound to carry the economy to better growth patterns later on.

Table 1 shows the pattern of growth of the economy in terms of its broad sectors. From 1950 to 1960 the sectors

Table 1

PATTERNS OF GROWTH, 1950-1966

Industry Group	Value in 1950 (Mil. ₱)	Sectoral Growth Coefficient 1950-60	Sectoral Growth Coefficient 1962-66	Per cent Distribution of Output 1950	Per cent Distribution of National Output 1966	Per cent 1966-50 Shifts in Distribution
Agriculture	2505	0.58	1.08	42	32	- 10
Mining	55	3.38	1.74	1	2	+ 1
Manufacturing	502	3.15	1.04	8	18	+ 10
Construction	239	0.38	1.28	4	4	0
Transportation & Communication	205	1.12	0.78	3	5	+ 2
Commerce (Trade)	752	0.84	0.82	13	13	0
Services	1664	1.05	0.93	28	26	- 2
Total Net National Product	5922			100	100	

that have experienced tremendous growth are mining and manufacturing. I have computed sectoral growth coefficients, and these may be interpreted as follows: they describe the per cent growth of the sector for every per cent growth of total net output in the Philippines during the years described. Thus, for every per cent increase in net domestic production, mining grew by 3.4 per cent and manufacturing by 3.15 per cent. Of course these two sectors began with relatively low bases in 1950 but, more than any other, the economic policy of the 1950's which supported the growth of manufacturing tremendously is responsible for this pattern.

Agriculture did not enjoy any impressive growth during the 1950's. While agriculture in general was favored by virtue of the export crops which were going to the United States on a preferential basis in accordance with the Philippine-American Trade Agreement, on the whole the agricultural sector was not moving as fast as the economy. The failure of agriculture to grow in the previous decade is unfortunate from the standpoint of overall economic development because, to support an industrial base, it is necessary for the Philippines to have its agricultural sector move forward. Had agriculture expanded more, with the same push given to industrial growth, the economy would have continued to grow much faster in the present. It would have also encouraged a different internal demand structure for the output of the new industrial sector.

The growth of domestic industry has been a subject of quite a lot of studies. The judgment of the profession, this author included, is that the manufacturing sector encouraged was somewhat biased towards using imported inputs and was not heavily dependent on domestic agriculture. Thus, the pattern of development really did not favor agricultural growth.

In 1962, there was a major economic decision made by the government to remove all controls on foreign exchange transactions. This policy has readjusted economic incentives by shifting attention to the development of agriculture. Not only has decontrol placed greater emphasis on the profitability of traditional export industries. It also put domestic inputs essential to industry in a better relative price position. The effects of this on agricultural output is quite obvious.

An area where the Philippines had not shown adequate growth is in transportation and communication, as Table 1 shows. This lag, or the lack of an initially substantial push to begin with in these sectors, has led to the development of major bottlenecks in this sector. It is reassuring that the priorities of the government investment program has shifted towards the provision of adequate infrastructure resources.

Industrial Growth

We now look at the record of industrial growth in the Philippines. This writer has been engaged in research in this area for sometime, and I anticipate making a full report of the research in the near future. But a sketch of the growth of industries is very essential to a description of the growth of the Philippine economy after independence.

The combination of many policies that has influenced the pattern and structure of Philippine manufacturing industries in the 1950's is worth repeating here. Tax exemption to new and necessary industries, preferred foreign exchange allocation, squeezing of export earnings and channeling these foreign exchange resources to industries, funneling the generated saving rssources of government financial institutions as well as private savings, and channeling favorable credit terms to industries -- all of these contributed to the rapid growth of manufacturing in the Philippines. Table 2 summarizes the pattern of growth for 18 industry groups, and it is interesting to examine how this growth pattern shifted as we move from the 1950's to the 1960's. Growth coefficients were computed again and are reported accordingly. The last column of the table shows the distribution of manufacturing output, by industry group according to the manufacturing census of 1961. Manufactured food and chemicals account for about one third of total manufacturing output.

We note that the philosophy of industrial policies in the Philippines was largely characterized by import substitution. The industries that were set up were therefore more oriented towards replacing specific imports of commodities by setting up the industries within the Philippines. It was a common practice in the previous decade for new industrialists to examine the import list and thereby determine which industry they would set up. While this was quite natural for businessmen to do, the industrial policies encouraged such a process to take place perhaps without adequate foreknowledge of the dangers that lurked without. The result of course was to set up industries which were purely aimed at import substitution. Moreover in view of the pricing mechanism which was primarily the result of having an overvalued exchange rate for the peso, there was little encouragement to the development of manufactured exports.

Table 2

SECTORAL GROWTH RESPONSE DUE TO GROWTH OF NET DOMESTIC PRODUCT AND PERCENTAGE DISTRIBUTION OF MANUFACTURING OUTPUT

Industry Group		Growth Coefficients		Per cent Distribution Value of Output of Manufacturing 1961 Census
		1950-1960	1962-1966	
20	Food	74.16	3.36	25.9
21	Beverages	9.23	1.20	5.4
22	Tobacco	6.86	1.08	5.2
23	Textile	5.97	8.42	6.6
24	Footwear & Garments	78.67	(0.38)	3.7
25	Wood & Cork	23.53	8.70	5.9
26	Furniture & Fixtures	18.27	2.26	.7
27	Paper & Paper Products	5.54	6.12	2.8
28	Printed & Publishing	5.84	1.58	2.7
29	Leather	23.23	6.14	.4
30	Rubber	4.01	27.58	3.4
31	Chemicals	7.83	4.92	11.2
33	Non-Metallic Mineral	97.89	1.96	3.1
35	Metal Products	78.69	16.02	3.2
36	Machinery, Non-Electric	60.60	22.00	2.1
37	Electric Machinery	77.74	23.34	2.0
38	Transport Equipment	91.42	8.22	3.0
39	Miscellaneous	36.90	64.26	1.1

We remind ourselves that the growth coefficients shown in Table 2 reflect the per cent growth of the sector for every per cent growth of total net output. This growth response is due to two important factors: (1) actual import replacement being generated by the sector and (2) new demand being generated out of the expansion of the domestic market. Looking at the period of the 1950's, it is easy to see why the share of total manufacturing activity increased quite a lot with respect to the total net output of the economy. While from Table 1, it is known that for every per cent expansion of total net output, agriculture expanded only by about .6 per cent, almost all the industrial activities, except for food and garments, had very high growth coefficients for the 1950's. The highest among these is the miscellaneous industry group. This industry group includes the petroleum refineries. Rubber, machinery, both electric or non-electric, and metal products had very high sectoral growth response coefficients. Also textile, wood and cork, paper and paper products, leather, chemical, transportation equipment, and food manufacturing industries had relatively high growth coefficients.

We turn now to the effects of decontrol after 1962. Most of these coefficients have become so much smaller compared to the corresponding ones in the previous decade. The reduction in the growth coefficients can be explained largely by the fact that by 1962 most of the capacity to produce industrial products had been established and that by 1962, the expansion of the industrial sector was just dependent on the growth of the domestic market, since the earlier import substitution had been accomplished in many respects. The apparent lesson that these post-1966 growth coefficients indicate is that for the manufacturing sector to expand more substantially in the future, a higher rate of growth of domestic demand for these products and an expansion of the markets for these industries outside the Philippines are both necessary. The first necessity implies further growth of domestic incomes, the second the promotion of industrial exports.

In another study, I have shown that so far the contribution of the manufacturing sector to Philippine industrial exports has been confined to a large extent to traditional export products like sugar, coconut oil, and plywood. When we look at the expansion of manufactured exports, leaving aside these traditional items, the record of the manufacturing sector is not impressive. It is in this area where economic policy ought to make further stress.

Foreign Trade Aspects of Development

In 1950 the international reserves of the country held by the Central Bank amounted to $296M; by 1960 this was

$120M. In 1962 during the first year of decontrol this was $75M. An improvement of the reserve position of the Central Bank has been in evidence after decontrol due to the increase of exports. By 1966 this amounted to $167M. The major policies supporting the growth of the manufacturing sector in the 1950's had led to a dwindling of the foreign exchange reserve of the Central Bank. Recorded trade statistics of the Philippines shows that imports had exceeded exports since 1946, except for two years in 1958 and 1962. While this would not have constituted any serious drawback if receipts from other non-merchandise transactions had been substantial enough, much of the excess of imports were financed through drawings on the country's international reserve position. Of course, this helped to weaken the Philippine economy's foreign position.

The decontrol of 1962 had the effect of reducing the import demand and expanding exports, as expected from the devaluation of Philippine peso which decontrol brought about. This in turn had the effect of strengthening the reserve position of the Central Bank, a reversal of trends experienced in the 1950's.

Can we make any generalization about the nature of the influence of foreign trade sector to the development of the Philippines during the postwar period? Table 3 shows a summary of the influence of foreign trade. In the 1950's, the relative response of demand for imports was moving as faster relative to the expansion of domestic output. Considering that imports began from a relatively higher base value compared to export this picture is quite revealing.

After decontrol this process was reversed, although for every per cent increase of domestic output roughly the same per cent increase in import is observed. The decontrol improved exports and total foreign exchange receipts. As

Table 3

FOREIGN TRADE SECTOR AND RESPONSE TO CHANGES
IN NET DOMESTIC PRODUCT

	1950 Value	1966 Value	Growth Response	
	Million US Dollars		1950-60	1962-66
Foreign Exchange Receipts	581.2M	1,810.5	0.70	1.88
Foreign Exchange Disbursement	480.8M	1,747.5	0.44	1.91
Imports	341.9M	852.8	0.93	0.98
Exports	331.0M	838.0	0.84	1.09

the figures in Table 3 show, for every per cent increase of output per year, exports expanded by 1.1 per cent and foreign exchange receipts expanded by as much as 1.9 per cent.

Overview of Major Economic Problems Confronting the Philippine Economy

The most important concern of the Philippines is to increase the rate of economic progress so that its citizens are able to reap the rewards of higher levels of living. But, for this goal to be achieved, three major economic problems will have to be overcome.

1. Firstly, the problem is to provide increasing employment opportunities for the growing population. As pointed out before, 65 per cent of the total labor force is employed in agriculture and the rest are taken up by services and manufacturing. The only way the labor force can be absorbed into the industrial sector increasingly is to have policies that could attract new manufacturing enterprises, and to expand their markets by generating further demand for other sectors of the economy. The industrial development of the past in the Philippines has not been generally conducive to the absorption of more employment because most activities required relatively more investment resources than labor resources and secondly they required relatively more foreign inputs compared to domestic inputs.

I believe the crucial variables involved in promoting more labor absorption into industry are the wage rate, investment promotion, and export promotion in the industrial sector. We shall consider the first of these variables now and leave the other two points for later discussion.

The Philippines is probably distinguished among Asian countries because of its relatively advanced labor laws. Paradoxically these very advanced labor laws have worked against the absorption of more labor into other economic undertakings and thus have not helped to promote the economic well being of the general laboring class. This is a very bold statement to make. It is hardly ever mentioned in public gatherings because of its heretical implications. But there is now sufficient evidence to show that advanced labor laws in the Philippines have caused the non-absorption of a substantial portion of the labor force. New investments had leaned more towards labor-displacing, i.e., more capital-intensive, techniques. This is evident in public and private construction works and in the choice of techniques of new plant equipment. There is a trade-off between higher wages and highly protective labor legislation on one hand and employment on the other.

I am not arguing against increasing labor's welfare. These are essential for human welfare as time goes on, and concern for labor welfare is an important part of economics. In the Philippines unfortunately, these advanced labor laws have preceded the creation of more job opportunities. The process of economic development can be put in another way. It is a process in which employment opportunities keep expanding and labor becomes relatively more and more scarce. The consequences of such development is for labor to increase its income through time. In a situation where there is an excessive labor supply, such as one found in the Philippines, the best way to make labor scarce is to attract more and more new industries where techniques of production depend a lot on relatively labor-intensive processes. A precondition for such processes to be selected is to allow the price of labor to seek its own market level. When employment opportunities keep on expanding, the wage rate has but one way to go -- up.

2. The second major problem of the Philippines is to have a balance between industrial and agricultural development. Another way of putting this is to strengthen trade relationships between rural and urban economic sectors. Intermediate industries should link these sectors together.

New industries should depend on their inputs from the primary activities of mining and agriculture. For further growth of the industrial sector, it is obvious that agricultural productivity and agricultural incomes have to rise. In the early development of the Philippines, there has been an imbalance in the growth of regions. The growth of industry in Manila and its metropolitan area has been very impressive, but the growth of other regions has lagged substantially. The important point is that the industrial sector should depend on the other sectors for its inputs as well as for selling its output. The agricultural sector, on the other hand, must provide some of the consumption requirements of workers dependent on industry. Thus there ought to be a strengthening of the flow of goods and services between the rural and urban economies and between agricultural and manufacturing sectors. It is important to note that the policies being pursued by the current administration emphasizes rice productivity, the improvement of infrastructures such as roads and transportation facilities, and the encouragement of agriculturally related industries.

3. The third major problem of the Philippines is how to increase exports and widen the market for the newly established industries for the Philippine sector. We have pointed out earlier that the population of the Philippines exceeds 33 million people but the income base is quite low. It will