TRANSITION TO DECONTROL AND THE IMPORTS OF THE NEW AND NECESSARY INDUSTRIES, 1959-1961*

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INTRODUCTION

In early 1962, the Philippines removed almost all forms of foreign exchange controls. The pressures for exchange liberalization became stronger as the country's balance-of-payments position deteriorated, especially after 1957. By 1960, the situation was bad enough to make the solution of "gradual decontrol" gain acceptance. The interests of the new and necessary industries were, on balance, against decontrol. We analyze in this paper the transition to decontrol and the imports of the new and necessary industries.

This paper will be primarily concerned with a description of the imports of the new and necessary industries (hereafter referred to as the NNI) during this transition period. A second aim is to assess the actual extent of the *tariff* subsidy implied by the tax exemptions given to the imports of the NNI. A third part will relate the importations of the NNI with the progress of industrial promotion activities in the Philippines. A fuller treatment of the NNI in the context of Philippine industrial growth will be made in another study.

INSTITUTIONAL AND ECONOMIC BACKGROUND

An important instrument of industrial promotion in the Philippines during the period immediately after independence in 1946 was the tax exemption given to the NNI from internal revenue taxes. With the expiration of this law, Congress passed *Republic Act 901* in 1953 which broadened the tax exemption

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of the NNI from "all" taxes until the year 1958.[1] From 1959 to 1962, the tax exemption was to be removed gradually.

The importations of the new and necessary industries constitute an interesting aspect of their activities. To begin with, their importations were "sanctioned" by the exchange control, and industrial promotion, authorities. Secondly, in addition to receiving preferred foreign exchange treatment—by virtue of the law which gave them tax exemption—they were also the recipients of a tariff subsidy.

This study is hampered by inadequacy of data. It is certainly more interesting to study these imports over a longer period beginning in 1953. However, the Tariff Commission appears to have kept only the data for the years 1959 to 1961—a period of three (3) years.

During the period under study, Philippine economy was undergoing serious adjustments to a balance-of-payments problem brought about by maintaining an overvalued exchange rate for the peso. By 1959, the country had already experienced a series of rather uncomfortable balance-of-payments problems leading eventually to decontrol. Tables 1 and 2, which follow, summarize the nature of the country's foreign exchange position.

TABLE 1. RELATIVE LEVELS OF FOREIGN EXCHANGE EARNINGS AND EXPENDITURES OF THE PHILIPPINES, 1957-1961
(Million U.S. dollars, whenever applicable)

	(f.o.b.)	Foreign Exchange Payments	Imports as Per Cent of Export Earnings	Foreign Exchange Payments as Per Cent of Foreign Exchange Earnings *	Reserves of Foreign Exchange**
1957	613.2	747.7	142	112	140
1958	558.7	651.2	113	98	145
1959	523.6	690.3	99	98	163
1960	603.9	660.3	108	95	192
1961	611.3	802.4	122	112	141

Source: *Central Bank Statistical Bulletin.*
* Includes nonmerchandise transactions.
** These are end-of-year reserves.

It can be seen that import levels were very high—relative to exports in 1967. In fact, between 1957 and 1961, there was only one year—1959, when exports and imports were roughly equal.

[1] These laws are surveyed in G. P. Sicat, "Industrial Policy and the Development of Manufacturing in the Philippines," Institute of Economic Development and Research, University of the Philippines, 5 January 1965, mimeo.

But the major problem of the exchange control authorities was to keep down the level of all foreign exchange payments relative to foreign exchange earnings, and subject to maintaining a certain level of foreign exchange reserves. The high level of spending relative to earnings in 1957 was a major reason for the fall of the foreign exchange reserves of the country by 1958. Between 1958 and 1960, the exchange control authorities apparently succeeded in bringing down foreign exchange disbursements. Measures which increased the cost of acquiring foreign exchange—through the imposition of "margin fees"—were responsible for the relative increase in the foreign exchange reserve stocks of the Philippines through the curtailment of demand for foreign exchange.

TABLE 2. PER CENT OF CHANGE OF FOREIGN EXCHANGE POSITION INDICATORS, 1957-1961

PERIOD	IMPORTS	EXPORTS	FOREIGN EXCHANGE RECEIPTS	STOCK OF FOREIGN EXCHANGE
1957-1958	— 9	+14	+0.1	+ 4
1958-1959	— 6	+ 7	+7	+12
1959-1960	+15	+ 6	—2	+18
1960-1961	+ 1	—11	+3	—26

Source: Table 1, *supra.*

Table 2 shows the per cent rates of change of merchandise imports and exports, of total foreign exchange receipts, and the stock of foreign exchange. The relatively impressive growth of export receipts from 1957 to 1960 is not affected seriously by the failure of total foreign exchange receipts to grow as fast.

The instruments of policy utilized to restrain foreign exchange payments from becoming large enough were exerted in the form of *exchange disbursements.* These instruments included—the special import tax,[2] and "margin fees" imposed on the sale of foreign exchange beginning in 1959. This margin fee took the form of a twenty-five per cent (25%) "tax" on the gross value of foreign exchange purchases. In order to make exports grow more substantially, some forms of export-incentives were adopted, taking the form of "barter" schemes which allowed exporters to make importations by using a portion of their export earnings. The growth of exports from 1957 to 1960 shown in Table 2 is partly due to the export-incentives schemes used then.[3]

[2] A tax made to substitute for the 17% tax on the sale of foreign exchange, in effect until 1954.

[3] These were allowed by the *Barter Law,* otherwise known as the *No-Dollar Import Law*. *V*. F. H. Golay, *The Philippines: Public Policy and Economic Development* (Ithaca, New York: Cornell University Press, 1961), pp. 156-8.

The domestic-import-substituting industries were the major beneficiaries of the foreign exchange controls, especially in the mid-1950s. With the increasing cost of foreign exchange, it became necessary for the government to allocate a great portion of available foreign exchange resources to what were considered essential imports. From 1959 to 1960, imports classified as "essential producer" imports constituted about sixty per cent (60%) of total importations.[4] When classified according to end use—unprocessed, and semi-processed, raw materials accounted for about sixty per cent (60%) of total imports on the average during these years.

Thus, 1959 to 1960 were years when the Philippines had to maintain an overvalued exchange rate by restricting the import bill with various control instruments. The year 1961 was a presidential election year. From Table 1, it may be suggested that there were relatively more accommodations of import, and other foreign exchange, payments, due mostly to political considerations.

THE NEW AND NECESSARY INDUSTRIES

In 1959, the promotion of the "new and necessary" industries was on its thirteenth (13th) year. In terms of the more liberal law on tax exemption of 1953, industrial promotion was already on its sixth (6th) year of operation. 1959 was to be the first (1st) year in which the promoted industries were liable for the payment of taxes. The rates of tax exemptions from all taxes were to be in accordance with the following basis:

Exemption Rate (R.A. 901)	*Year*
90 per cent of current taxes	1959
75 per cent	1960
50 per cent	1961
10 per cent	1962
0 per cent or full taxes	1963

The taxes from which these industries were exempted were: import duties (tariff), special import tax, compensating tax, and advanced sales tax. (In 1961, a new law exempting "basic industries" from import taxes was passed which granted new benefits to "basic industries." We shall return to these industries at the end of this paper).

Foreign exchange allocation privileges, however, were not easy to seek, because of the intricate foreign exchange control procedures. To secure importation privileges involving tax exemption required additional steps in the already complicated foreign exchange procedures. It is obvious that a system of foreign ex-

[4] *V. Central Bank Annual Reports* during this period.

change allocation which yields high premium rates is highly conducive to a system of political patronage.

Table 3 shows the different product lines which received tax exemptions under the law as of 31 December 1959. As can be seen, this is a fairly extensive list. By 1959, therefore, there were many product lines which received tax subsidies from the law. The Appendix contains a detailed breakdown of many commodities that were produced under the law.

TABLE 3. PRODUCT LINES GRANTED TAX EXEMPTION UNDER THE NEW AND NECESSARY INDUSTRY ACT (*REPUBLIC ACT 901*)

Food manufacturing industries	128
Leaf tobacco flue-curing and redrying	5
Manufacturers of textiles	128
Manufacturers of wood and wood products	39
Manufacturers of paper and paper products	47
Manufacturers of metal products	193
Manufacturers of non-electrical machinery	19
Manufacturers of electrical equipment, apparatus, appliances, and supplies	84
Miscellaneous industries	138
Manufacturers of leather and leather products	14
Manufacturers of rubber products	23
Manufacturers of chemical and chemical products	121
Manufacturers of non-metal products such as structural clay, pottery, china, earthenwares, bottles, jars, sandpaper, asbestos, cement product, lime, and chalks	59

Source: Department of Finance. *V. Appendix A* for a more detailed enumeration of product lines.

Some studies[5] have stressed that the law on the NNI encouraged those that were primarily dependent on foreign sources of raw materials. Table 4 shows the domestic and imported raw-material components of the NNI in 1960. It will be noted that rubber products, paper, basic metal and electric machinery, had the highest proportion of imported materials as shown by the ratios of imported raw materials utilized in proportion to domestic materials. In a later study which the major author is pursuing, a more detailed analysis of the exact nature of import dependence of the new and necessary industries will be made. It is, however, interesting to know that in 1960, the gross value added per peso of imported materials appeared to have been higher for tobacco and lowest for textile and basic metal products. Briefly, these values added per peso of imported raw materials given by industries are shown, as follows:

[5] *V.* e.g., Sicat, *op. cit.*

(1) *Among the highest*:

Tobacco	80.9
Non-metallic mineral products	5.5
Wood and furniture	3.7

(2) *Among the lowest*:

Paper and printing	0.94
Leather products	0.92
Basic metal	0.88
Textile manufactures	.0.80

Electric machinery and chemical products had the following corresponding ratios, respectively: 1.8 and 1.6. The exceedingly high value for tobacco is partly due to the inclusion of taxes.

TABLE 4. IMPORTED RAW MATERIALS OF THE NNI, 1961

ISIC	INDUSTRY	TOTAL IMPORTED RAW MATERIALS* (₱1,000)	RATIO OF IMPORTED TO DOMESTIC MATERIALS
20	Food manufacturing	39,071	0.589
22	Tobacco	72	0.025
23	Textile	95,672	1.232
25, 26	Wood and furniture	6,205	0.283
27, 28	Paper, printing	26,879	2.202
29	Leather	3,532	0.971
30	Rubber products	35,419	8.964
31	Chemical and chemical products	24,830	1.928
33	Non-metallic	5,617	1.172
34, 35	Basic metal	83,222	2.659
36	Machinery and parts	3,203	2.747
37	Electrical machinery and parts	17,204	1.519
38	Miscellaneous	9,751	1.882
	Total	350,685	1.374

Source: Computations were based on data from the Department of Finance, Republic of the Philippines.

Table 5 gives a breakdown of all imports of the new and necessary industries in their f.o.b. (free on board) values from 1959-1961. We note that manufactured goods; and machinery and transportation, together account for sixty-five per cent (65%) of total importations made during those years. If we add the importation of chemicals, food commodities as well as inedible crude materials, ninety-eight per cent (98%) of the total imports of the NNI are fully accounted for. Thus, five (5) major groups of commodities account for the major share of import transaction during this period.

TABLE 5. PER CENT DISTRIBUTION OF THE NNI IMPORTS BY 1-DIGIT SITC

SITC	COMMODITY	NNI IMPORTS				TOTAL PHILIPPINE IMPORTS			
		Total	1959	1960	1961	Total	1959	1960	1961
0	Food	12.08	2.98	9.78	18.08	13.52	13.04	14.14	13.32
1	Beverages and tobacco	0.02	0.21	0.01	0.01	0.23	0.52	0.13	0.08
2	Crude materials, inedible, except fuels	10.56	24.70	7.55	11.61	5.83	5.13	5.45	6.78
3	Mineral fuels, lubricants	0.20	0.11	0.24	0.17	9.67	11.41	9.90	7.99
4	Animal, vegetable oils and fats	0.59	0.84	0.44	0.75	0.52	0.49	0.43	0.65
5	Chemicals	10.85	4.51	7.91	17.12	10.21	11.23	9.07	10.44
6	Manufactured goods classified chiefly by materials	42.38	44.55	52.72	25.54	24.04	26.39	21.68	24.34
7	Machinery and transport equipment	22.41	20.55	20.50	25.90	32.21	28.53	35.97	31.67
8	Miscellaneous manufactured articles	0.86	1.54	0.79	0.78	2.78	2.90	2.79	2.68
9	Commodities and transactions not classified according to kind	0.05	0.01	0.06	0.04	0.98	0.35	0.43	2.05
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	(Value in 1,000 pesos)	210,418	19,406	116,763	74,248				

Sources: Tariff Commission, for the NNI.
UN Yearbook of Trade Statistics for Philippine Imports.

Table 6 gives a two (2)-digit breakdown of all these major NNI imports. Basic metal imports dominate the total importation of the industry groups followed by non-electric machinery. Textile yarns and fabrics account for about fifteen per cent (15%) of the total importation.

TABLE 6. MAJOR IMPORTS OF THE NNI RANKED IN ORDER OF VOLUME

SITC CODE	COMMODITY	VALUE (₱1,000)	PERCENTAGE OF TOTAL
68	Base metals	66,745	31.3
71	Machinery other than electric	41,478	19.4
04	Cereal and cereal preparations	18,259	8.6
26	Textile fibers	15,969	7.5
65	Textile yarns, fabrics and made-up articles	15,302	7.2
23	Crude rubber, including synthetic and reclaimed	6,991	3.3
51	Chemical elements and compounds	6,378	3.0
59	Explosives and miscellaneous chemical materials and products	5,389	2.5
72	Electric machinery, apparatus, and appliances	5,239	2.4
64	Paper, paperboard, and manufactures thereof	3,840	1.8
25	Pulp and waste paper	3,801	1.8
07	Coffee, tea, cocoa, spices, and manufactures thereof	3,480	1.6
53	Dyeing, tanning, and coloring materials	3,400	1.6
69	Manufactures of metal	2,302	1.1
66	Non-metallic mineral manufactures	2,043	1.0
	Others	12,774	6.0
		213,389	100.0%

The proportion of the NNI imports to total imports is only small. The only commodities in which the importation of the new and necessary industries appeared to be significant—in the sense of being at least greater than ten per cent (10%) of the total imports for the specific commodity group—are imports of pulp and waste paper; coffee; tea; cocoa; crude rubber; and basic metal. Overall, the recorded importations of the new and necessary industries consist of only six per cent (6%) of the total importation.

There are major reasons for the small proportion of the NNI imports. Firstly, the NNI imports were either made directly or through local purchase. Since the data we used are on direct importation, only the imports would not reflect fully the actual import dependence of the NNI.

Secondly, independent sources of statistics direct from the Department of Finance and not from the Tariff Commission[6] show a major discrepancy in the import figures in the year 1960 (the only year we have detailed figures from the

[6] These data will be analyzed in later study.

Department of Finance). Total importations of the new and necessary industries amounted to ₱412 million in 1960 as compared to our figures of ₱117 million. This shows a very wide discrepancy, and, leads us to wonder whether these two (2) sources are consistent. According to our statistics from the Department of Finance, some of these NNI imports were not directly imported as shown in Table 4. But the proportion of locally purchased imported goods appeared to be relatively small compared to the total NNI imports. In view of the fact that the Department of Finance was directly implementing the provisions of the law on the NNI, we are led to believe that the direct imports recorded by the Tariff Commission were understated.

Thirdly, the period 1959-1961 as pointed out earlier was one characterized by a disequilibrium of the balance of payments so that despite the decontrol measures that were adopted by the Philippine government—especially after 1960—importations by the NNI were much more difficult compared to the earlier years of the foreign exchange controls—for which, unfortunately, we have no records. So it may be that a major share of the importations of the NNI were made using standard channels for importations rather than through the law on the NNI.

In view of all that has been said, we conclude that the value of the NNI imports as recorded by the Tariff Commission are short of their actual values. This, however, does not rule out the usefulness of the data we have recorded, especially in terms of the pattern of import distribution. It is more important to show relative distributions of the NNI imports by commodity groups for every year, and for the whole period from 1959 to 1961—instead of showing the absolute values of the imports. An examination through time, using 1960 values as the base of the commodity imports, however, is quite revealing. We thus present Table 7 to show the relative movements of the NNI imports between 1959 and 1961. The 1960 NNI imports represent a higher level of importation for many of the industries relative to the preceding and the succeeding years.

In the following, we shall concentrate our analysis on the distribution of the imports of the new and necessary industries rather than on their absolute values.

THE NNI IMPORTS IN ACCORDANCE WITH THE ECAFE *CLASSIFICATION OF COMMODITIES*

We grouped the NNI imports by utilizing the ECAFE classification of commodities into consumption goods, chiefly consumption goods, chiefly capital goods, and capital goods.[7]

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[7] It will be instructive to refer to the tables of imports according to this classification of the annual economic surveys of the ECAFE countries. Dr. Hiroshi Kitamura (ECAFE) furnished the author with the ECAFE commodity classification system, for which he is grateful.

TABLE 7. PERCENTAGE DISTRIBUTION OF THE NNI IMPORTS IN 1960 AND INDEX OF THE NNI IMPORTS: 100 = 1960

SITC	COMMODITY	DISTRIBUTION OF BASE YEAR VALUES: By 1-Digit Commodity	By 2-Digit within 1-Digit Commodity	INDEX OF VALUES: 100 = 1960: 1959	1961
0	Food	9.78	100.00	5.1	117.6
01	Meat and meat preparations		*	3,920.3	—
02	Dairy products, eggs, and honey		5.52	24.7	92.1
04	Cereal and cereal preparations		56.09	0.1	185.0
05	Fruits and vegetables		0.62	7.1	155.8
06	Sugar and sugar preparations		0.20	—	28.7
07	Coffee, tea, cocoa, spices, and manufactures thereof		25.69	6.8	11.8
08	Feeding stuff for animals		11.77	8.3	40.1
09	Miscellaneous food preparations		0.11	99.5	25.8
1	BEVERAGES AND TOBACCO	*		881.5	26.8
11	Beverages		*	881.5	—
12	Tobacco and tobacco manufactures		—	—	—
2	CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS	7.55	100.00	54.4	97.8
21	Hides, skins, fur skins, undressed		4.24	34.3	25.3
22	Oil seeds, oil nuts, and oil kernels		1.33	12.6	42.4
23	Crude rubber, including synthetic and reclaimed		34.08	3.9	129.0
24	Wood, lumber, and cork		3.98	—	45.1
25	Pulp and waste paper		19.63	9.4	48.2
26	Textile fibers (not manufactured)		29.84	164.6	128.6
27	Crude fertilizers and crude minerals		4.24	7.2	49.6
28	Metalliferous ores and metal scrap		0.27	—	5.9
29	Animal and vegetable crude materials, inedible		2.39	4.0	20.4
3	MINERAL FUELS, LUBRICANTS	0.24	100.00	7.8	44.3
31	Mineral fuels, lubricants, and related products		100.00	7.8	44.3
4	ANIMAL, VEGETABLE OILS AND FATS	0.44	100.00	31.6	107.5
41	Animal and vegetable oils, fats, greases, and derivatives		100.00	31.6	107.5
5	CHEMICALS	7.91	100.00	9.5	137.6
51	Chemical elements and compounds		38.98	8.0	69.0
52	Mineral tar		*	—	814.9
53	Dyeing, tanning, and coloring materials		22.28	10.3	55.3
54	Medicinal and pharmaceutical products		3.93	52.9	1.908.8
55	Essential oils, perfume materials, toilet polishing, and cleansing preparation		0.12	38.2	137.3

TABLE 7 (Continued)

SITC	COMMODITY	DISTRIBUTION OF BASE YEAR VALUES: By 1-Digit Commodity	DISTRIBUTION OF BASE YEAR VALUES: By 2-Digit within 1-Digit Commodity	INDEX OF VALUES: 100 = 1960: 1959	INDEX OF VALUES: 100 = 1960: 1961
56	Fertilizers, manufactured		*	—	—
59	Explosives and miscellaneous chemical materials and products		34.69	5.5	62.7
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIALS	52.72	100.00	14.0	30.8
61	Leather and leather manufactures		0.03	273.2	90.4
62	Rubber manufactures		0.46	50.3	37.2
63	Wood and cork manufactures		0.02	1,754.1	336.2
64	Paper, paperboard, and manufactures thereof		1.63	134.9	147.9
65	Textile yarns, fabrics and made-up articles		15.82	18.7	38.4
66	Non-metallic mineral manufactures		2.18	17.2	34.4
67	Gold, silver, platinum, gems, and jewelry		0.12	0.5	—
68	Base metals		77.35	9.7	30.6
69	Manufactures of metal		2.39	19.4	37.0
7	MACHINERY AND TRANSPORT EQUIPMENT	20.50	100.00	16.7	80.3
71	Machinery other than electric		87.22	12.8	85.9
72	Electric machinery, apparatus, and appliances		11.61	43.8	44.4
73	Transport equipment		1.17	34.6	24.6
8	MISCELLANEOUS MANUFACTURED ARTICLES	0.79	100.00	32.2	62.5
81	Prefabricated building, sanitary plumbing, heating, lighting fixtures and fittings		6.33	128.1	185.4
83	Travel goods, handbags, and similar articles		—	—	—
84	Clothing		*	11,568.3	1,500.5
86	Professional, scientific, and controlling apparatus and instruments		18.98	10.4	73.6
89	Miscellaneous manufacturing articles		74.69	8.7	45.9
9	COMMODITIES AND TRANSACTIONS NOT CLASSIFIED ACCORDING TO KIND	0.06	100.00	2.6	40.7
91			66.67	3.6	0.6
93	Returned goods		33.33	—	148.7
	1-Digit Total	100.00		16.6	63.6

* Less than 0.01.

During the period, the direct NNI imports were largely concentrated on consumption goods rather than on capital goods. This somewhat contradicts the finding from Central Bank import statistics that the import pattern shifted from consumption goods to capital goods as Philippine development proceeded in the 1950s. Table 8 shows, however, that most of the direct NNI importations have been on the high side in terms of consumption goods (including many categories of materials as the more detailed Table 9 shows), revealing quite well the import dependence of the NNI: consumption-good imports of the NNI constituted seventy per cent (70%) of the total imports. In 1959, the NNI imports of consumption goods represented fifty-five and six-tenths per cent (55.6%) of the total imports in 1960; and in 1961—when the foreign exchange difficulties of the Philippines were more marked—consumption-good imports represented seventy-three per cent (73%) of the total importation!

In contrast, total Philippine imports-according to the ECAFE statistics-contained relatively more capital goods. While in 1955, Philippine consumption-good imports—according to the ECAFE—accounted for fifty-two and nine-tenths per cent (52.9%); by 1961, consumption-good imports were forty-nine per cent (49%) of the total imports. Thus, the NNI directly promoted by the import substitution policy had higher consumption-good imported components than was the case for the whole Philippine economy during 1959-1961.

A more detailed breakdown of the NNI imports by the ECAFE type of goods is contained in Table 9. This table also segregates the distribution of importation by countries as well as it leads us directly to the next topic.

GEOGRAPHIC DISTRIBUTION OF IMPORTS OF THE NEW AND NECESSARY INDUSTRIES

Table 10 shows the geographic sources of the NNI imports. The United States accounted for almost one-half (½) of the total NNI imports; Japan sold one-fourth (1/4); the rest of the imports came from West European countries, Malaya and Pakistan.

Table 11 shows the percentage distribution of the total NNI imports from 1959-1961 by 2-digit SITC (Standard International Tax Classification), and by country of origin. The United States accounted for a great deal of the imports under a wide classification of commodities.

The Laurel-Langley Agreement apparently played an important role in determining this geographic pattern. In accordance with this Agreement, the schedule of Philippine preferential treatment of imports from the United States is, as follows:

[8] *Article I, Section 1.*

	Amount of import duties paid based on rates
1956-1958	25 per cent
1959-1961	50 per cent
1962-1964	75 per cent
1965-1974	90 per cent
1974-beyond	100 per cent

During the whole period under study, the rate of tariff preference for U.S. goods was fifty per cent (50%) of existing tariff rates. The geographic distribution of imports appeared to be largely the same as the pattern for all imports. Even at present, the U.S. still plays a dominant position in the imports of the whole economy, although to a smaller degree compared to the period we study.

It is somewhat strange, however, to find that imports of roasted cocoa came from the U.S. and not from such countries as Brazil, Ghana or Nigeria. This pattern of trade was due to the structure of shipping routes, and to market imperfections in international trade. The sources of supply were easily located in the U.S., because the trade routes of the Philippines with the major raw-material suppliers were not established. The U.S. accounted for a share of the NNI import supplies amounting to forty-eight per cent (48%) of the total NNI imports. This is three per cent (3%) higher compared to the total share of imports from the U.S. in total Philippine import trade (forty-five per cent [45%]) during the period. This deviation in share gives some support (although insufficient) to the assertion that the import-substituting industries were largely imitations of goods previously imported from the U.S., so that many NNI were predisposed to buy their import supplies of semi-finished, and of other new, materials from the U.S. Although the Laurel-Langley Agreement, therefore, stimulated some pattern of dependence on U.S. import supplies, it is likely the higher relative share of the U.S. in the NNI imports is accounted for by a different factor, emanating largely from the product composition of the import-substituting NNI.

IMPLIED TARIFF SUBSIDIES FROM THE NNI IMPORTS

It is an important question to quantify the value of the tariff subsidies implied from the NNI imports. These computations were made by using the nominal rates as found in the Tariff Code, allowing for any changes in tariff rates as we could best take note of. The preponderance of the NNI imports from the United States and the existence of preferential rates of tariff for U.S. goods made it important to examine the extent of the subsidies to imports coming from that country. The rate of tariff preference can be considered as a subsidy to U.S. imports, and to another extent as a subsidy to the NNI, because they could

TABLE 8. PER CENT DISTRIBUTION OF THE NNI IMPORTS BY TYPE OF GOODS

	UNITED STATES				OTHER COUNTRIES				PHILIPPINE IMPORTS (Total)		
	Total	1959	1960	1961	Total	1959	1960	1961	1959	1960	1961
Consumption goods	28.4	19.2	23.1	38.2	13.5	10.5	7.5	24.4	28.5	27.0	26.7
Chiefly consumption goods	43.6	36.4	50.8	34.7	58.1	69.4	64.8	43.6	24.4	19.2	22.6
Chiefly capital goods	2.7	7.3	2.7	1.7	4.2	4.2	4.8	3.2	8.9	7.7	5.8
Capital goods	25.3	37.1	23.4	25.4	24.2	15.9	22.9	28.8	38.8	46.1	44.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Last 3 cols.—the ECAFE.

TABLE 9. PER CENT DISTRIBUTION OF THE NNI IMPORTS BY TYPE OF GOODS (PESOS)

SITC	INDUSTRY	United States				Other Countries			
		Total	1959	1960	1961	Total	1959	1960	1961
	I. CONSUMPTION GOODS IMPORTS	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
01	Meat preparation	0.21	3.65	—	—	0.23	2.82	0.04	—
02	Dairy products	2.32	—	2.53	2.40	4.71	12.35	6.78	2.72
04	Cereal preparation	59.28	—	40.61	82.40	21.48	0.45	38.34	15.54
05	Fruits and vegetables	0.69	0.17	0.61	0.81	0.03	0.18	—	0.03
06	Sugar preparation	0.14	—	0.25	0.06	—	—	—	—
07	Coffee, tea, etc., and manufactures thereof	9.73	—	21.30	0.71	6.44	15.94	11.85	2.53
08	Feeding stuff for animals	5.14	1.75	8.85	2.29	4.32	6.92	7.22	2.48
09	Miscellaneous food preparations	0.07	—	0.14	0.02	0.10	1.22	—	0.02
11	Beverages	0.02	—	0.04	—	0.24	3.20	—	—
31	Mineral fuels, lubricants, and related materials	0.03	—	0.07	*	0.28	—	0.91	—
54	Medicinal products	1.59	0.46	2.66	0.79	42.84	14.85	1.43	67.22
55	Essential oils, etc.	0.04	—	0.05	0.04	0.11	0.32	0.10	0.09
61	Leather manufactures	—	—	—	—	0.01	0.08	—	—
62	Rubber	0.53	5.93	0.29	0.12	0.37	0.20	1.10	0.02
64	Paper manufactures	1.11	11.89	0.60	0.31	0.75	0.71	1.10	0.58
65	Textile fabrics	15.70	65.68	16.94	8.89	12.37	32.92	21.52	5.22
63	Wood and cork	0.02	—	—	0.04	0.04	—	0.07	0.02
66	Non-metallic manufactures	0.08	0.09	0.69	0.08	0.26	—	0.38	0.24
67	Gold, silver, platinum, gems, and jewelry	0.17	—	0.39	—	0.17	—	0.55	—
69	Manufacture of metals	0.54	0.82	0.82	0.28	0.96	1.64	1.64	0.52
83	Travel goods	0.02	—	—	0.04	0.01	—	—	0.02
84	Clothing	0.59	8.86	0.01	0.15	0.13	1.66	0.01	—
86	Professional, scientific instruments	0.01	—	—	0.03	0.04	0.40	0.02	—
89	Miscellaneous manufacturing articles	1.86	0.70	3.56	0.52	3.61	3.99	5.80	2.46
91		*	—	—	*	0.33	0.15	1.03	*
91, 93	Returned goods	0.08	—	0.18	—	0.18	—	—	0.29
93									

TABLE 9 (Continued)

SITC	INDUSTRY	UNITED STATES				OTHER COUNTRIES			
		Total	1959	1960	1961	Total	1959	1960	1961
	II. CHIEFLY CONSUMPTION GOODS IMPORTS	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
12	Tobacco manufactures	*	—	—	0.01	—	—	—	—
21	Hides, skins, and fur skins	0.81	—	1.00	0.60	0.41	1.56	0.30	0.15
22	Oil seeds, oil nuts, and oil kernels	0.42	—	0.47	0.42	0.02	0.17	—	—
23	Crude rubber	8.33	—	5.75	15.79	5.34	1.42	3.59	11.48
24	Wood, lumber, and cork	0.72	—	1.15	—	0.33	—	0.18	0.88
25	Pulp and waste paper	3.44	2.50	3.20	4.16	1.99	1.14	2.13	2.00
27	Crude fertilizer	0.62	0.04	0.55	0.92	0.49	0.32	0.54	0.45
31	Mineral fuels, lubricants, and related materials	0.04	0.30	0.01	0.03	0.01	*	0.01	*
26	Textile fibers (not manufactured)	1.64	5.31	0.02	4.21	13.58	50.02	5.81	16.02
29	Animal and vegetable crude materials	0.18	0.08	0.18	0.21	0.27	0.07	0.38	0.10
41	Vegetable oils	0.48	0.08	0.60	0.26	1.47	1.93	0.82	2.89
51	Chemical elements	7.97	1.25	7.62	10.33	4.67	3.07	3.93	7.25
52	Mineral tar	0.02	—	0.01	0.06	—	—	—	—
53	Dyeing, tanning, and coloring materials	3.20	2.66	3.17	3.37	3.06	2.12	2.86	4.15
56	Fertilizers	0.21	—	—	0.74	0.03	—	—	0.15
59	Explosives products	7.48	1.48	7.93	7.94	3.56	1.63	2.88	6.11
61	Leather manufactures	0.10	0.88	0.04	0.03	0.06	0.57	—	—
62	Rubber manufactures	0.54	0.11	0.61	0.51	0.12	0.11	0.09	0.17
63	Wood and cork manufactures	—	—	—	—	0.19	1.44	0.01	0.08
64	Paper manufactures	6.38	13.99	3.13	11.14	1.42	9.58	0.28	0.51
65	Textile fabrics	6.51	7.49	7.33	7.33	9.61	3.26	11.13	8.75
66	Mineral manufactures	1.56	6.90	1.17	1.12	0.75	0.18	1.02	0.33
67	Gold, silver, platinum, gems, and jewelry	*	*	—	—	*	—	*	—
68	Base metals	48.97	56.64	55.66	32.96	52.55	21.29	63.98	38.46
69	Manufactures of metals	0.21	—	0.28	0.09	0.06	0.12	0.04	0.03
86	Scientific instruments	0.16	0.18	0.11	0.29	0.01	—	0.01	0.03

TABLE 9 (Continued)

SITC	INDUSTRY	UNITED STATES				OTHER COUNTRIES			
		Total	1959	1960	1961	Total	1959	1960	1961
	III. CHIEFLY CAPITAL GOODS IMPORTS	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
65	Textile yarns, fabrics and made-up articles	—	—	—	—	0.04	—	*	0.07
62	Rubber	2.07	7.88	0.45	0.12	—	—	—	—
28	Metalliferous and metal scraps	0.56	—	1.01	—	0.12	—	0.15	0.07
31	Mineral fuels, lubricants, and related materials	8.06	—	6.95	18.43	3.34	2.79	4.11	1.59
66	Non-metallic minerals	13.11	*	13.30	25.54	1.48	1.87	1.64	0.99
68	Base metals	76.20	92.12	78.29	55.91	95.01	95.34	94.08	97.27
	IV. CAPITAL GOODS IMPORTS	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
61	Leather	0.10	—	0.10	0.14	0.08	0.34	0.05	0.10
66	Non-metallic minerals	0.82	0.18	1.07	0.69	0.90	—	1.47	0.27
68	Base metals	4.45	8.63	5.13	2.17	2.90	5.40	4.18	0.80
69	Manufactures of metals	6.19	7.21	7.32	4.33	1.76	2.31	2.52	0.68
71	Machinery (non-electric)	74.57	74.22	69.69	81.20	83.94	32.93	82.81	93.55
72	Other machinery	11.88	7.93	14.91	9.15	8.79	52.39	7.17	4.00
73	Transport equipment	0.59	0.29	0.91	0.23	1.03	4.61	1.09	0.40
81	Prefabricated buildings	0.83	1.37	0.39	1.24	0.18	1.84	0.09	0.03
86	Professional scientific instruments	0.57	0.17	0.48	0.83	0.41	0.15	0.62	0.17

* Less than 0.01.

import U.S. goods relatively more cheaply. The rates of tax exemption of the NNI, we noted earlier, were already diminishing from 1959 to 1961; so were the preferential tariff rates on imports from the U.S.

TABLE 10. COUNTRY OF ORIGIN OF THE NEW AND NECESSARY INDUSTRIES, 1959-1961

COUNTRY	NNI IMPORTS Value (₱1,000)	NNI IMPORTS Percentage Distribution	PHILIPPINE IMPORTS Value (₱1,000)	PHILIPPINE IMPORTS Percentage Distribution
United States	96,473	48%	775,746	45%
Japan	54,019	26%	372,328	21%
United Kingdom	9,091	4%	68,334	4%
West Germany	5,863	2%	79,987	5%
Pakistan	5,754	2%	7,591	*
Malaya	5,693	2%	15,545	1%
Canada	3,433	1%	38,618	2%
Netherlands	3,061	1%	36,082	2%
Italy	2,557	1%	11,189	1%
Australia	2,152	1%	25,187	1%
Switzerland	2,139	1%	12,405	1%
	190,235	89%	1,443,012	83%
Others	24,361	11%	295,736	17%

* Less than 0.50.

The implied tariff subsidies were computed on a commodity-by-commodit basis. In view of the changes in some of the tariff schedules during the period the effort proved quite a challenge and the meager results we produce in thi study do not quite measure up to the demanding tasks this effort consumed The methodology of the computation of all these tariff subsidies—as well as th more detailed tariff subsidies implied—is given in the Appendix.

Since any foreign exchange allocations during the period of the stud automatically gave the allocation-quota recipient a high scarcity premium, th subsidy from tariffs would not have mattered much from the viewpoint o the NNI. Their existence only further reduced the acquisition cost of imports and, thereby made an already high foreign-exchange scarcity premium higher.

On the side of the government, these tariff subsidies represented som customs revenues forgone. In view of the high scarcity premium to foreig exchange allocations, the absence of these subsidies would not have probabl reduced these importations. Thus, within the subsidy range, we can assum that the demand for the imports were almost perfectly inelastic. Therefore the revenues forgone by the government were *real.*

TABLE 11. PER CENT DISTRIBUTION OF THE TOTAL NNI IMPORTS BY COUNTRY OF ORIGIN, 1959-1961

CODE	COMMODITY	TOTAL NNI IMPORTS	TOTAL NNI IMPORTS FROM UNITED STATES	NNI IMPORTS FROM OTHER COUNTRIES
01	Meat and meat preparations	100.0	58	42
02	Dairy products	100.0	42	58
04	Cereals	100.0	80	20
05	Fruits and vegetables	100.0	97	3
06	Sugar	100.0	100	0
07	Coffee, tea, etc.	100.0	69	31
08	Feeding stuff for animals	100.0	64	36
09	Miscellaneous food preparations	100.0	50	50
11	Beverages	100.0	10	90
12	Tobacco	100.0	100	0
21	Hides, skins, etc.	100.0	51	49
22	Oil seeds, oil nuts, oil kernels	100.0	92	8
23	Crude rubber	100.0	45	55
24	Wood, lumber, and cork	100.0	54	46
25	Pulp and waste paper	100.0	48	52
26	Textile fibers (not manufactured)	100.0	6	94
27	Crude fertilizers and crude minerals	100.0	41	59
28	Metalliferous ores and metal scrap	100.0	68	32
29	Animal and vegetable crude materials	100.0	26	74
31	Mineral fuels, lubricants, etc.	100.0	49	51
41	Animal and vegetable oils, fats, etc.	100.0	14	86
51	Chemical elements and compounds	100.0	48	52
52	Mineral tar	100.0	100	0
53	Dyeing, tanning, and coloring materials	100.0	36	64
54	Medicinal and pharmaceutical products	100.0	5	95
55	Essential oils, perfumes, etc.	100.0	38	62
56	Fertilizers, manufactured	100.0	76	24
59	Explosives	100.0	53	47
61	Leather	100.0	45	55
62	Rubber	100.0	73	27
63	Wood and cork	100.0	4	96
64	Paper	100.0	70	30
65	Textile yarns	100.0	42	58
66	Non-metallic mineral manufactures	100.0	50	50
67	Gold, silver, platinum, etc.	100.0	61	39
68	Base metals	100.0	33	67
69	Manufactures of metals	100.0	68	32
71	Non-electric machinery	100.0	40	60
72	Electric machinery	100.0	50	50
73	Transport equipment	100.0	29	71
81	Pre-fabricated buildings	100.0	78	22
83	Travel goods, etc.	100.0	70	30
84	Clothing	100.0	87	13
86	Professional, scientific instruments	100.0	58	42
89	Miscellaneous manufacturing articles	100.0	44	56
91		100.0	0.4	99.6
9	Returned goods	100.0	40	60
93				

In Table 12, it can be seen that forgone revenues—as a result of the tariff subsidies—were four per cent (4%) of total receipts of the Bureau of Customs in 1959; twelve per cent (12%) in 1960; and eight per cent (8%) in 1961. Total revenues forgone during the three (3)-year period mentioned was eight per cent (8%) of total customs collections. Table 13 shows the average subsidy rates from tariff by 1-digit SITC.

TABLE 12. FORGONE REVENUE AS PER CENT OF TOTAL CUSTOMS EARNINGS

YEAR	TOTAL CUSTOMS COLLECTIONS (thousand pesos)	TOTAL TARIFF SUBSIDIES (thousand pesos)	SUBSIDIES AS A PER CENT OF TOTAL COLLECTIONS
1959	231,078	8,370	4
1960	264,044	31,510	12
1961	311,505	24,481	8
Total	806,627	64,361	8

Source: *Central Bank Statistical Bulletin*, for customs collections.

Overall, the tariff subsidies from imports from the U.S. were relatively much more compared with those coming from other countries. This is in view of the preferential trade agreement with the U.S. On the average per peso f.o.b. imports of the new and necessary industries from 1949-1961, an additional aggregate amount of ₱0.31 represented revenues forgone by the Philippine government. In terms of importation from other countries—for every peso f.o.b. imports, an average rate of ₱0.14 represented the subsidy. The values of the subsidies are recorded in the last row, so that any interested reader can recompute these subsidies by 1-digit SITC.

Tables 14 and 15 give the relative values of total subsidies of the NNI imports by country of source—by 1-digit SITC. The implied tariff subsidies from the NNI imports from countries other than the U.S. are higher than those from the U.S. only in terms of imports of beverages, tobacco, crude materials, oils-and-fats, and other commodities. We recall from Table 5 much earlier that the total NNI imports of these commodities account for eleven and twenty-two hundredths per cent (11.22%) of the NNI imports, but that crude materials alone are responsible for ten and fifty-six hundredths per cent (10.56%) of the total NNI imports. Thus, with the exemption of crude materials, the preponderance of non-U.S. imports is only in terms of a relatively insignificant import group.

TABLE 13. AVERAGE SUBSIDY RATES FROM TARIFFS

SITC Code	Industry	Total	United States 1959	1960	1961	Total	Other Countries 1959	1960	1961
0	Food	1.28	1.45	1.37	1.25	1.08	1.21	1.11	1.05
1	Beverages and tobacco	1.32	—	1.37	1.25	1.66	1.66	—	—
2	Crude materials, except fuels	1.31	1.82	1.37	1.25	1.07	1.82	1.13	1.06
3	Mineral fuels, lubricants	1.30	1.45	1.37	1.25	1.06	1.05	1.07	1.03
4	Animal, vegetable oils and fats	1.35	1.45	1.37	1.25	1.23	1.53	1.17	1.20
5	Chemicals	1.32	1.45	1.37	1.25	1.09	1.13	1.10	1.07
6	Manufactured goods classified chiefly by materials	1.34	1.45	1.37	1.25	1.15	1.18	1.19	1.13
7	Machinery and transport equipment	1.31	1.45	1.37	1.25	1.08	1.12	1.10	1.06
8	Miscellaneous articles	1.33	1.45	1.37	1.25	1.20	1.51	1.20	1.11
9	Commodities and transactions not classified according to kind	1.37	—	1.37	1.25	2.00	2.00	2.00	2.00
	Total	1.31	1.46	1.37	1.25	1.14	1.45	1.15	1.08

TABLE 14. PER CENT DISTRIBUTION OF THE TOTAL NNI IMPORT SUBSIDIES

SITC Code	Industry	Total	1959 United States	1960 United States	1961 United States	Total	1959 Other Countries	1960 Other Countries	1961 Other Countries
0	Food	23.02	1.06	16.48	34.93	3.56	2.10	3.73	4.39
1	Beverages and tobacco	0.01	—	0.01	0.01	0.12	0.52	—	—
2	Crude materials, inedible, except fuels	8.28	5.21	8.47	8.64	24.13	75.22	8.31	10.93
3	Mineral fuels, lubricants	0.24	0.12	0.20	0.31	0.07	0.02	0.13	0.03
4	Animal, vegetable oils and fats	0.37	0.03	0.62	0.14	1.50	1.72	0.70	2.60
5	Chemicals	9.08	2.13	9.97	9.35	5.76	1.81	5.77	8.66
6	Manufactured goods classified chiefly by materials	37.61	58.70	44.75	25.14	48.33	15.42	64.81	47.01
7	Machinery and transport equipment	20.35	30.29	18.49	20.66	15.43	1.98	15.37	25.50
8	Miscellaneous manufactured articles	1.02	2.46	0.97	0.82	0.93	1.17	0.84	0.87
9	Commodities and transactions not classified according to kind	0.02	—	0.04	*	0.17	0.04	0.34	0.01
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	(Value in 1,000 pesos)	42,130	3,378	21,000	17,752	22,230	4,992	10,510	6,729

* Less than ₱500.00.

The finding that the total implied tariff subsidies are higher for the U.S. than from other import sources simply follows from the fact that the U.S supplies the great bulk of the NNI imports, aside from the higher subsidies to the NNI per import commodity. The higher values of subsidies are due to the (bilateral) preferential tariff treatment of trade with the U.S. on account of the Laurel-Langley Agreement.

COMMENTS AND SUMMARY

This study summarizes the statistical compilation, and the analysis, of unpublished data on the imports of the "new and necessary industries" (NNI) as collected by the Tariff Commission during the years 1959 to 1961. With the help of the *Tariff Code* (and the revised tariff rates), we were able to report estimates of the implied tariff subsidies from the imports of these industries on account: firstly, of *Republic Act 901* which gave tax exemption to the NNI of "all" national taxes; and secondly, of the preferential trade with the United States in accordance with the Laurel-Langley Agreement. Between 1959 and 1961, the exemptions of the NNI—according to law—were already "partial," but they were still on the high side. According to treaty obligation, moreover, imports from the U.S. were given fifty per cent (50%) tariff reductions.

TABLE 15. THE NNI IMPORT SUBSIDIES: RATIO OF SUBSIDIES IMPORTS FROM OTHER COUNTRIES TO SUBSIDIES ON THE NNI IMPORTS FROM THE U.S.

SITC	GROUP	RATIOS			
		Total	1959	1960	1961
0	Food	0.08	2.92	0.11	0.05
1	Beverages and tobacco	8.67	—	—	—
2	Crude materials, inedible, except fuels	1.54	21.34	0.49	0.48
3	Mineral fuels, lubricants	0.16	0.25	0.33	0.04
4	Animal, vegetable oils and fats	2.15	86.00	0.56	7.29
5	Chemicals	0.33	1.25	0.29	0.35
6	Manufactured goods classified chiefly by materials	0.68	0.39	0.72	0.71
7	Machinery and transport equipment	0.40	0.10	0.42	0.47
8	Miscellaneous manufactured articles	0.48	0.70	0.44	0.41
9	Commodities and transactions not classified according to kind	4.62	—	4.38	—
	Total NNI Import Subsidies	0.53	1.48	0.50	0.38

$$\text{Ratio} = \frac{\text{Tariff subsidies for imports from non-U.S. suppliers}}{\text{Tariff subsidies for imports from the U.S.}}$$

(1) There were strong reasons to suspect that the data on the NNI imports

were incomplete, and the discrepancy with figures derived from the Department of Finance—which administered the law on the NNI—showed the understatement and undercoverage of these imports. We thus assumed that understatement and undercoverage of these imports were prevalent. Thus, the attempt to analyze the NNI imports in terms of commodity composition, year-to-year change, geographic sources of import supplies, and tariff subsidies implied, should be viewed as an attempt to say what can be said under the circumstances.

(2) The foreign exchange problems during the period of the study—which were quite acute—had their telling blow on the levels of imports. On a commodity-by-commodity inspection, the levels of imports varied drastically without any distinct pattern. The levels of 1959 were much lower than 1960, but so were the NNI imports of 1961 relative to 1960.

(3) The NNI imports also became relatively concentrated on raw materials and on consumption goods, and departed drastically from the national import pattern in terms of consumption goods-capital goods classifications. This striking observation strengthens the notion that the NNI import-substituting industries were relatively highly import-dependent.[9]

(4) The value of the recorded NNI imports during the period were relatively unimportant compared to total imports. But the apparent statistical undercoverage of the NNI imports meant that the relative share of the NNI imports to total exports was larger. This undercoverage was due to a combination of two (2) things which were impossible to isolate in view of the lack of any additional information. Firstly, an underreporting of the NNI imports might have been inherent in the import documents which were utilized by the Tariff Commission in assembling the import data. Secondly, because privileged access to foreign exchange allocations was no longer as easily available, some NNI probably found it necessary to purchase import supplies through other commercial channels: either through other importers with foreign exchange allocations or through a system of securing their own allocations, without causing their applications for import allocations pass through the complex administrative system—which allowed for greater exemptions under the law covering the NNI. The last reason is purely speculative, as we have no direct evidence. Moreover, by 1961, the *Basic Industries Act* (*R.A. 3127*) provided another outlet for more liberal import privileges at least in terms of new machinery imports for those NNI who were able to secure privileges under this law. (We shall have occasion to mention this new Act at the end of this paper).

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[9] This has been argued in another paper: Sicat, "Import Dependent Import Substitution," Institute of Economic Development and Research, University of the Philippines (August 1965), mimeo. This observation is also consistent with the finding that as foreign exchange resources became scarcer, the rate of return of the new and necessary industries fell. *V.* Sicat, "Rates of Return in Philippine Manufacturing," Institute of Economic Development and Research, University of the Philippines (Discussion Paper 65-4, 13 July 1965).

(5) A geographic study of the source of import supplies of the NNI revealed the dominance of the U.S. The NNI import supplies from the U.S. as a per cent of the total NNI imports is higher than the average share of imports from the U.S. to total Philippine imports. While the Laurel-Langley Agreement may have accounted for part of this phenomenon, it does not explain why the relative dependence of the NNI imports from the U.S. is greater than the national average. This difference is apparently accounted for by the fact that the import-substituting industries which were largely consumer goods were early imitations by substitutions of previous imports from the U.S.—more than any other country. Thus, the NNI imports of materials—whether unfinished or semi-finished—had to come from the U.S. in greater degree.

(6) The computations of implied tariff subsidies show that as much as the total value of ₱64 million pesos of tariff revenues were forgone for the years 1959 to 1961: about eight per cent (8%) of the total customs collections for these years. Because in a foreign exchange control system the grant of an exchange allocation already grants enormous scarcity premium to the grantee, it can be concluded that the quantity of the importations would have been little affected within the before-and-after tariff subsidy price of the imports. Thus, the NNI imports were price-inelastic within the relevant price range and the loss in revenues can be interpreted as "real" from the standpoint of the government. These additional subsidies simply increased the premium price on the allocations to the NNI. Another aspect of the implied subsidies is that in view of the preferential rates for imports from the U.S., the implied subsidies on imports from the U.S. were much higher than those received by imports from other countries.

* * *

As a postscript, it is interesting to mention briefly the *Basic Industries Act* (*R.A. 3127*), passed into law in mid-1961. The pressure for extending incentive benefits to some industries became quite strong as the anticipated termination of the NNI law drew nearer. The new Act gave the following tax exemptions to imports of machinery, equipment, and spare parts, of firms engaged in "basic" activities (somewhat loosely defined by broad groups of commodities defined by law and implemented by a Board of Industries): payment of "special import tax, compensating tax, foreign exchange and tariff duties." The industries promoted under this law constitute a new chapter in Philippine industrial history, and, it shall be the subject of another paper.[10] Suffice it to say here that some NNI were able to secure privileges under this law in 1961, and, were thus able to make importations of capital equipment-availing of

[10] A study along the same line as this paper will be the subject of joint work between Alfonso Bascos, who is currently finishing a master's paper on *The Basic Industries Act,* and this author.

these more generous privileges. Thus, our NNI import statistics for 1961 are more than ever influenced by these imports which were covered by new privileges and administered by a different administrative board.

We still have to know more about the new and necessary industries which were promoted by the economic policies of the 1950s. Descriptive material on these industries—coupled with a lot of insight which was inevitably tied to the policy climate of this period—have been provided by others—notably by Golay.[11] But the quantification of the experience of these industries as they adjusted to the changes in the economic climate, and to the policies which shaped this climate, are still inadequate. This paper attempted to contribute towards the quantification of this experience.

APPENDIX

THE COMPUTATION OF IMPLIED TARIFF SUBSIDIES

The computation of implied tariff subsidies of the NNI is only one of the important subsidies that the NNI industries received. The other bulk of the benefits received by the NNI were the internal revenue taxes from which the NNI were exempted, not to mention privileged access to foreign exchange allocations. In view of the preferential tariff rate provisions of the Laurel-Langley Agreement for imports from the U.S., we separate these imports and the implied subsidies granted to them in contrast to imports from all other countries.

To compute for the tariff subsidy, we simply used the following method:

Let

V_{it} = (dutiable) value of import good *i*, c.i.f. in year *t*

t_{it} = tariff rate on *i* in *t*

e_t = tax exemption rate in year *t* by virtue of the schedule of the NNI exemptions (*Republic Act 901*) applied across the board for all the NNI

u_t = preferential rate to imports applied across the board for all U.S. imports due to Laurel-Langley treaty; $0 < u < 1$, for U.S.; $u = 1$, otherwise.

Then, we define the following:

(a) total tariffs due on good $i = t_{it}\ V_{it}$

(b) total tariffs subsidy from the payment of taxes in view of *RA 901*

$$S_{it} = e_t\ u_t\ t_i\ V_i.$$

It follows that the

$$\begin{aligned} \text{net tariffs paid} &= t_{it}\ V_{it} - S_{it} \\ &= t_{it}\ V_{it} - e_t\ u_t\ t_{it}\ V_{it} \\ &= (1 - e_t\ u_t)\ t_{it}\ V_{it}. \end{aligned}$$

[11] Golay, *op. cit.*, esp. Ch. 11.

where

$e_t\ u_t$ = the net tariff subsidy rate on good *i* at year *t*.

The following were the values of e_t from 1959 to 1961:

$$e_{1959} = 0.90$$
$$e_{1960} = 0.75$$
$$e_{1961} = 0.50.$$

For the same period, the value of u_t remained the same at fifty per cent (50%). For all countries other than the U.S., $u_t = 1$.

Since we are interested in the value of the implied tariff subsidies, we computed only for the value of S_{it}. Below, we demonstrate the computations for S_{it}.

Illustrations of the computations are shown in the succeeding two (2) tables.

Next, we were interested in showing the average rates of subsidy—per two (2)-digit import item—relative to the dutiable value of the good. Since the rates differed for the respective commodities, we decided to get the implicit average rates based on the total computed rates. This was done by the following method:

$$\text{Average 2-digit tariff subsidy rate (i)} = (V_i + S_i)/V_i$$
$$= 1 + S_i/V_i$$

The fractions S_1/V_1 are equivalent to an average of individual rates $e_t\ u_t\ t_i$, which are based on specific commodities.

We illustrate the computation of this implied tariff subsidy for the following commodities:

FOR IMPORTS FROM THE UNITED STATES

CODE	DESCRIPTION	TARIFF CODE	1959			1960			1961		
			V_{i59}	t_i	S_{i59}	V_{i60}	t_i	S_{i60}	V_{i61}	t_i	S_{i61}
812-02.01	Sinks, wash basins, and like sanitary fitting of ceramics	6910	7307	*ad val.* 50%	3208						
211-01.20	Hides of cattle, buffaloes, horses, mules and asses, undressed	4101				241,786	*ad val.* 50%	90,670	60,053	*ad val.* 50%	15,013
211-04.00	Goat skins and kidskins	4101							4,637	*ad val.* 50%	1,159
632-09.13	Spools, cops, bobbins, etc.	4426							5,423	*ad val.* 50%	1,356
211-09.00	Hides and skins, n.e.s.	4101							3,755	*ad val.* 50%	939

FOR NON-U.S. IMPORTS

CODE	DESCRIPTION	TARIFF CODE	1959			1960			1961		
				t_i	S_{159}	V_{160}	t_i	S_{160}	V_{161}	t_i	S_{161}
812–02.01	Sinks, basins, and like sanitary fittings of ceramics	6910	2,271	*ad val.* 20%	409						
812–03.01	Sinks, basins, and like sanitary fittings of iron and steel	7320				14,328	*ad val.* 10%	1,075	1,651	*ad val.* 10%	82
632–09.13	Spools, cops, bobbins, etc.	4426							2,303	*ad val.* 100%	1,151
633–01.00	Agglomerated cork materials	4504A	119,502	*ad val.* 15%	16,132						
711–04.00	Goatskins and kidskins	4101							4,637	*ad val.* 10%	1,159