

A PRIMER ON PHILIPPINE-AMERICAN ECONOMIC RELATIONS *

I. INTRODUCTION

1. *Why is it important to reexamine Philippine-American economic relations at this time?*

The two countries are about to negotiate a new economic agreement, in conformity with the provision in the existing one that there should be consultations not later than 1 July 1971. The Philippines has closer cultural, diplomatic, and economic ties with the United States than with any other country. Many Americans live in, or do business with, the Philippines; and the United States also maintains important military installations there.

2. *What agreements presently cover Philippine-American economic relations?*

The most important one is the revised version of the *Philippine Trade Act* of 1946, popularly known as the Laurel-Langley Agreement. This covers, among other things, the treatment of American business interests in the Philippines, and the reciprocal preferences each country grants to the other's exports. There are several other minor agreements on such topics as air rights and imports under *Public Law 480*.

3. *What is the nature of the agreement that the Philippines and the United States are about to negotiate?*

It will cover the entire range of economic relations between the two countries: including entry of persons and basic personal rights, navigation and foreign exchange transactions. There will be special references to trade, the treatment of existing American investment in the Philippines, and the treatment of future American investment. Many of the provisions of the existing Agreement now seem onerous to the Filipinos. Also, the nature and the extent of trade preferences granted by developed countries to developing countries has changed and is likely to change further in the near future. In the light of these considerations, the two governments have held meetings preparatory to the negotiation of a replacement.

* By the Staff of the Philippine Laurel-Langley Panel.

4. *What in brief outline has been the history of Philippine-American relations?*

In general, relations remain friendly at the present time. However, Philippine-American relationship have been marked from time to time by American actions and policies which are questionable at best. These include the manner in which the relations began.

The Philippines was ceded to the United States by Spain in 1898 at a time when there was serious question as to whether the Spanish government still held effective sovereignty over the country. An independent Filipino government had been set up, and, after a successful revolution had, for practical purposes, taken control. The American annexation was particularly surprising in view of the fact that the United States also intervened in Cuba at the same time, and under the same circumstances: but Cuba was allowed to remain independent. The Philippine-American War was a natural consequence; and in the course of this conflict, a proportion of the Philippine population died that was comparable to the proportion killed by the Japanese during the Second World War.

Under the American colonial administration, there was continuous agitation for which independence was delayed for several decades. In the meantime, American business interests had established a strong foothold in the Philippines, and the foreign trade of the country had become directed almost entirely toward the United States.

The aftermath of the Second World War—during which the Philippines fought on the American side and was occupied by the Japanese—was widespread death and destruction; and, finally, the attainment of independence. As a condition for subsequent economic aid, however, the United States extracted privileges for American businessmen which required an amendment of the Philippine Constitution, and have been retained in the Laurel-Langley Agreement.

5. *How important are the two economies to each other?*

As might be expected from the relative sizes of the two countries, the United States is still much more important to the Philippines economically than the Philippines is to the United States. In spite of the diversification of Philippine export products and markets, the United States still accounts for more than forty per cent (40%) of total Philippine trade, and American investment in the Philippines—while small in proportion to the total domestic investment—are conspicuous, particularly in the fields of mining and of manufacturing. The Philippines, on the other hand, accounted for no more than one and two-tenths per cent (1.2%) of American foreign trade

in 1967—which represents a considerable decline from the two and three-tenths per cent (2.3%) share in 1955—though she supplies almost all of the coconut oil important to the United States, and about eleven per cent (11%) of the total American sugar consumption. There is some Filipino investment in the United States, but it is negligible.

II. THE INFLUENCE OF THE UNITED STATES ON PHILIPPINE ECONOMY

6. *In what areas of Philippine economy is the United States important?*

The influence of the United States on Philippine economy, while declining, is still considerable. It has been mentioned that the U.S. is the Philippines' most important trading partner. In addition, Americans are important to the Philippines as investors, employers, as owners-and-operators of industrial enterprises: particularly in mining, petroleum refining, automotive tires and drugs. U.S. military expenditures also account for a significant part of Philippine foreign exchange earnings.

7. *What is the value and composition of Philippine foreign trade?*

In 1967, the total value of Philippine foreign trade was \$1,866 million: of which exports amounted to \$812 million, while imports were valued at \$1,054 million.

Exports are concentrated in the categories of semi-processed or semi-manufactured goods and primary products such as: lumber, sugar, copra, copper concentrates, coconut oil, plywood, desiccated coconut, unmanufactured abaca, copra meal or cake and canned-pineapple.

Philippine imports, on the other hand, are classified into three (3) principal groups: machinery, transport equipment and cereals. Other important import categories are electric apparatus and appliances, explosives and miscellaneous chemicals, textile yarns and fabrics, and textile fabrics.

8. *What is the share of the U.S. in total Philippine foreign trade and how has it been changing?*

The U.S. continues to be the Philippines' leading trade partner, with imports from the U.S. accounting for about thirty-four per cent (34%) of total Philippine imports for 1967. Exports to the U.S. made up forty-three per cent (43%) of the Philippine export trade.

During the period 1956-1966, there was an average annual decrease of six and eight-tenths per cent (6.8%) in the import share of the United States, and about three per cent (3%) in its share of Philippine exports. In 1967, however, the American share of Philippine imports increased by eight-tenths per cent (0.8%) and the market share of exports to the United States by five-tenths per cent (0.5%). This trend seems to be continuing during 1968.

9. *What factors have affected U.S. participation in Philippine foreign trade?*

U.S. participation in the Philippines has been affected by several factors: strong competition from other foreign suppliers, particularly Europe and Japan in terms of quality and financing as well as initial selling price; the decline of preferences under the Laurel-Langley Agreement; also, the changing structure of Philippine economy. More medium and heavy industry has been set up in such fields as mining, steel, cement, pulp and paper, oil refining and electric power. (In many of these, incidentally, there is considerable American investment). The total Philippine demand for imports has continued to increase, and, is, in fact, one of the main problems of the current economic program. But different things are now being demanded from abroad: fewer finished consumer goods and more machinery, transport equipment and industrial raw materials. Other countries seem to have responded to this change in demand more rapidly than the United States, in spite of the advantages American suppliers still enjoy in terms of tariff preferences and of market acceptance.

10. *What fields of investment were entered into by U.S. citizens in the first (1st) decade of the Laurel-Langley Agreement?*

Direct United States investment, which according to estimates of the U.S. Department of Commerce amounted to the gross volume of United States \$415 million in 1963, was concentrated in the manufacturing, trade, extractive industries (mining) and the operations of public utilities. Investments in manufacturing comprised thirty-two per cent (32%) of the total, direct United States investment—(seventeen and two-tenths per cent [17.2%] of this were attributed to investment in petroleum refineries). Trade made up thirty-six and fourteen-hundredths per cent (36.14%) of total investment, public utilities—six per cent (6%), mining—ten and four-tenths per cent (10.4%); while the rest was accounted for by forestry, and other exploitation of natural resources.

11. *What is the amount of American military expenditures in the Philippines?*

In 1967, the total was \$170 million: including amounts spent for maintenance and operation of military bases, and expenditures related to the war effort in Vietnam.

III. THE LAUREL-LANGLEY AGREEMENT: PROVISIONS

12. *What important U.S. legislation led to the negotiation of the Laurel-Langley Agreement?*

The *Philippine Trade Act of 1946* and the *Philippine Rehabilitation Act of 1946* preceded the negotiation of the Laurel-Langley Agreement. The *Trade Act* renewed the transitional period of "mutual free trade" that had been specified by prewar U.S. legislation, and extended it to 1954, following which, tariff duties were to be gradually imposed by the two countries until full duties would be collected beginning in 1974. The *Rehabilitation Act* provided for substantial payments to rehabilitate war damaged properties—both private and public.

13. *What is the Laurel-Langley Agreement?*

The Laurel-Langley Agreement is the revised version of the *Philippine Trade Act of 1946* concluded in Washington on 15 December 1954 by the Philippine Mission headed by the late Senator Jose P. Laurel—and an American Delegation headed by the late James M. Langley. It expires on 3 July 1974.

14. *What is the general content of the Agreement?*

The Agreement covers, in general, economic relations between the Philippines and the United States. Of its provisions, some are taken over from the 1946 Agreement; others—notably those recognizing the sovereign rights of the Philippines as a nation, and providing for the freer exercise of those rights—are new. The most important provisions cover: (a) the schedule according to which trade preferences between the two countries are to diminish; and (b) the treatment of American businessmen and landowners in the Philippines.

15. *What are the provisions with regard to trade preferences?*

Under the Laurel-Langley Agreement, preferences are granted mainly in the form of duty reduction, and of tariff-free quotas.

Customs duties are to be applied gradually over the eighteen (18)-year period 1956-1974, with the preferences diminishing more rapidly for American, than for Philippine, goods. The full schedule is, as follows:

<i>Beginning Year</i>	<i>Per cent of Philippine Duty on U.S. Goods</i>	<i>Per cent of U.S. Duty on Philippine Goods</i>
1956	25%	5%
1959	50%	10%
1962	75%	20%
1965	90%	40%
1968	90%	60%
1971	90%	80%
1974	100%	100%

The Agreement also provides for a diminishing duty-free quota of Philippine exports to the United States, as follows:

<i>Beginning Year</i>	<i>Per cent</i>	<i>Cigars (Millions)</i>	<i>Scrap Tobacco (Thousand lb.)</i>	<i>Coconut oil (Thousand long tons)</i>	<i>Pearl or Shell Buttons (Gross)</i>
Base	100%	200	6,500	200	850,000
1956	95%	190	6,175	190	807,500
1959	90%	180	5,850	180	765,000
1962	80%	160	5,200	160	680,000
1965	60%	120	3,900	120	510,000
1968	40%	80	2,600	80	340,000
1971	20%	40	1,300	40	170,000
1974	0%	0	0	0	0

Fixed annual quotas are also granted for Philippine cordage (six [6] million pounds) and Philippine sugar (952,000 short tons, of which not more than 56,000 short tons may be refined sugar). The sugar quota may, however, be increased at the discretion of the U.S. Congress, and has received an additional guarantee under the *U.S. Sugar Act* of 1965.

16. *What other trade restrictions are mentioned in the Agreement?*

Under *Article III*, the right to impose quantitative restrictions other than those previously mentioned is recognized to be reciprocal: subject to the general rule of most-favored-nation treatment. Discriminatory import quotas are allowed for purposes of protecting a domestic industry or for balance-of-payments reasons, but the Article provides that the imports quotas shall not prevent unreasonably the importation of new kinds of goods in

minimum commercial quantities. This Article also provides for prior notification, and for the right of consultation between the two countries with respect to establishment of quotas or of quantitative restrictions. A recent Philippine grievance falls in this area. In the reduction of American duties on wood products under the Kennedy Round, Philippine wood products were specifically excluded; and there has recently been discussion of the restriction of American importation of synthetic textiles. These actions and plans seriously affect the prospects of two (2) new industries which are important to the Philippine economy.

17. *What does the Agreement provide about other taxes?*

Under *Article IV*, the Philippines and the United States recognize the power of each other to levy export taxes. The Article also prohibits the imposition of a processing tax, or other internal taxes—by either the United States or the Philippines—on articles imported for the exclusive use of the other unless a corresponding tax is imposed by other country; and prohibits the United States from imposing any processing tax, or other internal taxes on its imports of unmanufactured Manila fiber. Such a processing tax was, nevertheless, imposed on Philippine coconut oil during the period 4 July 1946—1 October 1957. The Philippines has a pending claim against the United States for a refund of the proceeds.

18. *What treatment is given to Americans living, or doing business, in the Philippines?*

This subject is covered by *Articles VI* and *VII* of the Laurel-Langley Agreement. Under *Article VI*—the so-called *Parity Article*, American citizens in the Philippines are given the right to engage in the development of natural resources, and in the operation of public utilities. The Philippine Constitution reserves this right for Filipino citizens, and, had to be amended for the purpose of such provisions as this. The right is given to no other foreigners.

Article VII provides for reciprocal non-discrimination by either party against the citizens or the enterprises of the other, with respect to engaging in business activities. In short, the provision extends national treatment to citizens or to firms of the United States doing any sort of business whatever in the Philippines. Again, this is a right extended to no other foreigners.

19. *What provision is made in the Agreement for consultation?*

Article X provides for consultation not later than 1 July 1971 on joint problems that may arise as a result of, or in anticipation of, the termination of the Agreement.

IV. THE LAUREL-LANGLEY AGREEMENT: ECONOMIC EFFECTS

20. *What have been the economic effects of the Laurel-Langley Agreement?*

The Agreement has affected at least four (4) areas of economic activity: the size and composition of Philippine foreign trade; industrialization; investments, especially in view of the Philippine need for foreign capital equipment and technical processes; and customs revenues.

21. *What were the effects on trade?*

The decline in the trade preferences provided by the Agreement has been reflected in the declining importance of the United States as a trading partner of the Philippines. The decline has been substantial in import trade. In 1956, when the Agreement first came into effect, the United States provided fifty-nine per cent (59%) of all Philippine imports. In 1966, the proportion was thirty-three per cent (33%); and in 1967, thirty-four per cent (34%). This decline, of course, also reflects the growth of Philippine manufacturing which has come to supply more and more of the final goods consumed in the country. However, the share of the United States in imports has declined at an average of six and eight-tenths per cent (6.8%) annually—much faster than the overall rate of import substitution which was about one per cent (1%) for the same period. In exports, the decline was not nearly as large. The United States purchased fifty-four per cent (54%) of all Philippine exports in 1956, forty per cent (40%) in 1966, and forty-three per cent (43%) in 1967. It is in this area that any revision of the Laurel-Langley Agreement would cause the greatest dislocation. Neither the composition of Philippine exports, nor their principal outlets have changed markedly over this period. Whether they will change much in the near future depends on the success of the current export promotion program.

22. *What imports from the U.S. have been affected?*

The United States remains the principal supplier of the Philippines of both producer and consumer goods. The composition of goods imported from the United States has, of course, changed dramatically over the last decade; but while this has affected some American suppliers adversely, it has benefited many others.

Some additional points should be noted: the Philippines imports so many commodities from the United States that no single American com-

modity accounts for more than two and five-tenths per cent (2.5%) of imports from the U.S. Also, total Philippine imports have continuously been increasing, but in spite of the special advantages enjoyed by the United States in the Philippine market, other countries have been making greater advantage of this expanding market.

During the period 1956-1966, total imports from the United States declined by six per cent (6%), but the fifteen (15) principal imports increased by eight per cent (8%). Commodities which registered substantial declines in importation were dairy products—sixty-five per cent (65%); textile yarns, fabrics and made-up articles—sixty-five per cent (65%); and base metals—sixty-three per cent (63%). On the other hand, importation of the following commodities increased considerably: textile fibers not manufactured into yarn—by 270%; explosives and miscellaneous—109%; and cereal and cereal preparations—172%. The tremendous increase in importation of textile fibers not manufactured into yarn—coupled with the decline in importation of textile yarns, fabrics and made-up articles—reflect the integration, and the expansion of the Philippine textile industry.

The commodities which suffered the largest declines—in terms of percentage points—were transport equipment; scientific and controlling instruments; dairy products; electrical machinery and explosives; and miscellaneous chemical materials. In 1956, the United States supplied seventy-eight per cent (78%) of total Philippine importation of transport equipment; in 1966, it supplied only thirty-five per cent (35%): representing a decline in relative share of forty-three per cent (43%). Trade in this commodity group shifted to the United Kingdom, Japan and Germany. Similarly, the relative share of the U.S. in the importation of professional, scientific, and other controlling instruments declined from ninety-five per cent (95%) to fifty-seven per cent (57%), with Japan and Germany mainly benefiting from the shift in trade. In the case of dairy products, the decline in the percentage share of the U.S. from seventy per cent (70%) to twenty-six per cent (26%) resulted in the increase in percentage shares of the Netherlands and Australia. The share of the U.S. in the importation of explosives and of other chemical materials likewise contracted from eighty-two (82), to forty-two, per cent (42%), with Germany, Japan and the United Kingdom getting most of the shift in trade.

The Philippine market for foreign goods, no doubt, will continue to expand with the growth of the economy. But with the cost of American goods in the Philippines increasing progressively with the elimination of their tariff preferences, an increasing proportion of the country's import requirements will likely be supplied by Europe, Japan and Australia. Traders in the United States—in order to retain their premier position in the Philip-

pine market—will have to intensify their sales efforts unless the existing trade preferences are continued.

23. *Has the Agreement helped Philippine industrialization substantially?*

The Philippine manufacturing sector has grown rapidly since the Laurel-Langley Agreement, but the Agreement seems to have had little to do with this growth. Vigorous internal policies for the development of the manufacturing sector were the causes of the expansion in the 1950s, not special trade arrangements with any country. No specific mention of manufacturing was made in the Laurel-Langley Agreement, except for such traditional exports as sugar and coconut products which are more properly called primary rather than manufacturing industries.

To earn the foreign exchange she needs for her current economic program, the Philippines must promote the production and the exportation of non-traditional products particularly manufactured. Of these, only plywood and canned pineapple have found their way to the U.S. market, and only in very limited quantities. Philippine plywood, moreover, is threatened by the discriminatory tariff change the U.S. has recently effected.

24. *Has the Agreement promoted an inflow of new and necessary American investment?*

American investment in the Philippines, while concentrated in key sectors, has been small—less than two per cent (2%) of the total investment. More important, it seems to have been generated less by the Parity provisions of the Laurel-Langley Agreement than by restrictions on the repatriation of earnings during the period of controls: restrictions which were completely removed in 1962. New American investment has fluctuated around in an annual average of approximately less than U.S. \$1 million during the period of the Agreement. This represents about one-fourth of one per cent ($\frac{1}{4}$ of 1%, or .25%) of the annual investments required to support the current economic program. The Chinese—who do not enjoy the same advantages—have contributed about six (6) times as much investment as the Americans.

25. *What has been the effect of the Agreement on Philippine government revenues?*

Import duties are, of course, the form of government revenues directly affected by the preferential arrangements of the Agreement. These account for about one-fifth ($\frac{1}{5}$) of total Philippine government revenues: they

thus contribute, in proportion, about ten (10) times as much to the Philippine government as they do to the American government. Also, as a proportion of total imports, the Philippines does about forty (40) times as much trade with the United States as the United States does with the Philippines. Thus, the revenue loss from the Agreement would affect the Philippine government about 400 times as seriously as they would affect the American government.

During the period 1955-1966—according to estimates prepared by the Tariff Commission, and as converted at the prevailing exchange rates—the tariff preferences of the Laurel-Langley Agreement cost the Philippine government approximately U.S. \$253 million. This amount, by itself, would have been sufficient to finance two-and-a-half (2½) years of the Philippine government's four (4)-year capital development program.

V. THE NEW AGREEMENT

26. *How did discussion of a new agreement begin?*

Economic relations between the Philippines and the United States were, of course, one of the main topics of discussion during the state visit made by President Ferdinand E. Marcos of the Philippines to the United States in September 1966. The existing Agreement provides for discussion of a replacement in 1971 or earlier. In a joint communique issued 15 September 1966, the Presidents of the Philippines and of the United States announced agreement on an "early beginning" of inter-governmental discussions of a new agreement.

27. *What has happened since the joint communique?*

Shortly after the state visit, an inter-governmental body was formed called the *Joint Philippine-United States Preparatory Committee for Discussion of Concepts Underlying a New Instrument to Replace the Laurel-Langley Trade Agreement*. The Chairman of the Philippine Panel is Cesar E. A. Virata, Chairman of the Board of Investments; and his American counterpart is Eugene M. Braderman, Deputy Assistant Secretary of State. The Joint Committee has met twice: the first time in Baguio City, Philippines in November 1967, and the second time in Washington in October 1968.

28. *What has been the result of the meetings of the Joint Committee?*

The Joint Committee has done as much as it can at its level to identify non-controversial areas between the two countries which will have to be

reviewed by the negotiating panels, and to specify what issues must be resolved by negotiation. After the meeting in Washington, the Joint Committee decided that further meetings would not be necessary, and that negotiations could begin as soon as both governments thought that the time is appropriate.

29. *What are the factors affecting the new agreement?*

The Philippine economy has, of course, changed since the Laurel-Langley Agreement was signed, and there have also been some relevant international developments. In general, the factors that affect the new agreement may be divided into four (4) groups: (a) current Philippine opinion about the existing Agreement; (b) the present state of economic development and the current economic program of the Philippines; (c) the new incentives offered to foreign investors under the *Philippine Investment Incentives Law*; and (d) the impending grant of non-reciprocal preferences to all developing countries under the United Nations Conference on Trade and Development (UNCTAD).

30. *How do Filipinos feel about the Laurel-Langley Agreement?*

In a free democratic society like the Philippines, there are bound to be different shades of opinion: many Filipinos, for example, have good customers in the United States. But there is an opinion that may be taken as the view of the majority: as expressed in the leading newspapers, and by the people's elected representatives in Congress. This opinion is that the political concessions to the Americans—first secured in 1946, and renewed under the Laurel-Langley Agreement—were extracted at a time of severe economic difficulty in the Philippines. Furthermore, in spite of the special advantages they enjoy, Americans have not responded with conspicuous rapidity to the changes in import demand, and in types of new foreign investment required by the recent economic development of the Philippines. Other nationalities, not specially favored, have begun to replace the United States as contributors to Philippine economic development. It should be noted that these contributions are in the form of commercial activity, not economic aid. The Philippines—for at least the last ten (10) years—has received only token amounts of foreign aid—most of it in the form of technical assistance. At the present time, in fact, the rate of repayment of Agency for International Development (AID) loans exceeds the rate at which new loans are being granted; so that the net flow of "aid" is negative.

Finally, the Filipinos have noted that the center of American interest in Asia seems to be shifting toward nations which are less friendly to the United States, and less democratic in government. The Philippine govern-

ment has accordingly begun to look toward other nations, and other political groups for new trading-and-investment partners.

31. *What are the goals of the current Philippine economic program?*

The current economic program has—as a basic target—an annual growth rate of two and five-tenths per cent (2.5%) in real per capita income. This implies that real gross national product must increase at the fast average of over six per cent (6%) annually, and requires large amounts of both domestic investment and foreign exchange. While the investment requirements are large, domestic savings are also quite high, and growing rapidly; so that it is expected that all of the investment requirements can be supplied from domestic sources in ten or fifteen (10 or 15) years. However, the Philippines must still import some consumer goods, and raw materials and a large part of her capital equipment requirements. Philippine imports will, therefore, continue to grow extremely fast, and will exceed foreign exchange earnings from exports until the new export promotion program begins to have some substantial effect.

The main Philippine requirement, in short, is not investible resources, but foreign machinery, and some foreign technical processes.

32. *What incentives are now offered in the Philippines to foreign investors?*

The new *Investment Incentives Law* lays down a comprehensive guideline for channeling both Filipino and foreign investments into preferred areas. A long list of tax and tariff incentives is granted both to entrepreneurs, and to investors in enterprises that are “registered”, or certified by the Board of Investments to be operating in a preferred area. The strongest incentives are enjoyed by enterprises in so-called pioneer areas, i.e., manufacturing products or using technologies which are new to the Philippines, although they may already be commonly used in other countries. In the granting of incentives to pioneer enterprises, no discrimination is made with respect to nationality.

33. *How does the United Nations Conference on Trade and Development (UNCTAD) affect the new agreement?*

This international body—of which the Philippines and the United States are both members—has accepted the principle that all developed countries should grant general non-reciprocal preferences to the exports of developing countries. One complication that at first hindered the implemen-

tation of this principle is that some developing countries already enjoy special trade preferences with developed countries (e.g., the Philippines with the United States or some African countries with the European Common Market), while others do not. This was resolved at the last UNCTAD general meeting at New Delhi in February 1968—when a resolution was adopted—that these special preferences should continue, even if general preferences were adopted for a five (5)-year period, after which time the phase-out of the special preferences will be programmed, and reviewed periodically.

There would thus be no objection from this international body to the continuation of the special trading relationship between the Philippines and the United States; and other developed countries—in the context of a general system of preferences—are willing to grant the Philippines trade preferences without reciprocity.

34. *What are the Philippine trade proposals for the new agreement?*

The Philippines is interested in diversifying her export products and markets, but—because her needs for foreign exchange are so pressing—wishes at the same time to retain her traditional export markets. Accordingly, the Philippines has requested certain preferences on her exports to the U.S. until 1974, perhaps to be phased out afterwards on the same basis as the special preferences enjoyed by other developing countries.

The proposed Philippine preferences included the following: (a) freezing of Philippine preferences at the 1967 level of sixty per cent (60%); (b) fifty per cent (50%) reduction of U.S. duties of ten (10) commodities exported by the Philippines—including lauan and mahogany lumber, Philippine plywood and abaca special products; (c) tariff-free annual quotas for cigars—scrap and filler tobacco—and pearl and shell buttons; (d) for sugar, a higher basic quota—participation in the growth of the U.S. market—and in the enjoyment of the American premium price; (e) removal of the one per cent per pound (1%/pound) duty on cocount oil; and (f) for such re-exports as garments and embroideries—assessment of U.S. duty on value added only, excluding the cost of raw materials which are either manufactured in the U.S. or have already paid American duties. At the Washington meeting of the Joint Committee, the Philippine Panel also proposed consultations in 1974 to determine whether these preferences would continue.

It should be noted that many of the preferences would also apply to other countries besides the Philippines.

35. *In what areas of Philippine trade do the Americans seem interested?*

At both conferences of the Joint Committee, the American Panel complained about increase in Philippine duty rates which have reduced imports of some U.S. products. The Philippine reply was that the purpose of the tariff rate increases was to promote the development of industry in the Philippines; that some of the firms protected by the higher duties were American-owned; and that total imports from the U.S. have continued to increase. It is only their composition that has changed: from finished consumer goods toward raw materials and capital equipment.

The American Panel also asked better tariff treatment of the following American commodities: tobacco, soya bean oil, tallow, linseed oil and textile remnants. Only one (1) of them—textile remnants, accounts for more than one per cent (1%) of total Philippine imports from the United States; linseed oil imports are only four-hundredths of one per cent (0.04 of 1%); and the total of the five (5) commodities is a little over four per cent (4%) of total Philippine imports from the United States.

36. *How does the Philippines propose to treat new and existing American investments?*

The Philippines proposes to treat new and existing American investments after 1974 on the same basis, and under the same guarantees as other foreign investments. Philippine reception to foreign investment is selective. Under *Republic Act 5186—the Investment Incentives Act*, foreign investors are offered national treatment for ten (10) years in the areas designated as "pioneer" by the Board of Investments. In non-preferred areas, foreigners are offered fewer incentives than nationals; and, of course, enterprises are subject to the nationality requirement in a few reserved areas such as exploitation of natural resources; retail trade; rice and corn; trading; fishing; communications; and air and water transport.

American businessmen already in the Philippines will continue to be treated under the terms of the Agreement like Filipinos: for as long as the Agreement is in effect. At that time—according to the executive position of the Philippine government—rights granted under the Laurel-Langley Agreement will terminate. This is, however, a legal issue on which both panels of the Joint Committee have agreed to accept the ruling of Philippine courts.

37. *What will be the likely form of the new agreement?*

Both panels of the Joint Committee foresee that the prospective agreement would contain two (2) types of provisions. The long-term provisions—

which will continue in effect after 1974—would remove special treatment on both sides. The transitory provisions: such as the Philippine request for preferences until 1974, were left as negotiable issues to be decided by the negotiating panels.

The Philippine Panel

Chairman: Cesar E. A. Virata

Vice-Chairman: Wilfredo Vega

Members: Ruben Alvarez
Antonio V. Ayala
Bernardino Bantegui
Pacífico A. Castro
Ramon K. Katigbak
Efren I. Plana
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