

## THE ECONOMIC FUTURE OF THE PHILIPPINES: A SKETCH

By

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With the recent changes in the administration of the Philippine government and with the adoption and implementation of reform policies, the long needed reforms which had not been enacted by the Congress were decreed into law by President Marcos when he adopted emergency measures last year, September 1972. An array of reforms, namely: (1) the adoption of a new constitution; (2) government reorganization; (3) agrarian reform; (4) judiciary reform; (5) educational reform; (6) tax, investment and financial reforms, and many other changes were all designed to correct our shortcomings in the past and to strengthen the thrust toward achieving the goals of a reformed society. The economic policies on savings, investment production, and trade have become more rational, less emotional, and more responsive to developments both internally and externally. These reforms will thus bring about faster growth of the economy (average real growth in the 1960's was 6%) together with a better distribution of income, thus ensuring long term stability and growth.

Instead of drawing a trend line for the past structure and its performance, this paper will sketch the human and natural resource basin of the Philippines together with the long term programs and plans so as to provide an ample basis for projecting the results of the newly adopted reforms. Forecasting the economic interactions with the external world is difficult but will nevertheless be attempted.

### The Population Base

The population of the Philippines in 1973 is estimated to be 40 million and is growing at the rate of 3.1%. The Philippines ranks 16th among the most populous countries of the world. With the present population program it is expected that the rate of population growth will be reduced to about 2 1/2% per year in two decades. On this basis, the population will be doubled to 80 million people by the year 2,000, resulting in a density of about 260 persons per square

kilometer or slightly less than the population density of Japan now. The median age of the population which is about 17 years now, will probably increase to about 20 years by year 2,000, considering slower population growth and longer life expectancy. The dependency ratio which is now relatively high at 87/100 (about average for developing countries) will improve to about 70/100 as compared with developed countries' dependency ratios ranging from 57/100 to 63/100.

Nurturing, feeding, educating and training the young population base requires substantial national effort. The student population of the Philippines in 1973 is slightly over 11 million, with 1 million at the college level. The heavy investment in education will continue since education is a Philippine obsession. There are growing indications that the secondary levels of education will have more balanced programs in academic and technical or vocational education thus preparing the young labor force for work on the farm and in the factories. The admission to college education will become more selective and restrictive than at present. The policy of the Philippine government to place great emphasis on education has of course produced a high literacy rate of 72%, ranking the Philippines among the first four or five English speaking countries throughout the world. Education has enhanced the training of skilled workers, enabling the attainment of productivity levels with a relatively short period of time. The mixture of many races, a blend of the East and the West, and the perennial destruction wrought by a harsh environment (typhoons, earthquakes, droughts etc.) have endued development of certain traits in the Filipinos that enable them to be at their best under stress. They are enterprising and motivated to improve themselves. Thus, you find Filipinos investing domestically in neighboring countries in South East Asia: Filipino seamen across the seas, engineers and construction men scattered throughout the world seeking for improvement. For these same reasons, many have gone into the professional fields like doctors, nurses, lawyers, accountants and management workers. They have a gifted mechanical aptitude, one evidence of which is illustrated in their success at immortalizing the World War II military jeep. They are patient, hospitable and of course have an ear for music. Thus, throughout Asia and other parts of the world, one is likely to run into musicians from the Philippines.

In summary, the population growth pressure will continue. Keeping our people trained and employed as assets to society will require major investments and rapid growth of the economy. At the same time the population base will provide a larger market base as

well as a potent labor force in this region for labor intensive mechanical, electrical, and service industries. The twin approach of reducing population growth and faster economic development especially in the rural areas will ultimately result in higher net per capita income.

### Resource Base and the Corresponding Development Plans

As an island country within the tropical, typhoon and earthquake belt of the West Pacific area, certain natural difficulties are normally encountered. On the other hand the Philippines is endowed with rich soil, inland fishing resources, dense forests, a high degree of mineralization (like Chile on the other side of the Pacific) possibly including the underseas, and is centrally located in East Asia. In addition, the geological strata which are oil bearing in Indonesia, Brunei and Malaysia also extends to the Philippine territory; we are hopeful that the oil exploration and drilling activities will result in oil discovery in commercial quantities in the near future. About one third of the area of the Philippines is utilized for agriculture, about half in forest land, and the rest for other uses — mineral, swamps, urban areas, urban areas, etc.

Forest resource exploitation has proceeded at a fast pace in the last decade. Policies of selective logging, reduction of exports of logs, more processing of wood products (plywood, furniture), replanting, improvement of cutting cycles, etc., will result in sustained yields. We are fully aware that deforestation will have disastrous effects including soil erosion, flooding, changed weather patterns, lowering of water table, and rendering land barren. The logged over areas close to the road networks within the forests are to be replanted with pulp wood or fruit trees thus enhancing the pulp and paper industry and its derivatives, as well as generating additional income from fruit crops. Considering that pulpwood grows twice as fast in the tropics as compared with colder countries, natural advantages could be gained in enlarging the pulp and paper industries in the Philippines.

As a natural consequence the exposure of forest land to human activity shall lead to the further examination of land resource for optimal utilization either for agriculture, reforestation or for mineral development. To cite an example, in one of our timber areas in the island of Negros, a huge copper deposit was found recently. The extent of the deposit and the cost of development is now being evaluated.

Being an island country, mineral development is not saddled with heavy infrastructure investment, since access to water transport is easy thus enhancing the competitiveness of the mineral industry in the Philippines. Of course, lower labor costs will contribute to the profitability of such ventures.

The mineral exports of the Philippines, especially the non-ferrous metals, is expected to increase steadily in 1974. By then, pure nickel will be exported. Other developments in the mineral-metallurgical industries will follow as copper smelting and refining, aluminium smelting, and blast furnace are all in the last stages of commercial feasibility studies. The Philippines is pursuing an industrial development policy which is natural resource based.

If oil is found, we have plans for a rapid development of the fertilizer and petro-chemical industries. The periodic expansion of the existing petroleum refineries will continue and building of new refineries in the other islands of the southern Philippines is under consideration.

The known coal resources are meager and of low quality. This coal is used basically as boiler fuel and cannot be utilized as a major source of industrial energy.

Turning to agricultural development, it is expected that the share of agriculture in the GNP will decline as the mineral, industrial, commercial and service industries develop much faster. Growth of agriculture in the past had been due to expansion of farming areas. At this stage the rate of increase of farm land area will be much less. More intensive agricultural techniques will have to be adopted. Basically more agricultural infrastructure such as irrigation and drainage systems will have to be built. More fertilizers and agricultural chemicals, better yielding seed varieties, agricultural machinery, extension work, and a spread of cooperatives and financial institutions are the general requirements for intensified agriculture. They are also the elements of agrarian reform and development.

The Philippine food imports are largely cereals and dairy products. Considering over-all production and trade, the Philippines is a net food exporter (coconut products, sugar, fruits). There is no doubt that the *food* and *feed* production complex should be improved to cope with the increasing population and export demand for these products. Agriculture, livestock, fishing and food processing indus

tries are basic in the development plan. Considering the environmental factor, these are low pollution industries and are labor intensive which suit Philippine objectives.

In the field of fiber crops, abaca, which in the past was mainly used for rope making, is now being utilized as a good raw material for high wet strength paper. More uses for this type of paper will be found. On the other hand, other fibers such as cotton will still be mainly imported.

In fishing, deep sea fishing will have to be improved. The swamp areas will be converted into ponds wherein fish and shrimps will be cultured. At present, the Philippines is one of the leading countries in, fish culture and is starting to be a shrimp exporter. An adjunct to the development of the fishing industry is the expansion of the building of fishing boats and refrigeration industries. As for protein foods, it is projected that imports of cattle and dairy products will continue for some time.

With reference to energy requirements, the reliance on fossil fuels and hydroelectric development will continue in the 70's. Beyond the 70's nuclear and geothermal energy will contribute increasingly to the supply of power. The hydroelectric potentials are relatively limited considering the island structure of the Philippines. Further integration of the circuits will be possible only on the major islands. Electrification is a major program since only 7% of the population is serviced by electricity at present. Extension of electrical services to many islands will enhance electrical appliance demand and will contribute to dispersal of industries.

Aside from engaging in population and resource based industries, the Philippines, as a private enterprise, will also explore areas for joint ventures with foreign capital. Initially, foreign capital can control 100% of the equity of a pioneering industry but it is obliged to tender shares to the investing public after ten years of operation. More and more companies are being required to sell shares to the public since dispersal of equity ownership is desired. In addition there are fiscal incentives to investors for investing in preferred industries.

Industrial reorganization has been initiated. A more rational approach to the introduction of plant capacity has been adopted by the Board of Investments. I believe that this type of control over capacity is necessary and this procedure will continue in the future.

Together with tariff policy that allows for pre-operating tariff protection, the start-up problems of new industries will be minimized. On the other hand franchise granted does not become a license for production inefficiencies and mono- or duo-pollistic profits. The initial tariff protection, generally speaking, will be reduced over a reasonable time period. High tariff is a drag to the export sector.

As far as preferred areas of investment are concerned the engineering industries, the manufacture of cars, trucks, and appliance components will grow rapidly. Complementation of industries with other countries of the Pacific Basin are welcome. Adequate preparations have been made to offer incentives in these industries including appropriate tariff modification to suit such arrangements. Again, considering the island structure of the Philippines, shipbuilding of inter-island ships and bulk carriers are in the preferred list of industries. The other industries that will develop at a faster rate are the construction industries; earth-moving dams, canals, housing sites and road construction; housing and building construction; and the service industries like tourism. The tourism program is based on the natural beauty of the Philippines, the many islands, the beaches, and above all, the hospitality of the people.

The Philippines will be a site of international conventions as there are immediate plans to build a convention center that can house large international meetings. This will serve as an infrastructure for the hotel industry. The tourists also will have the opportunity to enter or exit at different airports as airports in the south are being upgraded for international carriers.

The telecommunication industry will also be rationalized. Interlinking, avoidance of circuit duplication, modernization of equipment will have to be done. External financing for projects of this type is high.

In finance, the Philippines will continue to have a flexible exchange rate policy, adjusting it whenever desirable. Her tax policies will be moderate, progressive, and in step with the region, although we are seeking cooperation on a more rational tax policy on fiscal incentives. We seek financial sources for development from countries where we import our equipment requirements and from official and multilateral sources under DAC terms for infrastructure and integrated rural development projects. We control carefully the debt service pattern resulting from our loans abroad. The thrust

toward export oriented industries assures the repayment capacity of the Philippines. The strengthening and expansion of the financial institutions will provide facilities for gathering national savings which in turn forms the domestic credit base. It is estimated that the fixed capital formation will be maintained at about 20% of GNP.

In trade, the Philippine objectives are to diversify her trade further in terms of products, especially the non-traditional products, and in trading partners. We wish to start immediately on a preferential basis trade among the ASEAN members on a temporary or provisional list. The more active participation of China in foreign trade will produce new patterns. With the developed countries we are hoping that the implementation of the generalized system of preferences (GSP) will bring forth opportunities for trade in manufactures and semi-manufactures and agreements could be reached to remove non-tariff barriers. The Philippines will have to rely more on this GSP rather than bilateral preferential trade.

The complementation plan in industry in effect induces trade among participating countries. The development of more export processing areas in the Philippines will provide opportunities for labor intensive export products to be manufactured/assembled in the Philippines for re-export. The combined policies of having a flexible exchange rate, low labor cost, and the promotion of export substitution industries make the Philippines a good base for export industries.

Imports will largely be equipment, spare parts, and industrial raw materials. The importation of consumer goods is relatively low and accounts for about 10% of imports only. Total imports is about US \$1.2 billion in 1972 and shall increase at a rate corresponding to the increase in GNP.

Since price is an important consideration, the Philippines will look for competitive sources and for the best financial arrangements, with the possible exception of equipment and spare parts which are bought from the original manufacturers.

In summary, the coordinated reforms which have been set into motion recently are all designed to increase rural incomes and industrial activity, thus narrowing the gap between the rural and urban sectors and resulting in a better income distribution. With a more even distribution of income the wage good industries can develop rapidly because of an expanded market. With a present per

capita income of US \$ 240 and with estimated growth rates ranging from 6% to 10% per year, the GNP per capita can double within 10 to 12 years. Coupled with a population increase of about 13 million per decade, the overall substantial increase in the domestic market will treble in the next decade.

This is how I envisage the economic future of the Philippines.