University of the Philippines in 1917, 18 years after the start of American occupation and nine years after the establishment of the University. The first privately-owned school of commerce was opened in 1923 by a graduate of the University of the Philippines. Business schools have fluorished, in number and enrolment (not to mention profits) since then. At the same time there was similar expansion in engineering education and other technical areas. The private higher education system in the Philippines has been lambasted both at home and abroad. Many of the censures are deserved and the suggestions for improvement and reform are well taken, but the very real and substantial benefits from the system cannot be ignored: a big pool of trained technical and managerial manpower.

It was one of the tasks and accomplishments of the 1950's to harness this resource of entrepreneurial talent and throw open wide opportunities for them. During the American period the common type of economic activity for bright young Filipinos had been, apart from government service, production of primary products in sugar, coconut, or other plantations. During the Japanese occupation a large group of buy-and-sell merchants developed and in the early postwar period these were the same businessmen who engaged in the export-import (mainly import) business and dealt in U.S. Armed Forces war surplus materials. But this was not the generation who reached out to grasp the opportunities in manufacturing opened up in the 1950's.

The complete story of the emergence of a large modern indigenous business group in the Philippines, composed of both native and ethnically Chinese Filipinos, is yet to be told, but it can already be indicated here. The control system of the 1950's gave scope for the young men with American-type training, whether they had received their training in the United States itself or at second hand in the Philippines, to exercise their talents and channel their energies. Those young men, in their thirties and forties, who were the most significant beneficiaries of the regime of the 1950's can probably be best exemplified by the group who led the Manila Junior Chamber of Commerce (the Manila Jaycees) during that period. Their names today are well known and highly respected in the business world; there is no contemporary group that occupies the same position in the world of Filipino entrepreneurship which these Manila Jaycees of the 1950's did. They were an energetic and imaginative corps, modern in manner and approach, and not only because of their initiatives and accomplishments but also through their unique position in community service through the Jaycees, they were a vivid example for the rest of the business community to emulate.

It was not only the Manila Jaycees who rose to the occasion at that time. For example there were also the textile importers and merchants, both Chinese and Filipino, whose establishments and shops were found in the dingy and crowded market section of Divisoria in Manila who got dollar allocations to set up factories (and also used their surplus allocations to bring in finished textiles or gray goods or sell the dollars on the black market).

The line of causation in this story of economic ferment is from dollar shortage and overvaluation of the peso maintained by controls, to protection by means of these controls, to import substitution with monopoly positions, windfalls, and great profits. Of course large chunks of the profits went to such luxury consumption as fabulous homes in the nouveaux riche sections of Makati near Manila, but it can hardly be denied that if not the bulk, at least a substantial portion, of the profits went to capital formation.

The Results: Industrial and Financial Development

The full effects of the efforts of the 1950's are not yet visible in the statistics for that period, nor indeed are they amply visible even now. The story of an industrial revolution cannot be told with fullest justice while it is going on; mature evaluation has to wait till the process is over or at least well underway. Nevertheless the feelings and the expressions of the participants can reveal what is happening, as was the case during England's industrial revolution. In the Philippines the exciting series of changes taking place in a charged atmosphere were obvious to the alert businessmen of the 1950's. And now in 1974 the Philippine economy is vastly different from that of 1954-- visual evidence is everywhere to the keen observer.

Notwithstanding the above limitations, at this point there are already persuasive data which will indicate roughly what has been going on. At the beginning of the period under study (1954), the economy was predominantly agricultural; agriculture accounted for 37 per cent of NDP, while manufacturing was 17 per cent and 9. services (including finance) was 39 per cent. In [illegible] engineers is was down to 32 per cent, while manufacturing w cent and services to 41.2 per cent. In 1972 the proportions were, for agriculture - 30.2 per cent, manufacturing - 23.0 per cent and services - 40.2 per cent. (Table II).

As Table III shows, manufacturing has grown faster than agriculture. This holds true even though agriculture expanded at a good rate from 1966 to 1971 (6.6 per cent) because manufacturing continued to grow at 9.9 per cent.

So much for the aggregate data, but it is instructive to examine which particular lines of manufacturing exhibited the most rapid rates of growth. What did import substitution in manufacturing really mean? From Table IV, it is seen that growth was most prominent in food manufacturing; not shown in the table is the fact that profits here were consistently at high levels. This is a significant clarification, for when the phrase "import substitution" is raised by critics, the mental picture evoked is of manufacturing of automobiles and various other durable goods which are inappropriate for a developing country with a small market. But the biggest part of import-substituting industrialization in the Philippines was in food. How can this be faulted in a tropical country with a rich agricultural endowment; how is it improper for that country to start to produce more water for soft drinks, more sugar for candy, more coconut for margarine, more celery for canned soup, more pigs for sausages, rather than importing these?

A good defense can be put up even for some lines of industry which looked questionable at that time, specifically ...tiles and durable consumer goods. As to textiles, the story of ...ction has shifted from the advanced countries to the developing ones is well known by now and it is verified in the Philippines where, after a period of learning, the textile mills are now not only filling the domestic market needs but are also exporting. The same goes for durable goods--electronic products, household appliances, even motor vehicles. The test of viability is exports of the industrial goods and these durables are in fact being exported now.

It is worth noting that in the process of learning to produce for a market which was small by the standards of contemporary industrial societies, Philippine manufacturers learned how to deal with small markets and developed a particular expertise in putting together scaled-down plants. Filipino engineers and managers, often hired by multinational corporations, have been going around Southeast Asia showing their local counterparts how to set up scaled-down plants. An interesting illustration of small scale production is the Philippine jeepney which is based on imported U.S. armed forces surplus jeeps brought in from all over the world. The estimate of output is 10,000 units a year, which is puny by comparison with production in the advanced countries. But a thriving local industry has for two and a half decades produced the Philippine jeepney which is used for basic transportation all over the country. There are even firms which fabricate jeep bodies and export them at low cost and high profit to the United States. The idea of the jeepney was taken over by Ford Philippines--and in their hands it became the Ford Fiera. It is no coincidence that the manufacturing process for the Fiera was worked out in the Philippines and it was only natural that Filipino engineers is called upon to set up the plant to produce Fieras in Thailand. It goes without saying that the Ford Fiera (as well as the GM Harabas) are conspicuous successes in the Philippines, even though annual sales volume (including exports) has been only about 7,500 units for the Fiera and 2,500 for the Harabas. For some reason this success has not yet been duplicated in the other Southeast Asian countries.

The pattern of imports also changed during the period and in fact the shift here was more rapid and more readily seen than for exports. (Table VI). In 1950, imports of consumer goods were 28 per cent of total imports and imports of producer goods (capital goods as well as unprocessed and semi-processed raw materials) were 72.0 per cent. In 1960 the consumer goods had dwindled to 14 per cent of total imports, while producer goods were 86.1 per cent (25.2 per cent of total imports for equipment and 61 per cent for raw materials). In 1970 consumer goods were down to 6.9 per cent of total imports.

This change in import pattern has been criticized as an "import dependent import substitution." In the Philippine context, what is the meaning of such a pejorative term? In the first place it has been seen that after all the biggest area of import substitution in the Philippines has been in food manufacturing. Secondly, to the extent that there has been a shift backwards to imports of raw materials, this means a more efficient use of scarce resources of foreign exchange and raw materials--the foreign ange can be stretched farther and there can be more economy in physical resources (are not conservationists so concerned with of this need today!). Thirdly, in principle what is so wrong with building an industrialization on the basis of imported raw materials as Korea and Taiwan are doing? Has this been a senseless strategy for Japan, the third largest national economy and the third largest foreign trading nation in the world? Some might say that it is a fragile foundation on which to build an advanced economy, but is there any real danger that the rugged and resilient Japanese economy will collapse? In any case Japan has always taken precautions to assure that her basic food needs, such as for rice, are largely met from domestic resources. The Philippines is even more self-sufficient in food than is Japan.

It should be noted that the 1950's saw not only the emergence of a true manufacturing sector in the Philippines, but also the rapid growth and development of a complex and comprehensive financial system, not only along traditional lines but also in new areas directed to development finance. This is probably not the appropriate occasion to chronicle the financial development of the Philippines in the last twenty years, but some of the elements of this development can be pointed out. Among these are the expansion of the commercial banking system, the rise to dominance by the Filipino banks, and the establishment of a network of rural banks and agricultural finance institutions. Then there are a whole host of development and investment finance organizations: insurance companies, private development banks and investment banks, as well as investment houses which have tied up with commercial banks to provide full service merchant banking. The stock market has broadened and an organized money market is flourishing. The financial infrastructure not only mobilized and channelled financial resources but was also a growth sector in itself. The Philippine financial system is regarded as one of the most sophisticated in Southeast Asia, especially in regard to mobilization of resources for long term investment purposes. Service exports of financial expertise are today a significant source of foreign exchange.

Filipinization

The second major objective of the control system of the 1950's was to establish a native business class and to place in the hands of Filipinos a larger share of the economic activity of their country. This was as much a political objective as an economic one, so that the measures to achieve this were political as well as economic: the 1934 Constitution which reserved the exploitation of natural resources and the operation of public utilities to Filipinos or to corporations at least 60 per cent owned by Filipinos, the retail trade nationalization (Filipinization) law of 1954, the rice and corn nationalization law of 1958, and so on. The control system was however one of the more effective measures in cultivating a modern Filipino business class. Although foreigners were usually given foreign exchange to cover their historic record of importations, often no dollars at all were given for the importation of certain items or else any increases in imports were denied to foreigners and distributed among Filipinos; or again imports of finished goods were disallowed while corresponding exchange allocations were given to new (often Filipino) firms undertaking local production.

And so the available data show that [the foreign share in Philippine economic activity is moderate, in comparison with what might be expected for a former colony. Foreigners own no more than about one-third of Philippine business; the corresponding percentages are in Malaysia 62 per cent, in Australia at least 35 per cent (62 per cent in mining), in Canada 60 per cent of manufacturing facilities.] Furthermore, as is seen in Tables VIII and IX, [the Filipino firms have been growing faster than the foreign (including multinational) firms. This means that Filipinos are taking over a larger share of their own economy. The figures do not reflect the fact that the managements of even the multinational corporations are now largely in Filipino hands.]

[Modernization of business was shown in the growth of trade chambers starting in the 1950's] In the prewar period the Chamber of Commerce of the Philippines (CCP) was the dominant forum for Filipino businessmen. The membership of the CCP was mainly mercantile in interests and outlook, so that in the 1950's the rising young industrialists (many from the Manila Jaycees) decided to form a body which would represent themselves better; thus the Philippine Chamber of Industries (PCI) was born. Today PCI counts on an impressive membership. It is not only more active than the CCP, but in the eyes of many is also more prestigious and more influential. PCI is but one (albeit the leading one) among the trade groups that sprang up in the 1950's. There were also the Management Association of the Philippines (MAP), the Sales and Marketing Executives of the Philippines, the Association of Credit Men, various industry groupings such as the textile, cement, fertilizer and petroleum institutes, and others too numerous to mention here.

The modernization of the business sector and the gradual takeover of management by Filipinos would not have been possible without a large pool of trained manpower. The Philippines, with less than 17 per cent of the population of Southeast Asia, has 40 per cent of the management personnel (Table X). The report of consultants who studied management needs of Southeast Asia in the 1970's noted that "the educational and training background of managers in the Philippines tends to be more extensive than that of managers in other countries in the region." These Filipino managers and entrepreneurs, to repeat what was said earlier in this paper, were the beneficiaries of the modernization drive launched in the 1950's. The emergence and the growth of the modern native business sector was the chief accomplishment of the 1950's and the critics of the Philippine efforts of that period have been missing the point.

The Import Substitution Strategy

It is now time to relate the Philippine historical experience with import substitution to a theoretical perspective. Knowing economic history, one would think that import substitution is a natural, if not a logical, part of the process of economic development and industrial revolution. Yet the Philippine effort at import substitution has been reviewed unfavorably, both by foreign and local critics.[10/] An early criticism spoke of economic inefficiency or misallocation of resources: typically, the control mechanism and subsequent protection through high tariffs discriminated against "non-essentials" or "luxury" goods. Because of resulting high prices for these luxuries, it was said, the discrimination actually led to domestic production of the "luxuries" even when these were produced at fundamentally higher costs than the imported products.

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A second point raised against the import substitution was technical inefficiency, that is, that plants were operating below capacity and were therefore not minimizing costs. Another criticism was that many of the industries established in the control period were engaged in mere "packaging" operations. As has been mentioned earlier, the import substitution was derided as an "import-dependent import substitution," that is, an industrialization based on imported raw materials, leading to a greater dependence on imports.

Other criticisms have been added too: a bias towards capital-intensive rather than labor intensive production; the failure to solve the unemployment problem; the aggravation of an unequal income distribution, and so on. The suggested solution is that the Philippines should have opted for export-oriented industrialization, especially of labor-intensive goods. HongKong, Taiwan, Korea, and Singapore are cited as successful examples of such a strategy of growth.

But with reference to the Philippines in 1954-1961, it would seem that on the whole the strictures do not apply. It is one matter to suggest an export-directed strategy for the present day Philippines. But at the time the early industrialization was taking place, there was near unanimity within the Philippines on the basic soundness of the development strategy, although naturally there was dissatisfaction with the implementation, especially since the controls bred corruption as well as avoidable distortions in economic activity.

In the first place, the "import substitution strategy" label seems to have confused the discussion rather than helped clear it up. Is it not true that "import substitution" has been characteristic of all the successful industrial revolutions which the world has seen so far? The relevant question it would seem is that of protection of infant industries. If the issue is put in these terms, then it reduces to one which is two centuries old, with much settled thought behind it. The broad answer to the question is that an infant industry deserves to be protected if in the long run it is economically viable. Applying that rule to the Philippines, the appropriateness of the development strategy of the 1950's should be judged not so much in broad terms but with reference to specific areas of manufacturing. That rule gives the criterion for judging the wisdom of protection of specific industries in the Philippines in the 1950's.

Linder has pointed out that the theory of comparative advantage holds for primary products and natural resource exploitation where natural endowment has been determined by geographic factors. But for manufactures, comparative advantage is something that can be acquired. And so, especially for manufactures but even also for primary products, comparative advantage is not fixed or static but is subject to dynamic change.

The emphasis in Linder's writings is on how such comparative advantage in manufactured goods is achieved. His answer is the pattern of internal demand: an entrepreneur finds it easier, more natural, less risky to produce to fill a demand in the internal market. One familiar with the mental make-up of businessmen knows how the market is a magnet to them. The foreign market carries with it many unknowns, many imponderables, many risks. Only when the internal market is mastered does the businessman venture to sell abroad. And even when there is a market abroad, the domestic market is a welcome prop to fall back on in case the foreign market flounders.

As regards export-oriented industrialization, the circumstances of the Philippines in the 1950's were different from those of HongKong, Taiwan, South Korea and Singapore. HongKong and Singapore are city states. Taiwan is a small island of 39,000 square kilometers - one-eighth the size of the Philippines - with a dense population of about 9 million at that time - a little over one-third that of the Philippines. South Korea was also heavily populated (17 million) like the Philippines, but it did not have a good endowment of other resources besides population. These countries are, to use the words of Douglas Paauw and John Fei, labor-surplus and natural resource poor economies. In these situations obviously the economic choices are desperately limited and there is no room for economic expansion other than through recourse to external markets by means of international trade.

The Philippines on the other hand is a labor-surplus but at the same time a natural resource rich economy. The population of about 25 million in the 1950's had per capita GNP of $150-220 (depending on the exchange rate used to convert peso values into dollars). This was a market a bit larger in population and in purchasing power than Great Britain at the start of her industrial revolution; the point is that it was not a negligible domestic market but was, in present-day terms, a medium-sized one. Primary products exports were expanding, especially the new exports: logs and lumber typically by 24-25 per cent per year in the 1950's and copper in the late 1950's and early 1960's by 30 per cent a year. Exports as a whole were increasing by 5.4 per cent per year.

Under these favorable conditions the options available to the Philippines were more varied than in Taiwan and the other countries. Since exports of primary products were rising at a not unsatisfactory rate, attention could be turned to the crucial effort to build a domestic industrial base and create an indigenous entrepreneurial class. The Philippines had no tradition of manufacturing and commerce (including foreign trade) by natives. As has often been pointed out, to nurture such a tradition there is no better training than "learning by doing." Those who assume that the instantaneous adjustments posited in economic theory automatically take place without even the slightest nudge to overcome inertia and other hurdles do not seem to be attuned to the real world. Both Taiwan and Korea show the importance of learning by doing, for they too had and still have ongoing import substitution movements at the same time that they are manufacturing products destined for export markets. As for HongKong and Singapore, the chief impetus for the export-oriented manufacturing has come from transplanted entrepreneurs - the displaced textile magnates from Shanghai who fled to HongKong, the foreign investors in Singapore.

Nevertheless one test of international competitiveness, namely exports, is being met; the Philippines now exports a commendable quantity and range of industrial goods. Exports of manufactures have grown from 12.76 per cent of total exports in 1954 to double that proportion, 26.7 per cent in 1972. (Table X). This is not as large, relatively as well as absolutely, as in Taiwan or South Korea, but then the Philippines is fortunate to have rich agricultural and mineral resources the products of which can be exported with great profit.

In confirmation of the Linder thesis, these manufactures which are being exported were first produced to fill home demand, but they can now be sold abroad as production has risen and domestic efficiency has been enhanced. One characteristic of these exports of manufactures is that unlike the usual pattern among newly emerging industrial nations which get started by selling cheap and shoddy goods, the Philippine products are of good quality, in keeping with the fact that they have to meet standards set by foreign firms with which the local enterprises are tied up.

Concluding Remarks

And so in the end it seems fair to say that modernization is well on the way in the Philippines. The two most modern sectors, finance and industry, have been the fastest growing in the economy. Industrialization has taken hold, even though perhaps not to the extent that it has in Korea and Taiwan and nowhere like in Japan.

For what they are worth, the data from the Annual Survey of Manufactures, shown in Table XI, indicate that manufacturing firms are getting larger in the Philippines and the contribution of heavy industry (for example paper, chemicals, and machinery) to value added is growing, not only absolutely but also in relation to light industry (such as food and textiles). In other words, there is now increasing organization of the economy as well as increased efficiency in production and management, which are parts of modernization. From here it is possible to move on to a different (and if one cares to say it, a higher) stage of development, as is in fact being done, for example by steadily growing exports of manufactures.

In this emerging industrial revolution the economic policies of the 1950's--the import substitution strategy or whatever they may be called--were a timely and a necessary stage. The 1960's and now the 1970's would not have been possible without the difficult but exciting 1950's. To use an analogy, a car has to start in first gear before it can go to second, third, and fourth gears. To prescribe that the vehicle start in fourth gear right away is futile; it will simply stall!

However a <u>caveat</u> to the favorable denouement deserves to be repeated. The 1950's themselves needed one essential ingredient, otherwise the fortunate conjuncture of forces could not have taken place. It is businessmen (not economists) who bring about development. There had to be a big complement of such actors waiting in the wings of the stage to make the period 1954-1961 in the Philippines the gripping real life drama that it was.