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NATIONAL PROBLEMS OF INTERNATIONAL TRADE FOR A DEVELOPING ASIAN COUNTRY: THE PHILIPPINES^{1/}

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If one should scan a map of the ECAFE region, one will note that the Philippines is somewhere close to, but not quite in the center of the area. Going down a line along the edge of the Pacific from north to south, with Japan at one end and New Zealand at the other, the Philippines is almost at the center. But looking from east to west, the Philippines sits more to the side than center.

The map well positions the Philippines not only geographically, but also socially and economically. Looking at the indicators, the Philippines is generally modal when compared with other Asian countries. This fact probably explains why for this conference the organizers chose the Philippines to illustrate the national problems of international trade for a developing Asian country.

Some basic statistics will describe the Philippines in relation to other Asian countries. (Table 1) The Philippine land area is 299,000 square kilometers (three-fifths the size of Thailand's but eight times larger than Taiwan). With 37.9 million people in 1971, the Philippines is the fifteenth largest country in the world in terms of population, after Mexico but just ahead of Thailand. GNP was ₱49.5 billion in 1971 or US\$7.7 billion at the then current exchange rate of ₱6.435 to US\$1.00. Annual per capita GNP was therefore ₱1,300.00 or US\$ 202.00. So far the Philippines is about average for developing countries in the region.

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TABLE I

SELECTED DATA ON ECAFE DEVELOPING ECONOMIES

| Country | Area (square kilometers) | Population in thousands 1969 | GNP million US dollars 1969 | GNP per capita 1969 | Gross Domestic Saving as per cent of GNP 1970 |
|----------------|--------------------------|------------------------------|-----------------------------|---------------------|---|
| Afghanistan | 647,497 | 16,516 | 1,400 | 85 | ----- |
| Brunei | 5,765 | 116 | 110 | 950 | ----- |
| Burma | 678,033 | 26,980 | 1,990 | 74 | ----- |
| Hong Kong | 1,034 | 3,990 | 3,100 | 777 | ----- |
| India | 3,268,090 | 536,984 | 47,670 | 89 | 13.3 |
| Indonesia | 1,481,564 | 117,610 | 12,070 | 104 | ----- |
| Iran | 1,648,000 | 27,892 | 9,110 | 327 | 18.1 |
| Khmer Republic | 181,035 | 6,701 | 743 | 111 | ----- |
| Korea | 98,477 | 31,139 | 7,108 | 228 | 20.5 |
| Laos | 236,800 | 2,893 | 211 | 73 | ----- |
| Malaysia | 332,633 | 10,600 | 3,720 | 351 | 18.1 |
| Nepal | 140,797 | 10,845 | 868 | 80 | ----- |
| Pakistan | 946,716 | 126,740 | 16,510 | 129 | 11.6 |
| Philippines | 300,000 | 37,158 | 8,138 | 219 | 20.4 |
| Singapore | 581 | 2,017 | 1,703 | 844 | ----- |
| Taiwan | 35,961 | 13,800 | 4,770 | 346 | ----- |
| Thailand | 514,000 | 34,738 | 6,290 | 181 | ----- |
| South Vietnam | 173,809 | 17,867 | 4,398 | 246 | ----- |

Sources: United Nations Handbook of International Trade and Development Statistics, 1972.

Documents for the Second Session of Expert Group on Progress Evaluation during the Second United Nations Development Decade held in Bangkok, December 11-19, 1972.

TABLE I
(continued)

| Manufacturing as per cent of GNP 1969 or latest available year | Literacy Rate 1969 or latest available year | Daily Newspaper circulation per 1,000 population 1969 or latest available year | Average life expectancy at birth 1969 or latest available year | Population per physician 1969 or latest available year | Passenger cars per 1,000 population 1969 or latest available year |
|---|---|--|---|--|--|
| 11 | 8 | 7 | 38 | 21,360 | 2 |
| -- | 43 | 71 | -- | 3,090 | 75 |
| 9 | 60 | 9 | 48 | 9,580 | 1 |
| 38 | 71 | 485 | 70 | 2,390 | 22 |
| 13 | 28 | 13 | 50 | 4,860 | 1 |
| 9 | 43 | 7 | 48 | 27,780 | 2 |
| 32 | 23 | 14 | 50 | 3,820 | 6 |
| 17 | 41 | 22 | 44 | 22,500 | 4 |
| 21 | 71 | 76 | 58 | 2,300 | 2 |
| 10 | 15 | 3 | 48 | 23,380 | 4 |
| -- | 43 | 74 | 63 | 4,940 | 24 |
| 11 | 9 | 3 | 41 | 37,790 | -- |
| 10 | -- | 6 | 51 | 6,300 | 1 |
| 18 | 84 | 27 | 55 | 1,390 | 7 |
| 18 | 75 | 154 | 68 | 1,780 | 67 |
| 20 | 85 | 64 | 68 | 1,410 | 3 |
| 14 | 68 | 21 | 56 | 7,170 | 4 |
| 11 | 60 | 70 | 50 | 10,560 | 2 |

In certain key variables however the Philippines seems to be ahead of many other Asian developing countries; examples are the saving rate and the size of the manufacturing sector. Finally in social statistics the Philippines is generally up with the leaders. This is especially true with education: 84 per cent of the people above 10 years old are literate. In other words in human development the Philippines has gone farther than most. The relatively well-developed human endowment will be referred to again, as this constitutes an advantage for the future.

Brief History of Philippine Trade

Among the primary product exporting economies of Asia, the Philippines is a relative latecomer to world trade. For over two centuries or two-thirds of the period of Spanish rule, that is, from 1593 to 1815, the Philippines was isolated from world trade almost as much as was Tokugawa Japan. The only significant impact of the Philippines in trade outside Asia was in the annual, sometimes semi-annual, sailing of the galleon from Manila to Acapulco and back. Manila was an entrepot in the trade between China and New Spain. The cargoes on the outward voyage were Chinese silks and handicraft items, and sometimes native plants. On the return trip the galleon brought government officials and soldiers, missionaries, royal ordinances, and the annual subsidy in silver coin from Mexico.

Spain lost her American colonies in the first three decades of the nineteenth century but it was not till the second half of the nineteenth century that Spaniards turned their efforts in earnest to

the development of one of their few remaining colonies, the Philippines. In 1834 Manila was opened to unrestricted foreign trade and in 1855 three other major ports were opened. New export products began to move out: sugar, raw abaca, unmanufactured as well as manufactured tobacco, rice, coffee. The subsistence crop, rice, disappeared as an export in the early 1870s: this marked the transition from a basically subsistence economy to an economy growing cash crops for export. In the mid-1880s a blight destroyed the coffee plantations, but in the next decade coconut products began to be exported. Between 1850 and 1895, exports grew five times, from \$3.7 million to \$18.8 million. Population was growing at 1.3 per cent a year but exports at 3.7 per cent a year, so that if exports are taken as a proxy for national income, clearly per capita incomes were rising. In this period exports were the leading sector.

During the American era the trends which had begun in the last half-century of Spanish rule continued: the same products were exported, only in larger quantities than ever before. In the last decade of American rule before World War II, that is, in the late 1930s, new export products began to appear, namely, minerals, chiefly gold.

The really significant development in trade in this period was not the commodity pattern of Philippine foreign trade but the geographic pattern. The Americans legislated free trade between the Philippines and the United States. Even though the tariffs were low - at the level of 10 per cent or so - the Americans enjoyed as well

as gave sufficient preferences so that the Philippines traded more and more with the United States and the economy of the colony became more and more integrated with that of the political suzerain. In 1902, 40 per cent of Philippine exports went to the United States and 12.5 per cent of imports came from there; in 1941 the proportions were 86 per cent for exports and 80.7 per cent for imports. To be sure the 1939 war in Europe and the Sino-Japanese conflict starting in 1937, followed by the U.S. embargo on trade with Japan in 1941, exacerbated Philippine economic dependence on the United States.

Rising from \$28.7 million in 1902 to \$161.1 million in 1941, exports grew at 4.5 per cent per year, while population increased at 2.0 per cent a year. Again, exports led to rising incomes. Moreover at an export level of \$161 million for 16 million people, the domestic market was large enough to stimulate local manufacturing and so the beginning of industrial production for local consumption could be seen: textiles, shoes, cement, and so on. In the American period exports were not only the leading sector but also, to use D.H. Robertson's phrase, the engine of growth.

Early Postwar Trade

The first major economic problem of the Philippines when political independence was gained on July 4, 1946 was rehabilitation after the destruction suffered during the Second World War. The other major problem, at least from a policy point of view, was the economic dependence on the United States, a state of affairs which was

TABLE II

PHILIPPINES: TEN PRINCIPAL EXPORTS

1971

(F.O.B. Value in Thousand U.S. Dollars)

| Item | Value | % |
|-----------------------------|-----------|-------|
| Total Exports | 1,121,821 | 100.0 |
| Total Ten Principal Exports | 928,230 | 82.7 |
| Logs and Lumber | 225,907 | 20.1 |
| Sugar | 212,348 | 18.9 |
| Copper Concentrates | 185,908 | 16.6 |
| Copra | 114,040 | 10.2 |
| Coconut Oil | 103,451 | 9.2 |
| Desiccated Coconut | 20,741 | 1.8 |
| Pineapple, Canned | 19,683 | 1.7 |
| Plywood | 16,406 | 1.5 |
| Copra Meal or Cake | 16,243 | 1.4 |
| Bananas | 13,503 | 1.2 |

Source: Central Bank of the Philippines, Statistical Bulletin,
Vol. XXIII, December 1971, pp. 192-208.

TABLE III

PHILIPPINES: TEN PRINCIPAL IMPORTS

1971

(F.O.B. Value in Thousand U.S. Dollars)

| Item | Value | % |
|--|-----------|-------|
| Total Imports | 1,185,959 | 100.0 |
| Total Ten Principal Imports | 924,199 | 77.9 |
| Machinery other than electric | 255,118 | 21.5 |
| Mineral fuels, lubricants and related materials | 141,233 | 11.9 |
| Transport Equipment | 122,173 | 10.3 |
| Base Metals | 90,726 | 7.7 |
| Electric machinery, apparatus and appliances | 66,286 | 5.6 |
| Cereals and cereal preparations | 65,098 | 5.5 |
| Explosives and miscellaneous chemical materials and products | 56,366 | 4.7 |
| Textile fibers not manufactured into thread and yarns | 48,836 | 4.1 |
| Chemical elements and compounds | 39,866 | 3.4 |
| Dairy products, eggs and honey | 38,497 | 3.2 |

Source: Central Bank of the Philippines, Statistical Bulletin, Vol. XXIII, December 1971, pp. 217-225.

TABLE IV

PHILIPPINES: DIRECTION OF TRADE

1971

(F.O.B. Value in Thousand U.S. Dollars)

| | Value | % |
|----------------|-----------|-------|
| Total Exports | 1,121.821 | 100.0 |
| United States | 452,741 | 40.3 |
| Japan | 391,408 | 34.9 |
| Netherlands | 76,935 | 6.9 |
| Germany | 32,192 | 2.9 |
| Korea | 28,301 | 2.5 |
| China | 19,051 | 1.7 |
| Singapore | 16,124 | 1.4 |
| Hong Kong | 15,038 | 1.3 |
| United Kingdom | 13,863 | 1.2 |
| Sweden | 7,538 | .7 |
| Italy | 7,203 | .6 |
| Australia | 4,818 | .4 |
| Total Imports | 1,185,959 | 100.0 |
| Japan | 359,100 | 30.3 |
| United States | 291,184 | 24.5 |
| Germany | 87,657 | 7.4 |
| United Kingdom | 66,847 | 5.6 |
| Australia | 47,069 | 4.0 |
| Canada | 31,037 | 2.6 |
| Indonesia | 29,333 | 2.5 |
| Iran | 27,613 | 2.3 |
| Kuwait | 27,221 | 2.3 |
| China | 26,182 | 2.2 |

Source: Central Bank of the Philippines, Statistical Bulletin,
Vol. XXIII, December 1971, pp. 154-186.

considered incompatible with political independence. A review of Philippine trade written up to ten years ago would have devoted much space to that problem. Fortunately however this does not loom so large a problem today.

Policy which was decided early laid the ground for solution of the problem of economic dependence. The Tydings-McDuffie Independence Act of 1934 which was passed by U.S. Congress and which set forth the basis for independence in 12 years included provisions designed to assist the economic transition by gradually reducing trade preferences between the two countries. This Act was followed, in the same spirit but in slightly different detail designed to bring about a less painful transition, by the Tydings-Kocialkowski Act of 1939. The war ended in 1945 and two months before independence on July 4, 1946, the Philippine Trade Act of 1946 (the Bell Act) provided a schedule of declining trade preferences over a twenty-eight-year period from 1946 to 1974. The Bell Act was amended in 1955 to incorporate provisions reached under the Laurel-Langley Agreement of December 15, 1954.

The success of the efforts to diversify Philippine foreign trade is seen in the indices of concentration computed according to the Hirschman formula. A value of 100 for this index means complete concentration on one market, while zero indicates complete diversification among an infinite number of equal trading partners. The index of concentration of exports had fallen from 74.2 in 1945 to 54.4 in 1963; thereafter the index seems to have stabilized. (see Table V) On the import side, the index was as high as 87.6 in 1945,

TABLE V

PHILIPPINES: INDICES OF CONCENTRATION OF TRADE¹

| Year | Import Index | Export Index |
|------|-----------------|-----------------|
| 1913 | 52.5 | 43.0 |
| 1925 | 59.7 | 73.9 |
| 1929 | 64.6 | 76.3 |
| 1932 | 66.0 | 87.1 |
| 1937 | 60.6 | 82.2 |
| 1938 | 69.4 | 78.0 |
| 1945 | 87.6 | 74.2 |
| 1950 | 74.9 | 73.3 |
| 1955 | 65.9 | 61.6 |
| 1960 | 50.6 | 56.8 |
| 1963 | 45.6 | 54.4 |
| 1965 | 42.8 | 54.5 |
| 1970 | 44.1 | 57.7 |
| 1971 | 40.9 | 54.0 |

Sources: A.O. Hirschman, National Power and the Structure of Foreign Trade, University of California Press, 1945, p. 105; Benito Legarda, Jr., "The Concentration of Philippine Foreign Trade, 1945-1954", Central Bank News Digest, Vol. VIII, no. 29 (July 17, 1956), p.8; and Central Bank of the Philippines.

¹"(The index) behaves in the following way: When a country's trade is completely monopolized by another country, the value of the index is $\sqrt{100}^2 = 100$. The index would assume a value of zero if we had an infinitely small share in the trade of the country examined." A.O. Hirschman, National Power and the Structure of Foreign Trade, University of California Press, 1945, p.98.

but by 1963 had gone down to 45.6. In 1971 the export index was 54.0 and the import index was 40.9. Hirschman has suggested that a value of 40 or less indicates an acceptable level of diversification. For obvious reasons the diversification has been more easily achieved on the import side.

The legislation by the United States Congress reflecting Philippine desires and American responses helped greatly to break apart the two countries. In addition the rapid postwar growth of Japan provided a large alternative market. It is significant that exports to the United States consist largely of the traditional exports - sugar (almost all Philippine sugar exports go there), copra and coconut oil, abaca, pineapple. But the exports to Japan, although also primary commodities, are new growth products - logs and lumber, copper, now bananas; these in fact have accounted for most of the postwar growth of exports. There are also new manufactured exports - plywood and veneer, garments, beer and so on, as contrasted with old manufactures such as sugar and coconut oil. So far the chief destination of the new manufactures has been the United States.

The two largest markets of the Philippines are the United States and Japan; in 1972 the United States was the largest trading partner (counting both exports and imports), but in 1970 and 1971 Japan was. Northern Europe - really Germany (either directly or through Rotterdam) - is the third largest trading partner and the United Kingdom is fourth. Australia is fifth.

Present Trade Situation

The present problems of Philippine foreign trade are reflections of postwar economic development. Recovery from damage wrought during the second World War was speedily accomplished, so that by 1953-54 exports of sugar for the first time filled the quota in the United States. Rehabilitation can be said to have been substantially completed by then. Furthermore the solutions to the problem of economic dependence on the United States had already been mapped out. As has been seen, by 1963 the indices of concentration went down to substantially their present levels. And so there was time for the next economic policy problem to be tackled, that is, economic development especially through industrialization.

Much has been written about the Philippine experience with industrial development in the 1950s, especially from 1954-1961. In that period net value added in manufacturing rose from ₱701 million in 1950 to ₱1,865 million (in 1955 prices) in 1961 and the share of manufacturing in GNP rose in the same period from 12.3 per cent to 18.9 per cent. The obvious products to manufacture were those imported consumer goods which were already accepted in the market. The chief instrument used to encourage domestic manufacturing was exchange controls; tariffs were of little importance as instruments of protection.

The industrialization efforts of the 1950s have been characterized as an import substitution strategy of development. In recent years this approach has been severely criticized in the literature

published both locally and abroad. The thrust of the criticism against the development strategy of the 1950s, apart from the economic arguments about the distortions and misallocations, is that the Philippines should have opted for manufacturing, especially of labor-intensive goods, for export. Hong Kong, Taiwan, Korea, and now Singapore are cited as successful examples of such a strategy of growth. Yet 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.

It does not seem appropriate to discuss the "import substitution" question in great detail here, but a few words may clarify the issues, especially since the Philippine experience may have relevance for the development efforts of some other Southeast Asian countries. 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 1950s 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 1950s.

Furthermore the circumstances of the Philippines in the 1950s were different from those of Hong Kong, Taiwan, Korea and Singapore. Hong Kong 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 - one-third that of the Philippines. Korea was also heavily populated like the Philippines (20 million), but it did not have much of any 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 circumstances obviously the economic choices are desperately limited and there is no room for economic expansion other than through recourse to external markets through 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 25-27 million in the 1950s 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. Primary products exports were expanding, especially the new exports: logs and lumber

typically by 24-25 per cent per year in the 1950s and copper in the late 1950s and early 1960s 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. It is wise to remember that to nurture such a tradition there is no better experience than learning by doing. Those economists who assume that the instantaneous economic adjustments posited in theory automatically take place without even the slightest nudge to overcome inertia and other hurdles do not seem in touch with the real world. Even Taiwan and Korea show this, 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 Hong Kong and Singapore, the biggest impetus for the export-oriented manufacturing has come from transplanted entrepreneurs - the displaced textile magnates from Shanghai who fled to Hong Kong, the foreign investors in Singapore.

As a result of the strenuous efforts exerted over a short span of eight years from 1954-1961, the domestic economy grew on the average by 5.1 per cent per year in real terms. Furthermore it can be said that the manufacturing sector became solidly established on a

firm base and a dynamic entrepreneurial class, the largest native entrepreneurial class in Southeast Asia, was brought into being. Since 1953 exports of industrial goods have been growing steadily; they more than quadrupled in value between 1953 and 1971 (from \$67.9 million to \$281.5 million) and the proportion of manufactured goods in total exports doubled, from 12.76 per cent in 1953 to 25 per cent in 1971. It seems natural to expect industrial goods exports to expand even while primary products exports also grow.

That achievement may seem to be respectable, but it hardly satisfies Philippine economic planners at this stage. Philippine national income must rise more rapidly than it has in the past. For a medium-sized economy like the Philippines this means that exports must increase much above the 5-7 per cent annual rate so far, otherwise they become a bottleneck inhibiting economic growth. If it is true the stage has been set for some time now for exports of manufactured goods to take on a prominent role in Philippine development, why have they not played a major part so far? More broadly, why is it that in the postwar period exports, while they have not been a lagging sector, have not been a leading sector as in the two previous epochs in Philippine economic history? When will exports be again a leading sector as well as, hopefully, an engine of growth?

The answer may well be what a well-known Filipino political scientist, Dr. Onofre D. Corpuz, pointed out in 1958 in the middle of the industrialization drive of the 1950s. The solution to Philippine

TABLE VI

PERCENTAGE DISTRIBUTION OF PHILIPPINE EXPORTS BY COMMODITY GROUPS, 1949-1971

| Year | Agricultural | Logs & Lumber | Minerals | Manufactured Articles | Special & Transactions Statistical Discrepancy | Re-Exports |
|------|--------------|------------------|----------|--------------------------|---|------------|
| 1949 | 67.04 | 1.33 | 5.76 | 21.84 | .36 | 4.2 |
| 1950 | 69.10 | 3.23 | 3.93 | 20.30 | .57 | .7 |
| 1952 | 66.07 | 5.47 | 10.10 | 18.17 | - | .1 |
| 1954 | 67.27 | 8.89 | 8.86 | 12.76 | - | 2.1 |
| 1956 | 62.49 | 10.79 | 12.58 | 13.90 | .04 | .2 |
| 1958 | 60.15 | 14.14 | 10.69 | 14.67 | - | .3 |
| 1960 | 58.51 | 16.34 | 10.99 | 13.28 | .29 | .2 |
| 1962 | 48.52 | 20.29 | 9.71 | 20.83 | .11 | .5 |
| 1964 | 47.12 | 19.28 | 8.77 | 24.45 | .09 | .2 |
| 1966 | 37.52 | 24.72 | 13.98 | 23.52 | .16 | .1 |
| 1968 | 33.86 | 25.25 | 15.11 | 24.76 | .86 | .1 |
| 1970 | 28.77 | 23.53 | 22.09 | 24.89 | .29 | .4 |
| 1971 | 32.49 | 20.14 | 20.97 | 25.09 | .54 | .7 |

Source: Amado A. Castro, Gonzalo M. Jurado, and Roberto S. Mariano, A Survey of Philippine Economic Development, 1946-1970, Center for Southeast Asian Studies, Kyoto, 1972.

economic problems, he said then, was political. By this he meant that the political processes of democracy as practised in the Philippines since independence may have led to the freest, most stable democracy in Asia, but the price paid for this freedom was the absence of a clear, let alone unanimous, national sense of direction.

The recent declaration of martial law by the President of the Philippines and the suspension, under constitutional procedures, of the normal legislative process seems to have put an end, at least for the moment, to the constant and often contradictory play of democratic political forces. An opportunity now exists to march forward in unity. At this stage of the game that does seem to be taking place. In particular in the economic sphere many concrete and rational decisions are being made which will get the economy moving. Foreign trade is recognized as one strong propulsive force and exports of labor-intensive industrial goods occupy a conspicuous place in the plans, as do also exports of primary products, especially minerals.

It is a compliment to the democratic processes of the immediate past that the problems were vividly brought to the fore, the solutions could be carefully thought out, and now vigorous steps can be taken to solve pressing economic problems. It is also a tribute to past efforts that the organizational skills and the manpower resources of entrepreneurs, technicians, skilled workers built up through mass education are available and can be mobilized effectively.

Other Issues and Problems

The future commodity pattern of trade is an issue that follows from the above discussion. Here it seems safe to say that a balance will very likely be achieved between exports of primary products and labor-intensive manufactured goods. The first of the primary products is sugar. Exports of sugar are heavily dependent on preferences in the United States which have been granted under the Tydings-McDuffie Independence Act, the Philippine Trade Act of 1946, and the United States Sugar Act. The preferences under the Philippine Trade Act lapse in 1974 and, as will be discussed below, one problem for foreign trade policy is what will happen to these preferences. But apart from this legal factor, the sugar market has been good of late and the Philippines has expanded the sugar crop available for export. Another primary product export is minerals. It can be predicted that exports of minerals, especially copper and nickel, will rise as vigorous expansion efforts now underway bear fruition. As for bananas, exports of these to Japan are programmed to increase till the Philippines becomes the major supplier to that country. The coconut products market also looks good at present, although the presence of aflatoxin, a toxic agent which appears from fungi, will cause problems in the future unless this is dealt with decisively. Only exports of logs face a bleak future as under present plans log exports will be banned in three years; however veneer and plywood exports are supposed to take the place of log exports. Other minor raw material exports also seem to enjoy good prospects. In a word, exports of primary products will in all probability continue to grow at satisfactory rates and will still account for the bulk of Philippine exports for some time to come.

Exports of manufactures have been growth leaders in Hong Kong, Taiwan, and other Asian countries, not to mention the developed countries. As expected therefore in the Philippines there are exhortations to expand exports of manufactures, especially of labor-intensive commodities. It has been seen that manufactured products now constitute a quarter of total Philippine exports, but this is nowhere near the proportion of approximately four-fifths in the case of Taiwan. Measures are being taken to encourage such exports; for example welcomes are being extended to foreign investors in electronics and garment manufacturing. But in the foreseeable future exports of manufactured goods cannot be expected to loom as large, in proportion though not necessarily in value, as in Taiwan and Korea. The Philippines is fortunate, as has been pointed out above, to have adequate endowments of exportable primary products. It is also noteworthy that a significant proportion of Philippine manufactured exports - beer, pharmaceuticals, embroidery, sanitary wares and so on - are items of relatively high quality. Also the values added in domestic manufacturing are greater than when the country is merely a processing center for imported inputs, as is Korea for a large part of her exports.

The issue of preferences has already been adverted to. This means in particular the Philippine Trade Act of 1946 (as amended) which lapses in 1974 as well as the proposed Treaty of Amity, Commerce and Navigation with Japan. It has been seen that on the one hand Philippine policy has been to reduce the economic dependence on the United States. For its part the United States for several decades now

has been committed to general preferences; in official pronouncements the preferences which were being given to the Philippines were declared to be exceptions and residuals intended to ease an economic transition and they were eventually to be dismantled. From a practical point of view however, so far as the Philippines is concerned it is extremely convenient to have a guaranteed foreign market for a country's exports, even if those products could compete under free market conditions. Thus the latest expressed sentiments, for example at a recent forum of the Council for Economic Development (CED) in Manila, called for negotiation of "another special relations treaty, not necessarily following the pattern of the Laurel-Langley agreement, but embodying some form of preferential trade treatment by way of special bilateral tariff and quota arrangements." Whether or not such a desideratum can be achieved will be determined at the negotiating table, presumably in the near future.

As for the Treaty with Japan, a firm conclusion does not seem quite so clear. This treaty has been pending for over twelve years since it was negotiated in 1960. The Japanese Diet ratified it, but the Philippine Senate for a long time did not act on it and in fact in the 1972 session, the Senate Committee on Foreign Relations resolved explicitly to shelve action on it. An argument in favor of the treaty is the need to normalize economic relations with one of the Philippines chief trading partners, Japan. Furthermore a welcome mat has now been spread out for foreign investors and the Japanese are on all grounds valuable potential business partners. On the other hand, there are

objections to specific provisions of the treaty, such as most favored nation treatment, the absence of escape clauses on trade, and uncertainty about safeguards in regard to reciprocity provisions in the proposed treaty. Furthermore there is a continuing general distrust of and antipathy towards Japanese business and the recent outburst of anti-Japanese sentiment throughout Southeast Asia has rekindled these negative reactions. The CED forum mentioned above suggested ratification of the treaty with reservations. However it is not obvious why it should be so necessary or even convenient to ratify the treaty. The Japanese have done very well in their business activities with the Filipinos even without the treaty and the fact that they have been kept at bay may well account for their low profile in the Philippines which has spared them virulent attacks such as recently seen in Thailand.

This leads to another question which, fortunately, seems to have been settled, at least for the present. The issue is the role of foreign investment in Philippine economic development. Prior to the declaration of martial law in September, 1972, no consensus could be arrived at: on the one hand responsible businessmen, economists, and government leaders appreciated the potential contribution from foreign business partners. However economic nationalism, usually preached by non-economists, stridently denounced foreign intervention or even participation in Philippine economic life. To be sure, Filipinos have always been somewhat more nationalistic in economic affairs than other Southeast Asians; the 1935 Constitution contained some

path-breaking provisions of economic nationalism. But the situation before martial law was probably going to lead to an ever more restrictive view towards foreign investment. Since September 1972 however a more reasonable attitude seems to have taken over. Foreign investors are definitely welcome, on terms which adequately protect Philippine interests.

Finally a matter which should and will deserve more attention, for the Philippines as well as for the rest of Southeast Asia, is international economic cooperation, especially through ASEAN. Regional and in this case, sub-regional, cooperation is a question which has been discussed extensively in the economic literature, including that within the ASEAN region. The economic benefits from economic cooperation, including preferential trade arrangements, among the ASEAN countries can be substantial. The possible avenues of collaboration include sub-regional payments schemes, unified action with regard to exports (such as coconut, timber, and rubber) as well as common negotiations with the EEC, uniform investment incentives for foreign investors, coordination of air transportation and shipping, mutual preferences in tariffs and other trade aspects, and complementation in manufacturing.

So far ASEAN affairs have been directed by diplomats and cultural attaches, rather than by Economics ministers and businessmen. Yet it would seem that the most concrete gains in the future can be reaped in the economic sphere. Economic planners as well as forward-looking businessmen in the Philippines are clearly aware of these

possibilities; there are enough businessmen and professionals (such as accountants and financial experts) in the country who have multi-national connections and interests. Thus it is a cheering prospect for the future that these Filipinos will be playing constructive roles not only within their country and in Southeast Asia, but through a strong ASEAN, eventually perhaps in the world at large as well.