

From: The World and Asia 1974

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THE PHILIPPINE ECONOMY

The thrust of the Philippine economy in the second half of the present century has been structural change, a movement which calls to mind a similar one that took place in the nineteenth century.

In the middle of the nineteenth century, the Philippines under Spanish occupation experienced a belated awakening. In 1855, three major ports were opened to foreign trade, thereby signalling the start of modernization according to nineteenth century standards. Within twenty years after the opening of the country to foreign trade the Philippines was transformed from a subsistence economy to an export economy, growing primary products (abaca, sugar, coconut, coffee and other commodities) in exchange for the finished consumer goods of the West.

This was the pattern of the Philippine economy for the next hundred years into the middle of the twentieth century. It was not an unfavorable pattern for in the 1934-38 period Filipinos enjoyed the highest levels of living in Asia after Japan. But the second World War meant a break in this peaceful pattern of life; the destruction of productive capacity, the attainment of political independence, population growth, the disappearance of unsettled frontier areas, rising aspirations and other factors made the prewar pattern of the economy clearly unsuitable. Thus in the 1950's and after the task has been to turn the face of the economy to the twentieth century, to modernize and to build a national economy.

In the prewar period, as has been indicated, the modern productive sector of the economy was export agriculture. Now it was necessary to bring technology to three other sectors: industry or manufacturing, domestic agriculture, and mining.

The Setting for Change

The export orientation which was built up in the nineteenth century carried some of the seeds which bore fruit in the twentieth century. From an economy with very little commercial contact with the outside world other than an annual (sometimes twice annual) sailing of a galleon from Manila to Acapulco in Mexico and return, now with the opening of the ports (Manila in 1834 and many others from 1855 on) more ships came to call. The completion of the Suez Canal in 1869 and the advent of steamships shortened the voyage to Europe. The expansion of foreign trade was a spur to domestic development, though perhaps with less dramatic effect than in the regions of recent settlement--Australia, New Zealand, Canada, Argentina and similar outlets of Western colonization. By the 1870's the Philippines had changed from an isolated community to one with perceptible monetization and commercialization. Such a movement inevitably led to expanded economic activity.

At the end of 1898 the United States took sovereignty over the Philippines from Spain and the process of foreign trade expansion set in motion under the Spaniards continued. Free trade was legislated between the Philippines and the United States and this stimulated foreign trade. Economic growth can be seen in the area cultivated to export crops: in 1902 the area cultivated to the four

principal export crops (sugar, coconuts, abaca and tobacco) was 469,357 hectares; in 1918 this had jumped to 1,070,264 hectares and in 1939 it had grown further to 1,630,361 hectares or more than three times the area in 1902.

Moreover the Americans were carrying forward investment in other areas such as infrastructure. The highway system had been rudimentary under the Spaniards but in 1931 there were already 14,332 kilometers of roads and in 1940 the highway system extended over 22,960 kilometers.

But probably their most significant contributions were in human development, especially in two areas: training in self-government and establishment of a system of mass education. As regards the first area, in May, 1899 or a few months after they took over, the Americans appointed a Filipino President (later Chief Justice) of the Supreme Court along with five other Filipinos in a nine-man court. A Philippine Commission was organized in 1900 to be the legislative body of the country and in 1901 three Filipinos joined five Americans in that body; in 1913 Filipinos became a majority on the Commission. In 1907 a Philippine Assembly of 80 members was elected to serve as the lower house of a bicameral legislature; later when in 1916 the Philippine Commission was abolished, the Philippine Assembly took over as the sole legislative body. All throughout the period the process of Filipinization of the Civil Service was pressed.

On the other front, education, the American record of human investment was even more dramatic. Even towards the end of their tenure, the Spaniards had spent only 4 1/2 per cent of the government

budget on welfare and development (including education). The Americans devoted much more than that: typically one-fifth to one-fourth of total government spending was on education. In 1898-1900, only 0.10 per cent of the population were attending public schools; in 1940-41, over 12 per cent of the population did.

And so on the eve of World War II in 1941, the population of the Philippines was over 16 million. Exports totalled \$161 million compared to about \$23 million in 1900, a seven-fold increase. In 1903 only 32.2 per cent of persons above 21 years were literate, but in 1939 the literacy rate was close to 50 per cent of all persons 10 years old or over. In technical terms, during the American period the prerequisites or pre-conditions for economic development were fulfilled.

The Postwar Situation: Rehabilitation, 1945-54

When World War II ended the Philippine economy as a productive organism was a shambles. At the same time certain forces made structural change necessary. In the words of one commentator, these factors could be summarized as seven D's: Diplomacy, Defense, Demography, Democracy, Development, Deficits, and Disruption.

The Philippines became politically independent in 1946 and therefore had to undertake certain additional responsibilities by 1954; itself, namely Diplomacy and National Defense. Demography refueled the growth of population which pressed on available resource level that the underpopulated frontier areas in the southernmost Mindanao as well as in other areas of the country were dis-
question of
A widespread awakening of Democracy imposed demands on the independence.

for services--education, health, welfare and other areas. Rising material aspirations required economic Development, at a time when the government had inadequate resources at its command and was having to finance many of its activities through Deficits. Finally, a communist-led dissident movement in the central plain of the largest island of Luzon was causing Disruption.

The meaning of these was that the almost idyllic economy and way of life of the prewar period was inadequate to a postwar Philippines. Structural change was imperative.

Change could not come immediately for the first task was restoration and rehabilitation from war destruction. This was accomplished rapidly: production in 1946 was less than 40 per cent of the 1937 level; in 1949 total production was 91 per cent of 1937. Exports climbed quickly; the Philippines was fortunate that millions of coconut trees survived the war and so coconut products could be exported in large quantities at a time when a world shortage of fats and oils pushed up prices to attractive levels. United States military expenditures in the Philippines plus civilian government activities and war damage programs and other forms of aid meant substantial available foreign exchange--perhaps up to \$2 billion. Full restoration of prewar levels of production came by about 1950 but rehabilitation cannot be said to have been substantially complete till 1954; in that year rehabilitation of the sugar industry, one of the hardest hit by the war, had proceeded sufficiently so that the prewar level of exports of sugar was finally reached.

One of the problems that was tackled after the question of political independence had been settled was economic independence.

During the American period, chiefly because of legislation making trade between the Philippines and the United States free of tariffs, the economy of the Philippines had become increasingly integrated with that of the political suzerain. This was considered inappropriate for an independent Philippines and accordingly arrangements had been devised as early as 1934 to gradually wean away the Philippine economy from that of the United States by a gradual dismantling of trade preferences. In the postwar period the process of adjustment was resumed in accordance with the Philippine Trade Act of 1946. After an eight-year period of free trade (1946-54) during which the rehabilitation of the economy was to take place, gradual decline of tariff and quota preferences was to get in motion. The start of the movement was delayed a year, but in 1956 under arrangements negotiated in the Laurel-Langley Agreement of December, 1954 and legislated into law by both countries, the first steps in reciprocal reduction of preferences took place and the movement has been proceeding regularly since then. The United States is still the leading trading partner of the Philippines, but Japan is now a close second and in fact imports from Japan already surpass those from the United States.

The Period of Controls, 1954-62

The process of structural change started in earnest after rehabilitation was substantially completed. In mid-1954, coincident with the assumption into office of President Ramon Magsaysay who was the first of the postwar generation of political leaders, two significant events signalled the change. Firstly, import and exchange controls which had been in existence since 1949 began to be

used consciously as instruments of national economic policy. Two specific goals were set: industrialization and Filipinization of economic policy. At this time too the first Filipinization bill, the retail trade nationalization act, was approved into law. It was the first Filipinization bill ever to be approved and thus marked a change in the political climate of economic activity.

The exchange controls administered by the Central Bank were used deliberately to favor local manufacture of import substitutes. Wherever possible too, Filipinos were given preferences in foreign exchange allocations.

Modernization required large investments in infrastructure and other facilities to support industrialization. For example in the key area of Manila, electric power was furnished by the Manila Electric Company (MERALCO). Meralco's effective generating capacity was only 45,500 kilowatts in 1941. In 1950 this was 115,000 kilowatts, in 1969, 971,000 kilowatts (excluding power purchased from the National Power Corporation). Thus from 1950 to 1969, the Meralco system expanded by almost 8 1/2 times. Electric power production increased at an average of 13.2 per cent per year from 1950 to 1969, that is, it doubled every six years. Industrial sales in 1950 were only 17.2 per cent of total power sales; in 1969 they were 37.4 per cent of the total.

Long term lending played a great part in this redirection of economic activity. The Rehabilitation Finance Corporation opened for business in 1947 as the chief government instrumentality to finance reconstruction. At the beginning it financed the reopening of banks, insurance companies, building and loan associations, and

similar financial institutions and engaged in loans for home-building. In 1958 it became the Development Bank of the Philippines and a shift in emphasis in lending took place. DBP was and still is the largest single source of long term finance in the country and has been involved in a wide spectrum of investment financing in industry and agriculture. In 1950-51, industrial loans were ₱113.8 million and agricultural loans ₱14.5 million; in 1959-60 they were ₱79.4 million and ₱37.1 million respectively. In 1969-70 a total of ₱341.4 million was given out in industrial loans and ₱70.5 million in agricultural loans. Assets of the Bank were ₱121 million in 1947, ₱593.2 million in mid-1960, and ₱2,440 million in mid-1969.

The commercial banking system consisted of only twelve banks with 38 branches and 56 agencies with assets of ₱1,008.8 million when the Central Bank opened for business in 1949. By 1960 there were 158 banking units (21 head offices and 137 branches and agencies) with total assets of ₱2,337 million. The figures for 1969 were 606 banking units (39 banks and 567 branches and agencies) with total resources of ₱11,161 million. The government-owned Philippine National Bank established in 1916 and the largest single commercial bank in the system, had resources of ₱443.3 million in 1950; in 1960 its resources were ₱837.6 million and in 1968, ₱3.2 billion. In the meantime, from 1952 on a system of rural banks was being built up throughout the country. In 1960 they numbered 160 with assets of ₱76.3 million; at the end of 1969 there were 452 rural banks with assets totalling ₱499 million.

Thus the main drive in the 1950's was modernization in the industrial sector. The results show the extent of progress. In

1949 manufacturing had accounted for only 11.1 per cent of net domestic product; in 1960 it came to 18.6 per cent, in 1962, 19.1 per cent of net domestic product. The value of industrial output trebled from 1954 to 1960: from P891.9 million in 1954 to P2,545.5 million in 1960.

An illustration of success in industrialization in San Miguel Corporation, probably the most diversified and certainly the largest single industrial entity in the country. Starting in 1890 as a beer factory, in 1950 it was producing soft drinks, ice cream, carbon dioxide, glass bottles and cartons. By 1968 it was turning out over 30 different products ranging from beer to butter to electric light bulbs to poultry and livestock feeds; assets went from P165,829,800 in 1960 to P545,254,557 in 1969. Total sales in 1969 were over P561 million.

The data on the rise of manufacturing tell only a part of the story, for the real accomplishment in this period was to turn the face of the economy to the modern world. The establishment of a native group of entrepreneurs not engaged in the traditional pursuits of trade and export agriculture but alive to the application of modern technology in manufacturing, the growth of the financial sector, the building-up of a force of skilled labor, and most important, the fostering of a climate conducive to growth in twentieth-century business enterprise--these were the real accomplishments, and they were achieved in a short span of six to eight years. The dramatic change had to be seen and experienced to be appreciated.

The rest of the economy grew along with domestic manufacturing. Exports in 1941 were \$161 million; in 1950 they were \$331 million, in

1960, \$560.4 million, and in 1970, \$1,015 million. This was a compound annual rate of growth of 5.8 per cent from 1950 to 1970. The traditional exports (sugar, coconuts) continued to increase but in the 1950's the new exports of logs and lumber grew so rapidly as to displace the older products as the largest single export product. In the 1960's, mineral exports have boomed. Exports of manufactures--plywood, beer, drugs, textiles, ceramics and sanitary wares and others--have been rising steadily. In 1969 exports of manufactured articles, excluding the traditional exports of coconut oil, dessicated coconut and copra meal, amounted to \$115.5 million or 13.5 per cent of total exports.

In 1962 when controls on foreign exchange were abolished, a chapter in Philippine economic history closed.

The Transition: 1962 to the present

The domestic manufacturing sector was the leading sector in the 1950's; foreign trade, especially of export agricultural products, kept pace, but unfortunately domestic agriculture, that is, food production, lagged. By the early part of the new decade, the lag in domestic agriculture was impinging on growth. Food production was rising only at the same rate as population and this was inadequate in the face of increasing demand brought on by rising incomes. The growth of industrial output was slackening firstly on account of a tight monetary policy from 1958 on, and secondly because the urban markets for consumer goods were facing saturation and markets in the rural areas were slow to expand.

And so the task in the mid-60's was modernization in domestic agriculture so as to increase food supplies, raise rural incomes, and thus lay the base for mass purchasing power in the rural areas outside Manila. This challenge was resolutely tackled from 1966 on. The slogan was "Roads, Rice, and Schools."

More resources were devoted to road-building and school construction and advances were made in infrastructure programs. The expenditure on roads in the 1960 fiscal year was P13,083,669, in 1965 it was P23,966,528 and in 1969, P82,934,461. Existing kilometerage of roads in 1965 was 55,778 kilometers, but barely five years later in 1970 it was 65,289 or 17 per cent more.

The story in school building is similar: in the 1960 fiscal year, P13,079,171 was spent, in 1965, P6,245,140 but in 1969, P32,047,391. The country continues to spend large amounts on education. Educational expenditure is the largest single category in the government budget, averaging 34.3 per cent of the national government budget in the decade of the 1960's. It is estimated that in 1967-68 government expenditure on education came to 4.5 per cent of gross national product; the private sector included, total expenditure on education was 6.7 per cent of gross national product.

As for rice production, there was a fortunate conjuncture of events. New and more productive rice varieties were coming out of research at the International Rice Research Institute, the College of Agriculture of the University of the Philippines, and the Bureau of Plant Industry. Large increases in productive capacity in fertilizers were coming on stream. A Land Reform Code legislated on August 8, 1963 laid the institutional framework for more effective

agricultural extension, farm credit, and so on. The efforts to expand food production were efficiently coordinated by a Rice and Corn Productivity Coordinating Council. The result was an agricultural turnaround which laid the basis for expanded growth in agriculture, provided that climatic factors did not prove disastrous. In a word, modernization in domestic agriculture was accomplished, again in a short span of time. Whereas in 1965 the index of agricultural production was only 140.4 compared to 1955, in 1969 it was 181.4 or a 29 per cent increase in four years.

The third major area of production in the Philippines is mining. This had been important in the prewar period. During the 1930's gold was the wonder metal and accounted for almost 90 per cent of mineral production; gold production in the Philippines surpassed that of Alaska and California, the major producing areas in the United States. After the war however the gold industry became moribund (gold production is now only a third of prewar) as the mines were destroyed during the liberation campaign and the price of gold was too low to invite massive rehabilitation of the mines.

In the 1950's however expansion in mining of other metals began: chromite, iron ore, manganese, mercury, lead. In the 1960's another metal has risen to prominence far surpassing that of gold even at its prewar peak; this metal is copper. In 1940 production of copper was only 9,100 metric tons; in 1950 copper production was still only 10,390 metric tons and in 1960, 44,010 metric tons. But by 1969, production was 131,020 metric tons or 12.6 times the level of 1950 and 3 times more than in 1960. Exports of copper amounted to \$1.73 million in 1950 and \$29.59 million in 1960 but expanded to \$132.8 million in 1969.

The largest copper mine in Asia is the Atlas Consolidated Mining and Development Corporation in Toledo, Cebu in the middle islands of the Philippines. Started in 1953 to take over properties owned by a defunct mine, the first few years of Atlas were uncertain. By the early 1960's however the future of the mine was more assured. In 1969 daily ore tonnage treated averaged almost 24,000 tons and in that year Atlas accounted for 36 per cent of total copper production in the country. Increasing productive efficiency and continuous investment have made Atlas one of the leading copper mining companies not only in Asia but also in the world.

Atlas has not been alone among progressive copper mines in the Philippines. Together, the example of the copper mines has renewed interest in minerals which are one of the chief resources of the Philippines. For the decade of the 1970's it is anticipated that the wonder metal will be nickel, as a number of ventures in nickel mining are being pushed forward actively: the vast lateritic ore deposit in Nonoc Island off Surigao province in the south, and other locations in Palawan and Mindanao islands.

The Philippine Economy in the 1970's

By 1870 the Philippines had made the transition from a subsistence economy based on rice cultivation to an export economy exporting money crops rather than the subsistence crop. A century later, in the 1970's the Philippines has achieved another transition: to a modern economy with the ground laid for twentieth-century enterprise in manufacturing, mining, and domestic agriculture in addition to export agriculture.

The economy has reached a high level of development and continues to grow; some indices of welfare are the following:

	1950	1960	1969
No. of motor vehicles	101,684	173,399	542,782
No. of telephones (Phil. Long Distance Tel. Co. System only)	19,763	84,821	228,534
Airline passenger miles flown (domestic)	49,781,530	168,396,854	500,333,748 (1968)
Enrolment in public and private schools	4,767,807	5,057,026 (1959-60)	9,701,300 (est.)
Collegiate enrolment	201,115	268,440	597,232 (1967-68)

The literacy rate for all persons 10 years old or over was about 60 per cent in 1948 and 72 per cent in 1960. It is estimated that of about 6.5 million families in the Philippines in 1970, 43.4 per cent belong to the middle and upper class.

With a population of over 36 million and gross national product of P31.7 million in 1969, per capita GNP was P868 or US \$223. But population has been growing at 3 per cent per annum, so that the problems of creating employment for an already underemployed work force (unemployment was 7-9 per cent of the work force of about 14 million) as well as raising incomes and distributing income more equitably are continuing challenges. Fortunately through modernization the stage has been set for tackling these problems. Now resolute efforts will have to be pressed so that the goals can be attained.

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February, 1971

