

that of "restructuring the repayment obligations," in short, re-financing maturing loans with new external loans. In the last few years, this has invited open discussion, and has been pointed out as a major remedy to the balance of payments problems confronting the country. With the rise of prime rates of interest in world capital markets due to monetary readjustments against inflation in the industrial countries, the cost of refinancing accrued principal and interest obligations becomes greater. In due time, of course, all these debts would mature again, and the magnitude of the country's repayment capacity depends on how the import component of consumption is reduced and on how export earnings grow.

(b) Profit-repatriation of foreign investments.

There are specific safeguards built into the accompanying circulars which discriminate between profit repatriations of export and nonexport earners. These are safeguards not present in the decontrol of 1962. There is a net penalty for nonexport earners; the most liberal profit repatriations are given to export-earning enterprises and the least liberal to foreign invest-

Speculators (arbitrageurs) would appear on both sides of the exchange-rate market (buyers and sellers), and, to this extent, they will counterbalance their influences and lend to a greater stability, thus maintaining an exchange-rate equilibrium. Moreover, the volume of daily transactions would be relatively large as to make a single buyer or seller of foreign exchange relatively small. However, early intervention by the government, as it had recently done through the Philippine National Bank, would be justified to prevent the rate from slipping unnecessarily badly, especially if the reason for the downturn is that there are hold-backs by foreign exchange earners in view of an anticipated better rate, while new export earnings from other sectors are still to be earned.

ments which are not export-oriented.¹⁴ Also, Board of Investments-approved projects, even when not export-oriented, get more liberal repatriation terms compared to non-BOI projects.

The above should accomplish a preventive check at the outflow end. It should enhance the attractiveness of foreign investments in export-oriented activities provided we take care not to ruin the foreign investment attraction climate from such new proposed bills as "profit-sharing" and the like. The obvious pinch on profit earnings of purely import-replacing types of investments are there, in view of the higher peso costs of repatriating a new dollar of profits. Yet, any exporting firm (potential or actual) is greatly favored now by exporting more. The extra dollar of profit earned is "painless". Even that dollar of profit might now find its way to being ploughed back into pesos of new investments for expansion in the export industry or in some other industries complementary to that export. Moreover, all import-substituting industries which are highly linked to the export sectors, which are now favored, will prosper even under some of the discriminatory penalties imposed on profit repatriation. And again, when these projects are in approved BOI projects, the penalties are somewhat lessened.

¹⁴All of these rules are specified in the Central Bank memoranda to agent banks implementing circular 289. (See {2}.)

(c) Other invisibles: tourism in other countries.

Among other invisibles payments, Filipino tourism abroad will now be more costly. Some of the major effects of these, however, are immediate. Interesting examples of the powerful allocative role that prices play, when they are market-determined, have arisen.¹⁵ The increase in the cost of foreign travel has cheapened relatively the price of tourism within the country. Since, obviously, the substitutability of domestic tourism with tourism abroad is probably not necessarily strong, because of the presence of other competing uses for any new pesos released by higher costs of tourism abroad, this would simply mean that new resources are freed which might find their way in purchasing domestically, rather than foreign, produced goods.

As to the effects on other invisible items, like shipping charges, insurance, and the like, all these more or less depend on the nature of the import and export trade carried by foreign bottoms or maritime insurance companies. Briefly, we might add that any increase in the volume of export trade raises the demand for Philippine carriers, since a number of laws tie the two together in incentives, such as in the Investment Incentives Act. To the extent that the increase in Philippine carriers induces

¹⁵For instance, one national contest, which gave away as a major prize a tour of Disneyland, U.S.A., was converted into a cash prize. Some business tour groups for the Expo '70 in Osaka, Japan have been reduced (or even cancelled) due to higher costs. Consider also the case of a Philippine ship attracting Expo visitors with enticements of a trip converted at the old parity of ₱3.90 to \$1.

substitution of services for ferrying imported goods to the Philippines, some import substitution in transport and insurance services may be encouraged.

III. INTERNAL EFFECTS

A correction of balance of payments problems has important internal effects to the economy which is open to foreign commerce. In general, the long-run effects will be beneficial, as we shall show later. But for the common citizen living a rice and fish existence (or even those with corned beef and canned mackerel in their diet), the more obvious changes are those which are immediately seen. These are the transitional changes reflected in rising prices, in pressures for special advantage of the groups disadvantaged by the new policy, and in demands designed to overcome the appalling psychological illusion that one's income diminishes as the exchange rate for the peso depreciates.

(1) Transitional and Short-run.

(a) Price changes.

One thing that is clear from the new exchange-rate policy is that all prices will not rise in the same proportion. Some prices will rise faster than others. Others will change, but their magnitudes may be much more modest. Other prices won't change at all. Thus, the relative price changes will be different.

The extent of the price increases of commodities or services depend on whether they are domestically produced or imported and on whether they are substitutes or complements of internationally-traded goods. Imported goods will have sharp increases in their prices, in sympathy with the direction of change of the exchange rate. Import-dependent import substitutes will be also affected in this direction, although the extent of their price changes depends on shifts in favor of domestic composition of the inputs to production that may be induced by the rise of the price of foreign exchange. Noninternationally-traded commodities would change in their prices only to the extent that price ceilings are raised -- in the case of public utility companies -- by the government in response to demands for these from the companies affected, and costs of inputs are increased, due to the changes in prices occurring in other sources. The more the dependence of these inputs on imports, the greater is the pressure for price increases.

(b) Income changes and income distribution.

Changes in prices have their effect on real incomes, of course; consequently, they affect income distribution. For the moment, we confine ourselves to the question of the "transitional" effects on income distribution in contrast to the long run. Obviously, all fixed-income groups will suffer from any inflationary pinch; often, negotiating or effecting wage and income increases would take a long time. The lags between wage incomes and prices, resulting in income redistribution, could have some useful impact

1. The first step in the process is to identify the problem or issue that needs to be addressed. This involves gathering information and understanding the context of the problem.

[illegible]

The first of these is the fact that the
 government has been unable to
 maintain a consistent policy
 towards the press. This has
 led to a situation where the
 press is often treated as an
 enemy of the state, rather than
 as a vital part of the
 democratic process. This
 has resulted in a climate of
 fear and self-censorship,
 which has severely
 weakened the press's
 ability to hold the
 government accountable.
 The second problem is the
 lack of independence of the
 judiciary. The judges are
 appointed by the executive
 branch, and their
 decisions are often
 subject to political
 pressure. This has
 led to a situation where
 the judiciary is
 unable to
 protect the
 rights of
 citizens against
 the
 government.
 The third
 problem is the
 lack of
 transparency
 in the
 government's
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 process. The
 government
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 to

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 accountable
 for
 its

 actions.
 The
 fourth
 problem
 is
 the
 lack
 of

 freedom
 of

 expression.
 The

 government
 often

 censors
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 punishes
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For more information, contact the Department of Health and Human Services, Office of the Assistant Secretary for Health, 200 Independence Avenue, S.W., Washington, D.C. 20462, (202) 245-4000.

1. The Commission has received information from the Government of the Republic of the Philippines that the Government is planning to conduct a series of military operations in the area of the Philippine Sea, which is a part of the South China Sea. The Commission is concerned that these operations may result in the displacement of a large number of people, and it is therefore requesting the Government to provide information on the number of people who are expected to be displaced, and on the measures that are being taken to ensure that they are adequately protected and assisted.

gain for the four leading exports, as we have already pointed out. And, of course, employment within these sectors would expand. In the short run it is not likely that these gains would be substantial. But industries with built-in capacity for potential exports would have the necessary ability to make a short-run response.

(2) Long-Run Effects.

The long-run effects depend on the consistency with which the policy enunciated by the new exchange-rate policy is pursued, and with the acceptance of supporting policies that are suggested in the next section. Insofar as they point to new long-run directions, we can foresee many of them. They are, on the whole, beneficial.

(a) Healthier climate for the encouragement of resource-based industries.

With more correct pricing policy at the level of the exchange rate, the prices of domestic resources become more attractive relative to all other imported resources. Thus, the policy will favor industries that are particularly dependent on the use of domestic resources as inputs. With the increase of industries that feed on these resources, an expansion of domestic economic activity may be expected which will further increase the demand for products of industries serving the expanding domestic market -- opening greater leeways for healthy import substitution and for domestic employment.

(1) Labor-intensive industries. The exchange-rate change has the important consequence of reducing the foreign exchange equivalent of wage costs in the Philippines, which puts the price of labor in potential export industries in line with other low-wage countries that produce for exports. The effect of the official depreciation of the peso from an export-revenue standpoint is to reduce the foreign exchange equivalent of the minimum wage. The cheapening of the wage rate in foreign exchange terms would induce a greater expansion of employment. Export industries which are dependent on greater labor-use will expand their output, since their benefits -- except for the leading four exports -- are derived from price incentives in terms of more pesos exchanged at the market rate for every dollar of export revenue. Even some overpriced (in dollars) potential exports prior to the new exchange-rate policy may now become viable in relative terms by some reduction in export price, f.o.b. dollars. These give the exporters much competitive elbow room in international markets.

Even for purely import-substituting industries, the price of labor is relatively cheapened. And to the extent that the firm is allowed to make readjustments with respect to capital costs, labor-using industries or shifts in technique will be more favored. In the long run, all these are greatly strengthened.

(2) Land-intensive industries. The same results may be predicted for industries which are based on greater use of land -- another domestic resource. The growth of industries based on