and (2) the Census questionnaire asked only about the controlling owner's citizenship. Some enterprises may be owned in part by Filipinos, especially in the case of Chinese-Filipinos.[10] If we but assume that the Chinese and other foreign enterprises have 30 per cent Filipino participation, then we arrive at the following figures: Chinese and other investments amount to ₱278 million and constitute about 19 per cent of total fixed assets of manufacturing enterprises with 10 or more workers. We summarize all these results in Table 3.

Table 3

Foreign Ownership of Fixed Assets in Manufacturing Enterprises with 10 or More Workers

	Pesos (Million) Value	% of Total
Filipino	₱ 922	63%
American	267	18
Chinese and other foreign investments	278	19
	₱1,467	100%

Note: The reader should look at the above figures only as approximate estimates. In the absence of more information, I believe they represent a rough outline of how things really are.

[10] Pobladorʼs figures (op. cit.) show surprisingly low shares for Chinese. This could be largely due to many reasons, such as: (1) the limited population of Pobladorʼs study, due to his confinement of the sample to relatively

Foreign Investments and the New and Necessary Industries

At the beginning we described the structure of economic incentives since the last decade. Foreign investments responded to these incentives by taking advantage of any privileges that could be availed of.

The response to tax exemption incentives through the law encouraging "new and necessary" industries is a good illustration of this general response. To show this, we attempt to utilize to the fullest data which are somewhat sketchy. Table 4 shows the relative distribution of paid up capital in the new and necessary industries by nationality in 1960. This year was the second to the last year of the effectivity of the law in question. Since these data are cumulative summations of relevant information, they reflect the overall response to incentives by businessmen of different nationalities. The bulk of foreign investments in Philippine manufacturing, which responded to the law on new and necessary industries came from Chinese and American investments. Other foreign investors were negligible in contribution.

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large foreign enterprises, (2) the naturalized citizenship of those who consider themselves "Chinese" in Census responses, and (3) the broader sectoral coverage of Poblador's study; the estimates here are only for manufacturing while Poblador's are for all economic sectors, including commerce and finance.

The Chinese were forced to shift their resources from retail trade to either wholesale commerce or finance, in view of the Retail Trade Nationalization Law. But their movement into industry can be said to have been occasioned by the presence of incentives to move into manufacturing by virtue of this law, since there were alternative investments available to them to engage in wholesale trade, foreign commerce, or finance or to other manufacturing.

The bulk of investments in new and necessary industries is the result of Filipino entrepreneurial response. The relative proportion of American and Chinese investments in the new and necessary industries is not as large as the relative proportion of Chinese and American investments in total manufacturing (compare Tables 3 and 4). This simply means that the relative response elicited from Filipino entrepreneurs in new and necessary industries appeared to have been substantial.

In terms of relative size, we note that with the exception of five industry groups, American investments in new and necessary industries are larger. On the average, American investments are 1.4 times that of Chinese investments. The industries with the largest American investments in terms of proportion to Chinese participation are rubber products (due

Table 4

Paid Up Capital in New and Necessary Industries, By Nationality, 1960

ISIC* CODE	Paid-up Capital by Nationality	Filipino	American	Chinese	Others	Total in Million Pesos	Relative Size of American to Chinese	Relative Size of Philippine to all Foreign
		Sum of all per row add up to 100						
20	Food	66.6%	16.2%	12.6%	4.6%	67.13	1.294	2.000
22	Tobacco	67.0	13.0	19.6	0.4	11.83	0.660	2.035
23	Textiles	84.4	2.2	8.2	5.2	197.07	0.267	5.422
25	Wood & Cork	87.3	8.7	3.0	1.0	26.87	2.892	6.831
26	Furniture & Fixtures							
27	Paper products	77.7	3.3	18.8	0.2	25.13	0.175	3.482
28	Printed & published materials	96.9	0.2	2.9	0	3.66	0.057	0.941
29	Leather & leather products	69.1	28.8	1.7	0.4	36.32	16.528	2.236
30	Rubber products	53.4	35.5	5.8	5.3	67.09	6.094	1.147
31	Chemical products	66.6	12.0	4.8	16.6	32.24	2.494	1.994
33	Non-metallic mineral							
34	Basic metal	80.0	9.2	10.2	0.6	89.57	0.915	4.002
35	Metal products	86.2	9.8	4.0	0	5.96	2.444	8.245
36	Machinery & parts	71.5	23.5	2.6	2.4	35.50	8.974	2.506
37	Electric machinery	62.8	6.5	15.3	15.4	33.10	0.426	1.684
38	Miscellaneous industries							
	TOTAL	74.7	12.2	8.5	4.6	622.00	1.442	2.951

*International Standard Industrial Classification.

Source: Reconstructed from Department of Finance data.

largely to Firestone and Goodyear tire companies) and in electrical machinery. These also happen to contain relatively sizable American investments to total. The last column of Table 4 shows the relative size of Philippine investments to all foreign investments. In all industries the paid-up capital contributed contributed by Filipinos is greater than that contributed by foreigners. For every peso of foreign investments in new and necessary industries, Filipinos put up ₱2.95.

But how was this capital distributed by the scale of the enterprise? Table 5 gives an answer to this question. This table shows the nationality of principal owners, the number of firms granted privileges, the number of tax-exemption lines granted, and the sizes of the grantee firms. While Filipino industries were largely concentrated to those involving smaller investments, the greater bulk of foreign investments, particularly American investments and joint ventures, are concentrated in larger enterprises. Thus, what the foreign investment ventures lacked in number of activities, they made up for in scale of operation.

American Investments in the Philippines[11]

The pattern of American investments in the Philippines, especially those which were the result of response to

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[11]In many respects, this section would have been much harder to write without Tiamchai Surapath's useful work, U.S. Direct Investments in Philippine Manufacturing Industry (master's

Table 5

New & Necessary Industries Granted Tax Exemption Under Republic Acts Nos. 35 & 901

	No. of Exemption Petitious Granted	No. of Firms	Over ₱1,000	₱500 to ₱1,000	₱300 to ₱500	₱100 to ₱300	Under ₱100	Not Identified
Filipino	551	429	17	34	26	122	203	27
Chinese	171	144	7	4	5	40	80	8
Filipino-Chinese	152	107	9	10	10	35	42	1
American	48	22	9	3	2	5	0	3
Filipino-American	50	45	7	3	4	12	14	5
Filipino plus mixed nationalities	69	45	15	6	6	14	4	0
Unidentified	30	28	1	0	0	0	3	24
Firms not including Filipinos	12	6	0	2	0	3	1	0
Total	1,083	826	65	62	53	231	347	68

Source: Department of Finance.

the industrial policies of the previous decade, provides an important lesson for development policy.

Additional clues to form and magnitude. American foreign investments in the Philippines are found in many sectors. In view of the long historical relationship between the United States and the Philippines, many American companies have been engaged in public utilities, mining, trade and agriculture.

In a previous section an estimate of total American investments in manufacturing was given (see Table 3). However, only scanty information is available about total US investments in the Philippines. In the absence of any published breakdowns of investments, Table 6 gives the distribution of earnings, undistributed profits, and total wage payments of US investments by different sectors. These statistics yield an indirect account of the relative magnitudes of the investments in the different sectors of the Philippine economy. American investments in manufacturing contributed 29% of total earnings earned by American investments. Mining and petroleum refinery as well as the operations of public utilities[12] contributed a sizable portion of the earnings of

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thesis, Department of Economics, University of the Philippines, 1966), which put together very valuable statistical material and thereby provided valuable leads.

[12]We note that controlling ownership of Meralco and Philippine Long Distance Telephone Company, the two major American-controlled public utility firms were sold to Filipinos only in 1964 and 1967, respectively.

Table 6

Distribution of Earnings, Undistributed Profits and Wage Payments of US Investments, 1957

	Net Earnings[a]		Undistributed Profits		Wages and Salaries Paid	
	Value	Per cent Distribution	Value	Per cent Distribution	Value	Per cent Distribution
All Sectors (49 $M)	49	100.0	29	100.0	49	100.0
Agriculture	1	2.0	n.a.	n.a.	5	7.8
Mining & smelting	b	20.4	n.a.	n.a.	15[b]	23.4
Petroleum	b		7	24.1		
Manufacturing	14	28.6	11	37.9	19	29.7
Public Utilities	12	24.5	n.a.	n.a.	12	18.7
Trade	6	12.2	3	10.3	9	14.1
Finance & insurance	5	10.2	n.a.	n.a.	3	4.7
Miscellaneous	1	2.0	n.a.	n.a.	1	1.6
Other: "Unaccounted for"[c]				27.7		

[a]Total and net earnings difference due to depletion and depreciation allowances; net earnings used here.

[b]Residually arrived at; not reported directly.

[c]The total undistributed profits unaccounted for, which is residually derived is probably divided up among the sectors with n.a. (not available notations).

Source: U.S. Bureau of Commerce, "U.S. Business Investments in Foreign Countries" (Washington, D.C., 1960), Tables 36 (total earnings) and 45 (undistributed profits), Table 31 (wages and salaries).

American investments together. Manufacturing had the highest rate of profit plowed back into enterprise, accounting for 37.9%, of the total undistributed profits of US investments in that year. Note also that manufacturing contributed 30% of total wages paid by US investments. These are shown in the last columns of this table.

American Firms During the Period of Controls. Another indication of the response of American firms to Philippine economic policy is in the attempt to secure privileged import allocations. Data from the Central Bank shows that they accounted for at least 25% of the total sales activity among all those given import allocations. The third column of Table 7 shows the percentage of these activities. Extractive industries accounted for the largest component of activities earned by American firms at least in terms of sales and wages paid. But the most interesting information from this table and Table 8 is the relative performance of the American firms in manufacturing. We note for instance that while American firms accounted for 22% of all the wages paid by the firms which benefited from foreign exchange controls, the profits accounted for by the same firms was 60% of all recorded total profits. This information is much more striking since the manufacturing firms controlled by

Table 7

Results of Operations of American Firms Granted 1954 Import Dollar Allocations by the Central Bank of the Philippines: Fiscal Year 1954

(Millions of Pesos)

	All Firms	Firms Controlled by Americans	Per cent of Activity to Total by American Firms
Sales	3,323.8	848.6	25.5
Extractive	92.6	37.0	40.0
Manufacturing	1,416.5	382.3	27.0
Trade	1,632.7	347.3	21.3
Public Finance	158.3	80.8	51.4
Others	23.7	1.2	5.1
Wages	275.0	75.8	27.6
Extractive	18.9	10.9	57.7
Manufacturing	198.1	43.6	22.0
Public Utilities	46.1	21.0	45.6
Others	11.9	0.4	3.4
Net Profits	128.4	50.1	0.4
Extractive	4.9	2.5	5.0
Manufacturing	101.4	30.4	60.7
Public Utilities	20.0	17.1	34.1
Others	2.1	0.1	4.8

Source: Central Bank of the Philippines, Report on Importers and Producers Quota Revision (Manila: September 30, 1956 and November 15, 1956). Tiamchai Surapath, U.S. Direct Investments in Philippine Manufacturing Industry, produced columns 1 to 2.

American investments constituted only 40% of all firms in manufacturing which were granted import allocations.

We tried to get further implications from data reported by the Central Bank. These are shown in Table 8. In Part A of this table, it is shown that wages as a per cent of total sales was about 11% for American firms, 14% for all firms in manufacturing. American firms paid wages which were 1.4 times the net profits they earned. In contrast, the same ratio for other investments is equal to 2.0, not necessarily because they are probably more labor intensive compared to the Americans, but because they have lower profit rates.

The profit rate figures as a per cent of paid-up capital (or roughly the net rate of return to capital) is more interesting, since it shows immediately the overall incentives during the period of controls in the Philippines. Manufacturing activity enjoyed the highest profit rates followed by public utility operations. Given this basic information, it is easy to see where investments would be attracted.

Part B of Table 8 shows the ratio of American to all other investments of the three ratios taken up in Part A. Being ratios, they are to be interpreted as relative statistics. For instance, by looking at the profit rates column,

Table 8

Wages in Relation to Sales and Net Profits: American and Other Firms which Enjoyed Foreign Exchange Allocation

A.

Industry	Wages as Ratio to Sales		Wages as Ratio to Net Profits		Net Rates of Return to Paid-up Capital	
	All	American	All	American	All	American
Extractive	0.20	0.29	3.9	4.4	0.06	0.09
Manufacturing	0.14	0.11	2.0	1.4	0.15	0.18
Public Utilities	0.29	0.05	2.3	1.2	0.14	0.16
Others	0.13	0.33	5.7	4.0	0.14	0.09

B. American Firms Relative to All Firms*

Industry	Wages as Ratio to Sales	Wages as Ratio to Net Profits	Net Profit Rates to Capital
Extractive	1.45	1.13	1.50
Manufacturing	0.79	0.70	1.20
Public Utilities	0.17	0.52	1.14
Others	2.54	0.70	0.64

*Ratio for American firms divided by ratio for all firms.

Source of data: Table immediately preceding

it can be said that American firms had 1.5 times the profitability of extractive industries, 1.2 of manufacturing, etc.

Rates of Return to American Investments. Table 9 carries further more information about net rates of return and the retained earnings ratio of American investments on a year to year basis. The investments in manufacturing are segregated from all US investments. In addition, the average net rates of return of all US investments in the world are reported in the last column. The rates of return were computed by taking current profits as a ratio of investments of the previous year. The rates of return have been very high during the period of controls; as decontrol came, the rates of return fell, but not to rockbottom levels.

In particular, in the middle 50's, the average rates of return in manufacturing were significantly higher compared to the later years. The simple average of these net rates of return shows that from 1955 to 1963 manufacturing rates of return were about 4 per cent higher.

From additional information, the retained earnings ratios were also computed. In general, the retained earnings ratios in non-manufacturing appeared to be higher than in manufacturing. The average retained earnings ratios from

Table 9. AVERAGE NET RATES OF RETURN TO INVESTMENT AND RETAINED EARNINGS RATIOS OF US INVESTMENTS IN THE PHILIPPINES

Year	All US Investments in the Philippines			US Manufacturing Investments			US in World Net Rates of Return	Difference Profit Rates in Philippine Manufacturing from Average US World Profit Rate
	Value of Investment (Mil. $)	Net Profit Rate on Investment	Retained Earnings Ratio (%)	Value of Investment (Mil. $)	Net Profit Rate on Investment	Retained Earnings Ratio (%)		
1954	216		23.5	29		6.0	-	-
1955	229	17.1	40.6	31	25.8	25.0	15.9	9.9
1956	267	19.6	46.7	35	32.2	40.0	17.1	15.1
1957	306	15.7	50.0	67	14.9	50.0	16.1	-1.2
1958	341	18.0	52.7	79	15.2	58.2	11.9	3.3
1959	385	17.0	55.2	86	19.8	47.1	11.9	7.9
1960	414	13.5	40.4	91	18.7	29.4	12.0	6.7
1961	480	15.2	38.1	89	18.0	19.0	11.3	6.7
1962	375	8.8	28.1	89	15.7	36.0	12.2	3.5
1963	415	10.1	42.1	110	10.9	50.0	12.3	-1.4
Average 1955-63		15.0			19.04			
Average 1955-61		16.6	43.6		20.9	41.8		6.9

1955-63 was 27% for all US investments but 36% for manufacturing investments. In other words, relatively more payments of dividends have been made by US manufacturing investments compared to all other US investments in the Philippines. After decontrol in 1962, the apparent retained earnings ratios rose for manufacturing and even exceeded the average retained earnings ratios for all US investments. The relaxation of controls brightened the investment climate to the extent that existing investments plowed back relatively more profits to improve plant capacity.

Compared to the rates of return to US investments in the rest of the world, the ones obtained in the Philippines were relatively higher, especially during the period of controls. The last column of Table 9 shows the absolute difference between the rates of return to US investments in Philippine manufacturing over the net rates of return to all other US overseas investments. The difference is quite significant, averaging 6.9 per cent between 1955-1961.

We shall postpone discussions of why American investments did not flow in greater quantities in view of this.

Market Orientation. Table 10 presents the market orientation of American investments in the Philippines and compares it with data for Japan and all other US foreign investments.

Table 10

Market Orientation of US Investments, 1957
(Values in Million $)

	Philippines		Japan		All U.S. Foreign Investments	
	All	Mfg.	All	Mfg.	All	Mfg.
Total Sales	357	118	584	217	38,154	18,331
Per cent Distribution of Markets	100.0	100.0	100.0	100.0	100.0	100.0
Foreign Sales	7.6	12.7	10.3	27.7	27.4	15.9
a) Experts to US	7.0	11.0	0.5	1.4	9.9	6.0
b) Other Exports	0.6	1.7	9.8	26.3	17.5	9.9
Home Sales	92.4	87.3	90.0	72.4	72.6	84.1

Source: U.S. Bureau of Commerce, "U.S. Business Investments in Foreign Countries" (Washington, D.C., 1960), Table 22.

A greater degree of the output of American production activities in the Philippines destined for Philippines sales. Of the sales which are exported, a greater majority constitutes sales to the United States. Compared to Japan the degree of export orientation of US investments in the Philippines is small. Presented in Table 11 is the relative market orientation of the American investments in the Philippines compared to the same in Japan and the US world. The degree of export orientation of US investments in Japan is more than twice as much as that of the Philippines. Consequently the degree of domestic sales for the US investments in the Philippines is relatively greater than that found in Japan. The Philippines

Table 11

Market Orientation of US Investments in Manufacturing; The Philippines Relative to Japan and All US Investments (Ratios)

	Japan / Phil.	World / Phil.
Foreign Sales	2.18	1.25
Exports to US market	0.13	0.54
Other Countries	15.47	5.82
Home Sales	0.83	0.96

Source: Derived from previous table.

performs below the world average for all US investments in manufacturing. The ratio of the percentage of export sales of all US overseas investments is 1.25 times the ratio of the same in Philippine manufacturing. In other words, there is a greater degree of domestic market orientation of US investments in Philippine manufacturing than the average host market orientation of all US investments in the world.

A more interesting finding concerns the division of the export sales. Of the output exported by US investments in the Philippines, a large portion is concentrated as exports to the US market. The exports of US investments in Japan are however largely to non-US markets. In fact, sales of US manufacturing investments in Japan to other countries other than the United States is 15 times more than that of the Philippines on a relative basis. The non-US export sales of all US foreign investments is almost 6 times greater than that found for American investments in manufacturing in the Philippines, again on a relative basis.

This simply means that American investments in the Philippines have been so much directed towards import substitution. The high rates of profitability for import substituting industry attracted American enterprises to set up their wares and sell in the Philippine market. Because