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TRANSITION TO DECONTROL AND THE IMPORTS OF NEW AND
NECESSARY INDUSTRIES, 1959-1961

by

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F O R E W O R D

The volume of statistical data gathering and of the subsequent computations which had to be performed clearly justifies the coauthorship of my two assistants in this research. They certainly share joint responsibility with me for the numbers reported in this study.

This study was begun in 1965. Mr. Adriano A. Arcelo, then Instructor in Economics at the School of Economics, University of the Philippines, was responsible chiefly for the compilation of the statistics from Tariff Commission data. He was assisted in this by Mrs. Bella C. Dominguez, then research assistant in my Manufacturing Study and now with the Budget Commission. Miss Helen Reantaso, also formerly a research assistant and now with the Bicol Development Company, took over the task of computing implied tariff subsidies when Arcelo went to study in Liverpool and London on a Colombo Plan fellowship. Arcelo is now working with the Executive Secretary, Office of the President of the Philippines. Without the support of the Tariff Commission, this study would have been impossible to undertake. Therefore, credit and thanks should be extended to the Tariff Commission and the individual officials who helped us.

As early as one year ago, this study should have been reported to the profession, at least in this tentative form. But many things have intervened, including the changing research priorities of the principal author.

This is another occasion to thank the Rockefeller Foundation for its research grant to my study of Philippine Manufacturing. Of course, it is not responsible for any of the views expressed, which remain largely mine.

G.P.S.

Diliman, Quezon City
Philippines
September 25, 1968

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INTRODUCTION

In early 1962, the Philippines removed all forms of foreign exchange controls. The pressures for exchange liberalization became stronger as the country's balance of payments position deteriorated, especially after 1957. By 1959 the situation was bad enough to make the solution of "gradual decontrol" gain acceptance. The interests of the new and necessary industries were, on balance, against decontrol. We analyze in this paper the transition to decontrol and the imports of the new and necessary industries.

This paper will be primarily concerned with a description of the imports of the new and necessary industries (hereafter referred to as NNI) during this transition period. A second aim is to assess the actual extent of the tariff subsidy implied by the tax exemptions given to the imports of NNI. A third part will relate the importations of the NNI with the progress of industrial promotion activities in the Philippines. A fuller treatment of NNI in the context of Philippine industrial growth will be made in another study.

INSTITUTIONAL AND ECONOMIC BACKGROUND

An important instrument of industrial promotion in the Philippines during the period immediately after independence in 1946 was the tax-exemption given to NNI from the payment of internal revenue taxes. With the expiration of this law, Congress passed Republic Act 901 in 1953 which broadened the tax-exemption to NNI of "all" taxes until the year 1958.¹ From 1959 to 1962, the tax exemption was to be removed gradually.

The importations of the new and necessary industries constitute an interesting aspect of their activities. To begin with, their importations were "sanctioned" by the exchange control and industrial promotion authorities. Secondly, in addition to receiving preferred foreign exchange treatment, [by virtue of the law which gave them tax exemption,] they were also the recipients of a tariff subsidy.

Our study is hampered by inadequacy of data. It is certainly more interesting to study these imports over a longer period, beginning at the very latest in 1953. However, the Tariff Commission appears to have kept only the data for the years 1959 to 1961, a period of three years.

During the period under study, the Philippine economy was undergoing serious adjustments to a balance of payments

¹These laws are surveyed in G.P. Sicat, "Industrial Policy and the Development of Manufacturing in the Philippines," Institute of Economic Development and Research, University of the Philippines, January 5, 1965, mimeo.

problem brought about by maintaining an overvalued exchange rate for the peso. By 1959, the country had experienced already a series of rather uncomfortable balance of payments problems, leading eventually to decontrol. Tables 1 and 2, which follow, summarize briefly the nature of the country's foreign exchange position.

Table 1. RELATIVE LEVELS OF FOREIGN EXCHANGE EARNINGS AND EXPENDITURES OF THE PHILIPPINES, 1957-1961
(Million U.S. dollars, whenever applicable)

| | <u>Imports</u> <u>(f.o.b.)</u> | <u>Foreign</u> <u>Exchange</u> <u>Payments</u> | <u>Imports as</u> <u>Per Cent</u> <u>of Export</u> <u>Earnings</u> | <u>Foreign Exchange*</u> <u>Payments as Per</u> <u>Cent of Foreign</u> <u>Exchange Earnings</u> | <u>Reserves of</u> <u>Foreign</u> <u>Exchange**</u> |
|------|-----------------------------------|------------------------------------------------------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| 1957 | 613.2 | 747.7 | 142 | 112 | 140 |
| 1958 | 558.7 | 651.2 | 113 | 98 | 145 |
| 1959 | 523.6 | 690.3 | 99 | 98 | 163 |
| 1960 | 603.9 | 660.3 | 108 | 95 | 192 |
| 1961 | 611.3 | 802.4 | 122 | 112 | 141 |

Source: Central Bank Statistical Bulletin

*Includes nonmerchandise transactions.

**These are end of year reserves.

Table 2. PER CENT RATES OF CHANGE OF FOREIGN EXCHANGE POSITION INDICATORS, 1957-61

| <u>Period</u> | <u>Imports</u> | <u>Exports</u> | <u>Foreign Exchange Receipts</u> | <u>Stock of Foreign Exchange</u> |
|---------------|----------------|----------------|------------------------------------------|------------------------------------------|
| 1957-58 | -9 | +14 | +0.1 | + 4 |
| 1958-59 | -6 | + 7 | +7 | +12 |
| 1959-60 | +15 | + 6 | -2 | +18 |
| 1960-61 | +1 | -11 | +3 | -26 |

Source: Table 1, above.

It can be seen that import levels were very high relative to exports in 1957. In fact between 1957 to 1961, there was only one year, 1959, when exports and imports were roughly equal.

But the major problem of the exchange control authorities was to keep down the level of all foreign exchange payments relative to foreign exchange earnings and subject to maintaining a certain level of foreign exchange reserves. The high level of spending relative to earnings in 1957 was a major reason for the fall of the foreign exchange reserves of the country by 1958. Between 1958 to 1960, the exchange control authorities apparently succeeded in bringing down foreign exchange disbursements. Measures which increased the cost of acquiring foreign exchange, through the imposition of "margin fees," were responsible for the relative increase in the foreign exchange reserve stocks of the Philippines through the curtailment of demand for foreign exchange.

Table 2 shows the per cent rates of change of merchandise imports and exports, of total foreign exchange receipts, and the

stock of foreign exchange. The relatively impressive growth of export receipts in 1957-1960 is not affected seriously by the failure of total foreign exchange receipts to grow as fast.

The instruments of policy utilized to restrain foreign exchange payments from becoming large enough were exerted on the form of exchange disbursement. These instruments included the special import tax,² and "margin fees" imposed on the sale of foreign exchange beginning in 1959. This margin fee took the form of a 25 per cent "tax", on the gross value of foreign exchange purchases. In order to make exports grow more substantially, some forms of export incentives were adopted, taking the form of "barter" schemes, which allowed exporters to make importations by using a portion of their export earnings. The growth of exports from 1957 to 1960 shown in Table 2 is partly due to the export incentives schemes used then.³

The domestic import substituting industries were the major beneficiaries of the foreign exchange controls, especially in the midfifties. With the increasing cost of foreign exchange, it became necessary for the government to allocate a great portion of available foreign exchange resources to what were considered essential imports. From 1959 to 1960, imports classified as "essential producer" imports constituted about 60

²A tax made to substitute the 17 per cent tax on the sale of foreign exchange, in effect until 1954.

³These were allowed by the barter law, otherwise known as the No-Dollar Import Law. See F.H. Golay, The Philippines: Public Policy and Economic Development (Cornell University Press, Ithaca, New York, 1961), pp. 156-8.

per cent of total importations.⁴ When classified according to end use, unprocessed raw materials and semi-processed raw materials accounted for about 60 per cent of total imports on the average during these years.

Thus, 1959 to 1960 were years when the Philippines had to maintain an overvalued exchange rate by restricting the import bill with various control instruments. The year 1961 was a presidential election year. From Table 1, it may be suggested that there were relatively more accommodations of import and other foreign exchange payments, due mostly to political considerations.

NEW AND NECESSARY INDUSTRIES

In 1959, the promotion of "new and necessary" industries was on its 13th year. In terms of the more liberal law on tax-exemption of 1953, industrial promotion was already on its 6th year of operation. 1959 was to be the first year in which the promoted industries were liable for the payment of taxes. The rates of tax exemptions from all taxes were to be in accordance with the following basis:

| <u>Exemption Rate (R.A. 901)</u> | <u>Year</u> |
|----------------------------------|-------------|
| 90 per cent of current taxes | 1959 |
| 75 per cent | 1960 |
| 50 per cent | 1961 |
| 10 per cent | 1962 |
| 0 per cent or full taxes | 1963 |

⁴See Central Bank Annual Reports during this period.

The taxes from which these industries were exempted were: import duties (tariff), special import tax, compensating tax, and advanced sales tax. (In 1961, a new law exempting "basic industries" from import taxes was passed, which granted new benefits to "basic industries." We shall return to these industries at the end of this paper.)

Foreign exchange allocation privileges however were not easy to seek because of the intricate foreign exchange control procedures. To secure importation privileges involving tax-exemption required additional steps in the already complicated foreign exchange procedures. It is obvious that a system of foreign exchange allocation which yields high premium rates is highly conducive to a system of political patronage.

Table 3 shows the different product lines which received tax-exemptions under the law as of December 31, 1959. As can be seen, this is a fairly extensive list. By 1959, therefore, there were many product lines which received tax subsidies from the law. The appendix contains a detailed breakdown of many commodities that were produced under the law.

Some studies⁵ have stressed that the law on new and necessary industries encouraged those that were primarily dependent on foreign sources of raw materials. Table 4 shows the domestic and imported raw material components of the new and necessary industries in 1960. It will be noted that rubber products, paper, basic metal and electric machinery had the highest propor-

⁵See, e.g., G.P. Sicat, op. cit.

Table 3. PRODUCT LINES GRANTED TAX-EXEMPTION UNDER
THE NEW AND NECESSARY INDUSTRY ACT (REPUBLIC ACT 901)

| | | |
|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| ① | Food Manufacturing Industries | 128 |
| ② | Leaf Tobacco Flue-curing and Redrying | 5 |
| ③ | Manufacturers of Textiles | 128 |
| ④ | Manufacturers of Wood and Wood Products | 39 |
| ⑤ | Manufacturers of Paper and Paper Products | 47 |
| ⑥ | Manufacturers of Metal Products | 193 |
| ⑦ | Manufacturers of Non-Electrical Machinery | 19 |
| ⑧ | Manufacturers of Electrical Equipment, Apparatus, Appliances and Supplies | 84✓ |
| ⑨ | Miscellaneous Industries | 138 |
| ⑩ | Manufacturers of Leather and Leather Products | 14 |
| ⑪ | Manufacturers of Rubber Products | 23 |
| ⑫ | Manufacturers of Chemical and Chemical Products | 121 |
| ⑬ | Manufacturers of Non-Metal Products, such as structural clay, pottery, china, earthen- wares, bottles, jars, sand paper, asbestos, cement product, lime and chalks | 59 |

Source: Department of Finance. See Appendix A for a
more detailed enumeration of product lines.

Table 4. IMPORTED RAW MATERIALS OF NNI, 1961

| <u>ISIC</u> | <u>Industry</u> | Total Im- ported Raw Materials* (P1,000) | Ratio of Im- ported to Domestic Materials |
|-------------|------------------------------|---------------------------------------------------|----------------------------------------------------|
| 20 | Food Manufacturing | 39,071 | 0.589 |
| 22 | Tobacco | 72 | 0.025 |
| 23 | Textile | 95,672 | 1.232 |
| 25,26 | Wood and Furniture | 6,205 | 0.283 |
| 27,28 | Paper, Printing | 26,879 | 2.202 |
| 29 | Leather | 3,532 | 0.971 |
| 30 | Rubber Products | 35,419 | 8.964 |
| 31 | Chemical & Chemical Products | 24,830 | 1.928 |
| 33 | Non-metallic | 5,617 | 1.172 |
| 34,35 | Basic Metal | 83,222 | 2.659 |
| 36 | Machinery & Parts | 3,203 | 2.747 |
| 37 | Electrical Machinery & Parts | 17,204 | 1.519 |
| 38 | Miscellaneous | 9,751 | 1.882 |
| | Total | 350,685 | 1.374 |

Source: Computations were based on data from the Department of Finance, Republic of the Philippines.

tion of imported materials among the new and necessary industries as shown by the ratios of imported raw materials utilized in proportion to domestic materials. In a later study which the major author is pursuing, a more detailed analysis of the exact nature of import dependence of the new and necessary industries will be made. It is however interesting to know that in 1960 the value added per peso of imported materials appeared to have been highest for tobacco and lowest for textile and basic metal products. Briefly, these values added per peso of imported raw materials given by industries are shown as follows:

(1) Among the highest:

| | |
|----------------------------------------|------|
| Tobacco | 80.9 |
| Non-metallic mineral products | 5.5 |
| Wood & furniture | 3.7 |

(2) Among the lowest:

| | |
|----------------------------|------|
| Paper & Printing | 0.94 |
| Leather products | 0.92 |
| Basic metal | 0.88 |
| Textile manufactures | 0.80 |

Electric machinery and chemical products had the following corresponding ratios respectively, 1.8 and 1.6.

Table 5 gives a breakdown of all the imports of new and necessary industries in their f.o.b. values from 1959-61. We note that manufactured goods and machinery and transportation to-

Table 5. PER CENT DISTRIBUTION OF NNI IMPORTS BY 1-DIGIT SITC

| SITC | Commodity | NNI Imports | | | | Total Philippine Imports | | | |
|------|--------------------------------------------------------------------------|----------------|---------------|----------------|---------------|--------------------------|---------------|---------------|---------------|
| | | Total | 1959 | 1960 | 1961 | Total | 1959 | 1960 | 1961 |
| 0 | Food | 12.08 | 2.98 | 9.78 | 18.08 | 13.52 | 13.04 | 14.14 | 13.3 |
| 1 | Beverages & tobacco | 0.02 | 0.21 | 0.01 | 0.01 | 0.23 | 0.52 | 0.13 | 0.0 |
| 2 | Crude materials, in- edible, except fuels | 10.56 | 24.70 | 7.55 | 11.61 | 5.83 | 5.13 | 5.45 | 6.7 |
| 3 | Mineral fuels, lubri- cants | 0.20 | 0.11 | 0.24 | 0.17 | 9.67 | 11.41 | 9.90 | 7.9 |
| 4 | Animal, vegetable oils and fats | 0.59 | 0.84 | 0.44 | 0.75 | 0.52 | 0.49 | 0.43 | 0.6 |
| 5 | Chemicals | 10.85 | 4.51 | 7.91 | 17.12 | 10.21 | 11.23 | 9.07 | 10.4 |
| 6 | Manufactured goods classified chiefly by materials | 42.38 | 44.55 | 52.72 | 25.54 | 24.04 | 26.39 | 21.68 | 24.3 |
| 7 | Machinery & transport equipment | 22.41 | 20.55 | 20.50 | 25.90 | 32.21 | 28.53 | 35.97 | 31.6 |
| 8 | Miscellaneous manu- factured articles | 0.86 | 1.54 | 0.79 | 0.78 | 2.78 | 2.90 | 2.79 | 2.6 |
| 9 | Commodities & trans- actions not classi- fied according to kind | 0.05 | 0.01 | 0.06 | 0.04 | 0.98 | 0.35 | 0.43 | 2.0 |
| | Total | <u>100.00</u> | <u>100.00</u> | <u>100.00</u> | <u>100.00</u> | <u>100.00</u> | <u>100.00</u> | <u>100.00</u> | <u>100.00</u> |
| | (Value in 1,000 pesos) | <u>210,418</u> | <u>19,406</u> | <u>116,763</u> | <u>74,248</u> | | | | |

Sources: Tariff Commission for NNI
UN Yearbook of Trade Statistics for Philippine Imports

gether account for 65 per cent of total importations made during those years. If we add the importation of chemicals, food commodities as well as inedible crude materials, the 98 per cent of the total imports of the NNI are fully accounted for. Thus, 5 major groups of commodities account for the major share of import transaction during this period.

Table 6 gives a 2-digit breakdown of all these major NNI imports. Basic metal imports dominate the total importation of the industry groups followed by non-electric machinery. Textile yarns and fabrics account for about 15 per cent of the total importation.

The proportion of NNI imports to total imports is only small. The only commodities in which the importation of new and necessary industries appeared to be significant in the sense of being at least greater than 10 per cent of the total imports for the specific commodity group are imports of pulp and waste paper, coffee, tea, cocoa, crude rubber, and basic metal. Overall the recorded importations of new and necessary industries consist of only 6 per cent of the total importation.

There are major reasons for the small proportion of NNI imports. Firstly, NNI imports were either made directly or through local purchase. Since the data we used are on direct importation, only the imports would not reflect fully the actual import dependence of the NNI.

Table 6. MAJOR IMPORTS OF NNI RANKED IN ORDER OF LARGENESS

| <u>SITC Code</u> | <u>Commodity</u> | <u>Value (P1,000)</u> | <u>Percentage of Total</u> |
|------------------|------------------------------------------------------------|---------------------------|--------------------------------|
| 68 | Base Metals | 66,745 | 31.3 |
| 71 | Machinery other than Electric | 41,478 | 19.4 |
| 04 | Cereal & Cereal Preparations | 18,259 | 8.6 |
| 26 | Textile Fibers | 15,969 | 7.5 |
| 65 | Textile Yarns, Fabrics & Made-Up Articles | 15,302 | 7.2 |
| 23 | Crude Rubber Including Synthetic and Reclaimed | 6,991 | 3.3 |
| 51 | Chemical Elements & Compounds | 6,378 | 3.0 |
| 59 | Explosives & Miscellaneous Chemical Materials and Products | 5,389 | 2.5 |
| 72 | Electric Machinery, Apparatus and Appliances | 5,239 | 2.4 |
| 64 | Paper, Paperboard & Manufactures Thereof | 3,840 | 1.8 |
| 25 | Pulp and Waste Paper | 3,801 | 1.8 |
| 07 | Coffee, Tea, Cocoa, Spices & Manufactures Thereof | 3,480 | 1.6 |
| 53 | Dyeing, Tanning and Coloring Materials | 3,400 | 1.6 |
| 69 | Manufactures of Metal | 2,302 | 1.1 |
| 66 | Non-metallic Mineral Manufactures | 2,043 | 1.0 |
| | Others | 12,774 | 6.0 |
| | | <hr/> 213,389 | <hr/> 100.0% |

Secondly, independent sources of statistics direct from the Department of Finance and not from the Tariff Commission⁶ show a major discrepancy in the import figures in the year 1960 (the only year we have detailed figures from the Department of Finance.) Total importations of new and necessary industries amounted to P412 million in 1960 as compared to our figures of P117 million. This shows a very wide discrepancy and leads us to wonder whether these figures are consistent. According to our statistics from the Department of Finance, some of these NNI imports were not directly imported as shown from Table 4. But the proportion of locally purchased imported goods appeared to be relatively small compared to the total NNI imports. In view of the fact that the Department of Finance was directly implementing the provisions of the law on NNI, we are led to believe that the direct imports recorded by the Tariff Commission were understated.

Thirdly, the period of 1959-61 as pointed out earlier was one characterized by a disequilibrium of the balance of payments so that despite the decontrol measures that were adopted by the Philippine government especially after 1960, importations by the NNI were much more difficult compared to the earlier years of the foreign exchange controls, for which unfortunately we have no records. So it may be that a major share of the importations of the NNI were made using standard channels for importations rather than through the law on NNI.

⁶ These data will be analyzed in a later study.

In view of all that has been said, we conclude that the values of NNI imports as recorded by the Tariff Commission are short of their actual values. This however does not rule out the usefulness of the data we have recorded, especially in terms of the pattern of import distribution. It is more important to show the relative distributions of NNI imports by commodity groups for every year and the whole period of 1959-61 instead of showing the absolute values of the imports. An examination through time using 1960 values as the base of the commodity imports, however, is quite revealing. We thus present Table 7 to show the relative movements of the NNI imports between 1959 and 1961. 1960 NNI imports represent a higher level of importation for many of the industries, relative to the preceding and succeeding years.

In the following, we shall concentrate our analysis on the distribution of the imports of new and necessary industries rather than on their absolute values.

NNI IMPORTS IN ACCORDANCE WITH ECAFE CLASSIFICATION OF COMMODITIES

We grouped the NNI imports by utilizing the ECAFE classification of commodities into consumption goods, chiefly consumption goods, chiefly capital goods, and capital goods.⁷

During the period, the direct NNI imports were largely concentrated on consumption goods rather than on capital goods.

⁷It will be instructive to refer to the tables of imports according to this classification of the annual economic surveys of the ECAFE countries. Dr. Hiroshi Kitamura of ECAFE furnished the author with the ECAFE commodity classification system, for which he is grateful.

Table 7. PERCENTAGE DISTRIBUTION OF NNI IMPORTS IN
1960 AND INDEX OF NNI IMPORTS 100 = 1960

| SITC | Commodity | Distribution of Base Year Values | | INDEX OF VALUES 100 = 1960 | |
|------|-----------------------------------------------------------|-------------------------------------|----------------------------------------------|-------------------------------|-------|
| | | By 1-Digit Commodity | By 2-Digit within 1-Digit Commodity | 1959 | 1961 |
| | | | | | |
| 0 | Food | 9.78 | 100.00 | 5.1 | 117.6 |
| 01 | Meat & meat preparations | | * | 3,920.3 | - |
| 02 | Dairy products, eggs & honey | | 5.52 | 24.7 | 92.1 |
| 04 | Cereal & cereal preparations | | 56.09 | 0.1 | 185.0 |
| 05 | Fruits & vegetables | | 0.62 | 7.1 | 155.8 |
| 06 | Sugar & sugar preparations | | 0.20 | - | 28.7 |
| 07 | Coffee, tea, cocoa, spices & manu- factures thereof | | 25.69 | 6.8 | 11.8 |
| 08 | Feeding stuff for animals | | 11.77 | 8.3 | 40.1 |
| 09 | Miscellaneous food preparations | | 0.11 | 99.5 | 25.8 |
| 1 | BEVERAGES & TOBACCO | * | | 881.5 | 26.8 |
| 11 | Beverages | | * | 881.5 | - |
| 12 | Tobacco & tobacco manufactures | | - | - | - |
| 2 | CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS | 7.55 | 100.00 | 54.4 | 97.8 |
| 21 | Hides, skins, fur skins, undressed | | 4.24 | 34.3 | 25.3 |
| 22 | Oil seeds, oil nuts & oil kernels | | 1.33 | 12.6 | 42.4 |
| 23 | Crude rubber, including synthetic & reclaimed | | 34.08 | 3.9 | 129.0 |
| 24 | Wood, lumber & cork | | 3.98 | - | 45.1 |
| 25 | Pulp & waste paper | | 19.63 | 9.4 | 48.2 |
| 26 | Textile fibers (not manufactured) | | 29.84 | 164.6 | 128.6 |
| 27 | Crude fertilizers & crude minerals | | 4.24 | 7.2 | 49.6 |
| 28 | Metalliferous ores & metal scrap | | 0.27 | - | 5.9 |
| 29 | Animal & vegetable crude materials, inedible | | 2.39 | 4.0 | 20.4 |
| 3 | MINERAL FUELS, LUBRICANTS | 0.24 | 100.00 | 7.8 | 44.3 |
| 31 | Mineral fuels, lubricants & related products | | 100.00 | 7.8 | 44.3 |
| 4 | ANIMAL, VEGETABLE OILS & FATS | 0.44 | 100.00 | 31.6 | 107.5 |
| 41 | Animal & vegetable oils, fats, greases and derivatives | | 100.00 | 31.6 | 107.5 |
| 5 | CHEMICALS | 7.91 | 100.00 | 9.5 | 137.6 |
| 51 | Chemical elements & compounds | | 38.98 | 8.0 | 69.0 |
| 52 | Mineral tar | | * | - | 814.9 |

| SITC | Commodity | Distribution of | | INDEX OF VALUES | |
|------|-----------------------------------------------------------------------------------|----------------------|-------------------------------------|-----------------|---------|
| | | Base Year Values | | 100 = 1960 | |
| | | By 1-Digit Commodity | By 2-Digit within 1-Digit Commodity | 1959 | 1961 |
| 53 | Dyeing, tanning & coloring materials | | 22.28 | 10.3 | 55.3 |
| 54 | Medicinal & pharmaceutical products | | 3.93 | 52.9 | 1,908.8 |
| 55 | Essential oils, perfume materials, toilet polishing & cleansing preparations | | 0.12 | 38.2 | 137.3 |
| 56 | Fertilizers, manufactured | | * | - | - |
| 59 | Explosives & miscellaneous chemical materials & products | | 34.69 | 5.5 | 62.7 |
| 6 | MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIALS | 52.72 | 100.00 | 14.0 | 30.8 |
| 61 | Leather & leather manufactures | | 0.03 | 273.2 | 90.4 |
| 62 | Rubber manufactures | | 0.46 | 50.3 | 37.2 |
| 63 | Wood & cork manufactures | | 0.02 | 1,754.1 | 336.2 |
| 64 | Paper, papeboard & manufactures thereof | | 1.63 | 134.9 | 147.9 |
| 65 | Textile yarns, fabrics & made-up articles | | 15.82 | 18.7 | 38.4 |
| 66 | Non-metallic mineral manufactures | | 2.18 | 17.2 | 34.4 |
| 67 | Gold, silver, platinum, jems & jewelry | | 0.12 | 0.5 | - |
| 68 | Base metals | | 77.35 | 9.7 | 30.6 |
| 69 | Manufactures of metal | | 2.39 | 19.4 | 37.0 |
| 7 | MACHINERY & TRANSPORT EQUIPMENT | 20.50 | 100.00 | 16.7 | 80.3 |
| 71 | Machinery other than electric | | 87.22 | 12.8 | 85.9 |
| 72 | Electric machinery, apparatus & appliances | | 11.61 | 43.8 | 44.4 |
| 73 | Transport equipment | | 1.17 | 34.6 | 24.6 |
| 8 | MISCELLANEOUS MANUFACTURED ARTICLES | 0.79 | 100.00 | 32.2 | 62.5 |
| 81 | Prefabricated building, sanitary plumbing heating, lighting fixtures and fittings | | 6.33 | 128.1 | 185.4 |
| 83 | Travel goods, handbags & similar articles | | - | - | - |
| 84 | Clothing | | * | 11,568.3 | 1,500.5 |
| 86 | Professional, scientific & controlling apparatus & instruments | | 18.98 | 10.4 | 73.6 |
| 89 | Miscellaneous manufacturing articles | | 74.69 | 8.7 | 45.9 |
| 9 | COMMODITIES & TRANSACTIONS NOT CLASSIFIED ACCORDING TO KIND | 0.06 | 100.00 | 2.6 | 40.7 |
| 91) | Returned Goods | | 66.67 | 3.6 | 0.6 |
| 93) | | | 33.33 | - | 148.7 |
| | 1-Digit Total | 100.00 | | 16.6 | 63.6 |

*Less than 0.01 .

This somewhat contradicts the finding from Central Bank import statistics that the import pattern shifted from consumption goods to capital goods as Philippine development proceeded in the 1950's. Table 8 shows however that most of the direct NNI importations have been on the high side in terms of consumption goods (including many categories of materials as the more detailed Table 9 shows), revealing quite well the import dependence of NNI. Consumption good imports of NNI constituted 72 per cent of the total imports. In 1959 NNI imports of consumption goods represented 55.6 per cent of the total imports, in 1960 and 1961 when the foreign exchange difficulties of the Philippines were more marked, consumption good imports represented 73 per cent of the total importation!

In contrast, total Philippine imports, according to ECAFE statistics, contained relatively more capital goods. While in 1959 Philippine consumption good imports according to ECAFE accounted for 52.9 per cent, by 1961 consumption good imports were 49 per cent of the total imports. Thus, the NNI directly promoted by the import substitution policy had a higher consumption good imported components than was the case for the whole Philippine economy.

A more detailed breakdown of the NNI imports by ECAFE type of goods is contained in Table 9. This table also segregates the distribution of importation by countries as well as leads us directly to the next topic.

Table 8. PER CENT DISTRIBUTION OF NNI IMPORTS BY TYPE OF GOODS

| | UNITED STATES | | | OTHER COUNTRIES | | | PHILIPPINE IMPORTS | | | |
|--|---------------|------|------|-----------------|------|------|--------------------|------|------|---------|
| | 1959 | 1960 | 1961 | Total | 1959 | 1960 | 1961 | 1959 | 1960 | 1961 |
| | | | | | | | | | | (Total) |
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Source: last three columns, ECAFE.

Table 9. PER CENT DISTRIBUTION OF NNI IMPORTS BY TYPE OF GOODS
(pesos)

| SITC | I n d u s t r y | U N I T E D S T A T E S | | | | | O T H E R C O U N T R I E S | | | | |
|------------------------------|------------------------------------------------|-------------------------|--------|--------|--------|--------|-----------------------------|--------|--------|--------|------|
| | | Total | 1959 | 1960 | 1961 | Total | 1959 | 1960 | 1961 | Total | |
| | | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | |
| I. Consumption Goods Imports | | | | | | | | | | | |
| 01 | Meat preparation | 0.21 | 3.65 | - | - | 0.23 | 2.82 | 0.04 | - | - | - |
| 02 | Dairy products | 2.32 | - | 2.53 | 2.40 | 4.71 | 12.35 | 6.78 | 2.72 | 2.72 | - |
| 04 | Cereal preparations | 59.28 | - | 40.61 | 82.40 | 21.48 | 0.45 | 38.34 | 15.54 | 15.54 | - |
| 05 | Fruits and vegetables | 0.69 | 0.17 | 0.61 | 0.81 | 0.03 | 0.18 | - | 0.03 | 0.03 | - |
| 06 | Sugar preparations | 0.14 | - | 0.25 | 0.06 | - | - | - | - | - | - |
| 07 | Coffee, tea, etc. & manufactures thereof | 9.73 | - | 21.30 | 0.71 | 6.44 | 15.94 | 11.85 | 2.53 | 2.53 | - |
| 08 | Feeding Stuff for Animals | 5.14 | 1.75 | 8.85 | 2.29 | 4.32 | 6.92 | 7.22 | 2.48 | 2.48 | - |
| 09 | Miscellaneous food preparations | 0.07 | - | 0.14 | 0.02 | 0.10 | 1.22 | - | 0.02 | 0.02 | - |
| 11 | Beverages | 0.02 | - | 0.04 | - | 0.24 | 3.20 | - | - | - | - |
| 31 | Mineral fuels, lubricants, & related materials | 0.03 | - | 0.07 | * | 0.28 | - | 0.91 | - | - | - |
| 54 | Medicinal products | 1.59 | 0.46 | 2.66 | 0.79 | 42.84 | 14.85 | 1.43 | 67.22 | 67.22 | - |
| 55 | Essential oils, etc. | 0.04 | - | 0.05 | 0.04 | 0.11 | 0.32 | 0.10 | 0.09 | 0.09 | - |
| 61 | Leather manufactures | - | - | - | - | 0.01 | 0.08 | - | - | - | - |
| 62 | Rubber | 0.53 | 5.93 | 0.29 | 0.12 | 0.37 | 0.20 | 1.10 | 0.02 | 0.02 | - |
| 64 | Paper manufactures | 1.11 | 11.89 | 0.60 | 0.31 | 0.75 | 0.71 | 1.10 | 0.58 | 0.58 | - |
| 65 | Textile Fabrics | 15.70 | 65.68 | 16.94 | 8.89 | 12.37 | 32.92 | 21.52 | 5.22 | 5.22 | - |
| 63 | Wood & cork | 0.02 | - | - | 0.04 | 0.04 | - | 0.07 | 0.02 | 0.02 | - |
| 66 | Non-metallic manufactures | 0.08 | 0.09 | 0.69 | 0.08 | 0.26 | - | 0.38 | 0.24 | 0.24 | - |
| 67 | Gold, silver, platinum, jems & jewelry | 0.17 | - | 0.39 | - | 0.17 | - | 0.55 | - | - | - |
| 69 | Manufactures of metals | 0.54 | 0.82 | 0.82 | 0.28 | 0.96 | 1.64 | 1.64 | 0.52 | 0.52 | - |
| 83 | Travel goods | 0.02 | - | - | 0.04 | 0.01 | - | - | 0.02 | 0.02 | - |
| 84 | Clothing | 0.59 | 8.86 | 0.01 | 0.15 | 0.13 | 1.66 | 0.01 | - | - | - |
| 86 | Professional, scientific instruments | 0.01 | - | - | 0.03 | 0.04 | 0.40 | 0.02 | - | - | - |
| 89 | Miscellaneous manufacturing articles | 1.86 | 0.70 | 3.56 | 0.52 | 3.61 | 3.99 | 5.80 | 2.46 | 2.46 | - |
| 91 | Returned goods | * | - | - | * | 0.33 | 0.15 | 1.03 | * | * | - |
| 93 | Returned goods | 0.08 | - | 0.18 | - | 0.18 | - | - | - | - | 0.29 |

| SITC | I n d u s t r y | U N I T E D S T A T E S , O T H E R C O U N T R I E S | | | | | | | | | |
|---------------------------------------|-----------------------------------------------|-------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | | | | | | | | | | |
| | | Total | 1959 | 1960 | 1961 | Total | 1959 | 1960 | 1961 | Total | 1959 |
| II. Chiefly Consumption Goods Imports | | | | | | | | | | | |
| 12 | Tobacco Manufactures | * | - | - | 0.01 | - | - | - | - | - | - |
| 21 | Hides, skins and fur skins | 0.81 | - | 1.00 | 0.60 | 0.41 | 1.56 | 0.30 | 0.11 | 0.30 | 0.11 |
| 22 | Oil seeds, oil nuts and oil kernels | 0.42 | - | 0.47 | 0.42 | 0.02 | 0.17 | - | - | - | - |
| 23 | Crude rubber | 8.33 | - | 5.75 | 15.79 | 5.34 | 1.42 | 3.59 | 11.48 | 3.59 | 11.48 |
| 24 | Wood, lumber and cork | 0.72 | - | 1.15 | - | 0.33 | - | 0.18 | 0.88 | 0.18 | 0.88 |
| 25 | Pulp & waste paper | 3.44 | 2.50 | 3.20 | 4.16 | 1.99 | 1.14 | 2.13 | 2.00 | 2.13 | 2.00 |
| 27 | Crude fertilizer | 0.62 | 0.04 | 0.55 | 0.92 | 0.49 | 0.32 | 0.54 | 0.43 | 0.54 | 0.43 |
| 31 | Mineral fuels, lubricants & related materials | 0.04 | 0.30 | 0.01 | 0.03 | 0.01 | * | 0.01 | * | 0.01 | * |
| 26 | Textile fibers (not manufactured) | 1.64 | 5.31 | 0.02 | 4.21 | 13.58 | 50.02 | 5.81 | 16.02 | 5.81 | 16.02 |
| 29 | Animal and vegetable crude materials | 0.18 | 0.08 | 0.18 | 0.21 | 0.27 | 0.07 | 0.38 | 0.10 | 0.38 | 0.10 |
| 41 | Vegetable oils | 0.48 | 0.08 | 0.60 | 0.26 | 1.47 | 1.93 | 0.82 | 2.89 | 0.82 | 2.89 |
| 51 | Chemical Elements | 7.97 | 1.25 | 7.62 | 10.33 | 4.67 | 3.07 | 3.93 | 7.21 | 3.93 | 7.21 |
| 52 | Mineral tar | 0.02 | - | 0.01 | 0.06 | - | - | - | - | - | - |
| 53 | Dyeing, Tanning and Coloring materials | 3.20 | 2.66 | 3.17 | 3.37 | 3.06 | 2.12 | 2.86 | 4.11 | 2.86 | 4.11 |
| 56 | Fertilizers | 0.21 | - | - | 0.74 | 0.03 | - | - | 0.11 | - | 0.11 |
| 59 | Explosives products | 7.48 | 1.48 | 7.93 | 7.94 | 3.56 | 1.63 | 2.88 | 6.11 | 2.88 | 6.11 |
| 61 | Leather manufactures | 0.10 | 0.88 | 0.04 | 0.03 | 0.06 | 0.57 | - | - | - | - |
| 62 | Rubber manufactures | 0.54 | 0.11 | 0.61 | 0.51 | 0.12 | 0.11 | 0.09 | 0.17 | 0.09 | 0.17 |
| 63 | Wood and cork manufactures | - | - | - | - | 0.19 | 1.44 | 0.01 | 0.08 | 0.01 | 0.08 |
| 64 | Paper manufactures | 6.38 | 13.99 | 3.13 | 11.14 | 1.42 | 9.58 | 0.28 | 0.51 | 0.28 | 0.51 |
| 65 | Textile fabrics | 6.51 | 7.49 | 7.33 | 7.33 | 9.61 | 3.26 | 11.13 | 8.71 | 11.13 | 8.71 |
| 66 | Mineral manufactures | 1.56 | 6.90 | 1.17 | 1.12 | 0.75 | 0.18 | 1.02 | 0.31 | 1.02 | 0.31 |
| 67 | Gold, silver, platinum, jems & jewelry | * | * | - | - | * | - | * | - | * | - |
| 68 | Base metals | 48.97 | 56.64 | 55.66 | 32.96 | 52.55 | 21.29 | 63.98 | 38.41 | 63.98 | 38.41 |
| 69 | Manufactures of metals | 0.21 | - | 0.28 | 0.09 | 0.06 | 0.12 | 0.04 | 0.01 | 0.04 | 0.01 |
| 86 | Scientific instruments | 0.16 | 0.18 | 0.11 | 0.29 | 0.01 | - | 0.01 | 0.01 | 0.01 | 0.01 |

| SITC | I n d u s t r y | U N I T E D S T A T E S , O T H E R C O U N T R I E S | | | | | | | | | | |
|------------------------------------|-----------------------------------------------|-------------------------------------------------------|-------|-------|-------|-------|-------|-------|------|-------|------|------|
| | | 1959 | | | | | 1960 | | | | | |
| | | Total | 1959 | 1960 | 1961 | Total | 1959 | 1960 | 1961 | 1959 | 1960 | 1961 |
| III. Chiefly Capital Goods Imports | | | | | | | | | | | | |
| 65 | Textile yarns, fabrics & made-up articles | 2.07 | 7.88 | 0.45 | 0.12 | 0.04 | - | - | - | - | - | 0.0 |
| 62 | Rubber | 0.56 | - | 1.01 | - | - | - | - | - | - | - | - |
| 28 | Metalliferous and metal scraps | 8.06 | - | 6.95 | 18.43 | 3.34 | 2.79 | 4.11 | 0.15 | 4.11 | 0.0 | 0.0 |
| 31 | Mineral fuels, lubricants & related materials | 13.11 | * | 13.30 | 25.54 | 1.48 | 1.87 | 1.64 | 0.9 | 1.64 | 0.9 | 0.9 |
| 66 | Non-metallic mineral | 76.20 | 92.12 | 78.29 | 55.91 | 95.01 | 95.34 | 94.08 | 97.2 | 94.08 | 97.2 | 97.2 |
| 68 | Base metals | | | | | | | | | | | |
| IV. Capital Goods Imports | | | | | | | | | | | | |
| 61 | Leather | 0.10 | - | 0.10 | 0.14 | 0.08 | 0.34 | 0.05 | 0.1 | 0.05 | 0.1 | 0.1 |
| 66 | Non-metallic minerals | 0.82 | 0.18 | 1.07 | 0.69 | 0.90 | - | 1.47 | 0.2 | 1.47 | 0.2 | 0.2 |
| 68 | Base metals | 4.45 | 8.63 | 5.13 | 2.17 | 2.90 | 5.40 | 4.18 | 0.8 | 4.18 | 0.8 | 0.8 |
| 69 | Manufactures of metals | 6.19 | 7.21 | 7.32 | 4.33 | 1.76 | 2.31 | 2.52 | 0.6 | 2.52 | 0.6 | 0.6 |
| 71 | Machinery (non-electric) | 74.57 | 74.22 | 69.69 | 81.20 | 83.94 | 32.93 | 82.81 | 93.5 | 82.81 | 93.5 | 93.5 |
| 72 | Other machinery | 11.88 | 7.93 | 14.91 | 9.15 | 8.79 | 52.39 | 7.17 | 4.0 | 7.17 | 4.0 | 4.0 |
| 73 | Transport Equipment | 0.59 | 0.29 | 0.91 | 0.23 | 1.03 | 4.61 | 1.09 | 0.4 | 1.09 | 0.4 | 0.4 |
| 81 | Prefabricated buildings | 0.83 | 1.37 | 0.39 | 1.24 | 0.18 | 1.84 | 0.09 | 0.0 | 0.09 | 0.0 | 0.0 |
| 86 | Professional scientific instruments | 0.57 | 0.17 | 0.48 | 0.83 | 0.41 | 0.15 | 0.62 | 0.1 | 0.62 | 0.1 | 0.1 |

* Less than 0.01

GEOGRAPHIC DISTRIBUTION OF IMPORTS OF THE NEW AND NECESSARY INDUSTRIES.

Table 10 shows the geographic sources of NNI imports. The United States accounted for almost one-half of total NNI imports, Japan sold one-fourth, the rest of the imports came from West European countries, Malaya and Pakistan.

In Table 11 the percentage distribution of total NNI imports from 1959-1961 by 2-digit SITC and by country of origin. The US accounted for a great deal of the imports under a wide classification of commodities.

The Laurel-Langley Agreement apparently played an important role in determining this geographic pattern. In accordance with this agreement, the schedule of Philippine preferential treatment of imports from the US⁸ is as follows:

| | <u>Amount of import duties paid</u> <u>based on rates</u> |
|-------------|--------------------------------------------------------------|
| 1956-58 | 25 per cent |
| 1959-61 | 50 per cent |
| 1962-64 | 75 per cent |
| 1965-74 | 90 per cent |
| 1974-beyond | 100 per cent |

During the whole period under study, the rate of tariff preference for US goods was 50 per cent of existing tariff rates. The geographic distribution of imports appeared to be largely the same as the pattern for all imports. Even at present, the U.S.

⁸Article I, Section 1.

Table 10. COUNTRY OF ORIGIN OF NEW AND NECESSARY INDUSTRIES 1959-1961

| C o u n t r y | NNI Imports | | Philippine Imports | |
|----------------|-------------------|----------------------------|--------------------|----------------------------|
| | Value (P1,000) | Percentage Distribution | Value (P1,000) | Percentage Distribution |
| United States | 96,473 | 48% | 775,746 | 45% |
| Japan | 54,019 | 26% | 372,328 | 21% |
| United Kingdom | 9,091 | 4% | 68,334 | 4% |
| West Germany | 5,863 | 2% | 79,987 | 5% |
| Pakistan | 5,754 | 2% | 7,591 | * |
| Malaya | 5,693 | 2% | 15,545 | 1% |
| Canada | 3,433 | 1% | 38,618 | 2% |
| Netherlands | 3,061 | 1% | 36,082 | 2% |
| Italy | 2,557 | 1% | 11,189 | 1% |
| Australia | 2,152 | 1% | 25,187 | 1% |
| Switzerland | 2,139 | 1% | 12,405 | 1% |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 190,235 | 89% | 1,443,012 | 83% |
| Others | 24,361 | 11% | 295,736 | 17% |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

*Less than 0.50 .

Table 11. PER CENT DISTRIBUTION TOTAL NNI IMPORTS
BY COUNTRIES OF ORIGIN, 1959-1961

| Commodity | Total NNI IMPORTS | | |
|----------------------------------------|-------------------|--------------------|----------------------|
| | Total NNI Imports | from United States | from other Countries |
| 1 Meat & meat preparations | 100.0 | 58 | 42 |
| 2 Dairy products | 100.0 | 42 | 58 |
| 4 Cereals | 100.0 | 80 | 20 |
| 5 Fruits & vegetables | 100.0 | 97 | 3 |
| 6 Sugar | 100.0 | 100 | 0 |
| 7 Coffee, tea, etc. | 100.0 | 69 | 31 |
| 8 Feeding stuff for animals | 100.0 | 64 | 36 |
| 9 Miscellaneous Food preparations | 100.0 | 50 | 50 |
| 1 Beverages | 100.0 | 10 | 90 |
| 2 Tobacco | 100.0 | 100 | 0 |
| 1 Hides, skins, etc. | 100.0 | 51 | 49 |
| 2 Oil seeds, oil nuts, oil kernels | 100.0 | 92 | 8 |
| 3 Crude rubber | 100.0 | 45 | 55 |
| 4 Wood, lumber & cork | 100.0 | 54 | 46 |
| 5 Pulp and waste paper | 100.0 | 48 | 52 |
| 6 Textile fibers (not manufactured) | 100.0 | 6 | 94 |
| 7 Crude fertilizers and crude minerals | 100.0 | 41 | 59 |
| 8 Metalliferous ores & metal scrap | 100.0 | 68 | 32 |
| 9 Animal & vegetable crude materials | 100.0 | 26 | 74 |
| 1 Mineral fuels, lubricants, etc. | 100.0 | 49 | 51 |
| 1 Animal & vegetable oils, fats etc. | 100.0 | 14 | 86 |
| 1 Chemical elements & compounds | 100.0 | 48 | 52 |
| 2 Mineral tar | 100.0 | 100 | 0 |
| 3 Dyeing, tanning & coloring materials | 100.0 | 36 | 64 |
| 4 Medicinal & pharmaceutical products | 100.0 | 5 | 95 |
| 5 Essential oils, perfume, etc. | 100.0 | 38 | 62 |
| 6 Fertilizers, manufactured | 100.0 | 76 | 24 |
| 9 Explosives | 100.0 | 53 | 47 |
| 1 Leather | 100.0 | 45 | 55 |
| 2 Rubber | 100.0 | 73 | 27 |
| 3 Wood and cork | 100.0 | 4 | 96 |
| 4 Paper | 100.0 | 70 | 30 |
| 5 Textile yarns | 100.0 | 42 | 58 |
| 6 Non-metallic mineral manufactures | 100.0 | 50 | 50 |
| 7 Gold, silver, platinum, etc. | 100.0 | 61 | 39 |
| 8 Base metals | 100.0 | 33 | 67 |
| 9 Manufactures of metals | 100.0 | 68 | 32 |
| 1 Non-electric machinery | 100.0 | 40 | 60 |
| 2 Electric machinery | 100.0 | 50 | 50 |
| 3 Transport equipment | 100.0 | 29 | 71 |
| 1 Pre-fabricated Buildings | 100.0 | 78 | 22 |
| 3 Travel goods, etc. | 100.0 | 70 | 30 |
| 4 Clothing | 100.0 | 87 | 13 |
| 6 Professional, scientific instruments | 100.0 | 58 | 42 |
| 9 Miscellaneous manufacturing articles | 100.0 | 44 | 56 |
| 1) | 100.0 | 0.4 | 99.6 |
| 1) Returned goods | | | |
| 3) | 100.0 | 40 | 60 |