

Once import controls expired by law,¹⁴ the exchange controls became instrumental in determining the end-use of the imports. The intricate procedures for foreign exchange allocations after 1954 were inherited and further developed by the Central Bank from the Import Control Board. The laws on the sale of foreign exchange cited below do not tell the whole story. Again, the exchange controls are to be seen in the light of the import substitution policy and of the competing import requirements of the new and necessary industries.

Before discussing the effects of the import and exchange controls on import substitution, it will be helpful to substantiate all statements with actual statistical tables. Tables 2.a to 2.c are based on the three classifications of imports already cited. Tables 2.a and 2.b are based on the Central Bank classification schemes and Table 2.c on the ECAFE. Unfortunately, the import classifications were begun only in 1954 when the Central Bank assumed administrative duties for the foreign exchange and import controls. Nonetheless, they give a good picture of the industrial pattern. Between 1954 to 1960, machinery and equipment imports occupied only about 9.3 per cent of total imports. Semi-

¹⁴Import controls were defined by administrative orders as well as by R.A. 426 (May 18, 1950) which was further extended by R.A. 650 of May 17, 1951. The latter was terminated on June 30, 1953.

Table 2.a

Imports According to End-Use

(As % of Total Imports)

Total*	Machinery and Equipment	Unprocessed Raw Materials	Semi- Processed Materials	Supplies	Durable Goods	Non- Durable Goods
502.5	6.1	3.5	55.0	14.6	2.0	18.8
570.2	8.7	3.2	50.0	18.4	1.2	18.5
537.4	11.0	10.3	50.0	12.2	0.8	15.8
658.1	10.2	8.3	51.3	13.5	0.7	16.1
521.6	9.9	9.2	49.6	13.2	0.3	17.8
530.4	9.0	8.0	52.4	18.2	0.3	12.1
508.5	10.0	11.7	48.5	14.7	0.4	14.7
591.1	12.1	10.2	48.2	11.0	0.4	18.1
504.9	13.3	13.1	51.8	8.7	0.6	12.5
576.3	14.9	13.5	52.2	4.9	1.0	13.4
t 100.0	10.5	9.1	50.9	12.9	0.8	15.8

f. Value (U S. Million Dollars)

CE: Central Bank, Statistical Bulletin, vol. 16, March, 1964.

Table 2 b

Imports Classified by "Official" Category
(As Per Cent of Total Imports)

Year	Essential Producer	Semi- Essential Producer	Non- Essential Producer	Essential Consumer	Semi- Essential Consumer	Non- Essential Consumer	Unclass- sified	Decon- trolled
1954	40.2	16.5	7.9	2.1	1.1	6.8	12.6	12.7
1955	46.5	11.6	8.4	3.9	0.7	5.3	9.5	14.0
1956	54.8	12.1	6.8	2.5	0.5	3.2	5.6	14.4
1957	52.0	12.2	6.9	3.4	0.7	3.5	8.0	13.2
1958	50.4	12.4	4.9	4.9	0.5	0.8	7.1	18.9
1959	61.3	11.9	3.7	1.1	0.6	1.1	7.1	13.1
1960	59.4	10.2	4.8	2.0	0.4	1.1	6.7	15.3
1961	60.2	9.4	6.2	1.6	0.5	1.6	6.8	13.7
1962	64.0	11.9	6.9	1.3	0.5	1.8	5.4	8.2
1963	59.7	11.3	7.5	1.4	0.6	2.7	8.3	8.5
1954- 1963								
Average Per Cent	54.9	12.0	6.4	2.4	0.6	2.8	7.7	13.2

SOURCE: Central Bank Statistical Bulletin vol. 16, March 1964.

Table 2.c
 ECAFE Classification of Philippine Imports
 (Per Cent of Total Imports)

Year	Consumption Goods	Chiefly for Consumption	Capital Goods	Chiefly for Capital Goods
1952	48.9	19.9	22.4	8.9
1953	48.9	17.9	21.9	11.3
1954	47.7	17.4	23.3	11.6
1955	47.3	16.5	24.8	11.4
1956	39.3	16.7	31.0	13.0
1957	37.3	18.3	34.6	9.8
1958	38.3	20.5	33.6	7.6
1959	28.5	24.4	38.2	8.9
1960	27.0	19.2	46.1	7.7
1961	26.7	22.6	44.9	5.8
1962	24.7	27.6	43.6	4.1
1952- 1962				
Average Per Cent	37.7	20.1	33.1	9.1

SOURCE: United Nations, ECAFE Survey 1963, Bangkok, 1964.

processed raw materials accounted for 50.9 per cent of total imports. Unprocessed raw materials only 7.9 per cent. This meant that for 1954-60, total raw material imports accounted for 5.8 (but nearly 85 per cent of all raw material imports were in semi-processed form!). It is a messy work to disentangle just what is meant by "semi-processed". However, such raw materials included completely knocked-down parts of appliance and automobile imports and probably included those inputs which were in the last stages of processing. They therefore included the imports of "new and necessary" industries which took the forms of mere assembly work as the value-added to manufacturing contributed.

✓ The other clue to the industrialization pattern is in terms of official categories defined for purposes of import controls. Controlled imports were subdivided between producer goods and consumer goods, which are each subclassified as essential, semi-essential, and non -essential. In addition, there is a small category of unclassified items and those "decontrolled", which were usually imports directly transacted by exporters.¹⁵ For the whole period covered by the table, producer imports were 68.9 per cent of total imports, while consumer goods accounted

¹⁵Under the so-called No-Dollar Import Law, or Barter Law, RA 1410, these imports were designed to given exporters some bonus for their export proceeds by allowing them to retain a portion of such proceeds to transact their own imports. I hope to touch on this item in the future.

for a smaller amount, only 6.7 per cent. The remainder (which is a sizable 22.5 per cent) are "unclassified" and "decontrolled" items, most of them consumer goods when considered in terms of final use. Evident from this therefore is that a sizable amount of the raw materials (mostly semi-processed according to end-used) were classified either as "essential" or "semi-essential". (Appendix will try to show the definitions of the terms).

By using the ECAFE classification, which apparently uses a different scheme, consumption goods imports (including those classified as "materials chiefly for consumption") accounted for 60.5 per cent, the remaining going to capital goods imports. The pattern of increasing capital goods imports is noticeable, but this is much more modest than the statistics presented when classified as "producer goods imports". Note also that total import values have not increased substantially from the 1954 level, so the per cent shifts may be illusory as far as absolute growth of certain items are concerned.¹⁶

⑥ The statistics quoted suggest that domestic import substitution was related to high import requirements. The exchange and import controls, especially during the earlier period, induced

¹⁶I shall take up in greater detail the import-dependence aspect of Philippine industrial growth in a forthcoming paper, "The Import-Dependence of Import-Substitution," Institute of Economic Development and Research.

a market-oriented industrialization without important regard, it appears, for long run objectives of comparative advantage.¹⁷ (But I shall take this up in connection with a later topic.)

✓ I shall now dwell on the impact of the exchange and trade controls on final goods supply and on foreign participation. The restriction of the entry of final goods from the foreign sector created a demand for domestically produced or assembled commodities substituting these imported final goods. The effects of such limitation of supply are similar to high tariff protection. Moreover, final goods imports were to be subjected to the foreign exchange and import (including tariff) duties on these goods. Since these final goods imports were considered mostly in the less essential categories, the import duties on them created additional protection to the domestic industries established to replace them. The other category of imports which were not made subject to any of the exchange and import duties are those considered very essential in maintaining reasonable consumer prices. These took the form of importation of basic commodities by the agencies in charge of distributing rice and other basic food essentials like canned goods.¹⁸

¹⁷See G.P. Sicat, "Structure of Philippine Manufacturing," op. cit.

¹⁸These are mostly imports of the National Rice and Corn Administration (NARIC) and the National Marketing Corporation (NAMARCO).

The other restrictive aspect of the exchange controls took the form of "Who" should get, or "For Whom" are, foreign exchange allocations. This has important consequences for the program of inducing "new and necessary" industries. The laws on new and necessary industries were non-discriminatory as regards the nationality of the owners of capital. In fact, a listing of those who were given tax exemption under the said laws will show that diverse nationalities -- Filipinos, Chinese and American -- are represented. But as the years of balance of payments difficulties went on and as foreign exchange became scarcer, the class of Filipino entrepreneurs who were operating "new and necessary" industries became more vocal in their demands that the foreign exchange resources of the country should be allotted according to national flags.¹⁹ Thus, "Filipino-First" became an election slogan during the latter part of the 1950's and in 1961. Much of the gain by Filipinos was made at the expense of the Chinese industrial and trading interests. American industrial interests appeared not to have suffered much. No study has been made of the adjustments which were made by the non-Filipino and non-American industrial interests, and to what extent "exits" came about as a result of such nationalistic upheaval. But in terms of new entries in manufacturing, nationalistic demands for more participation have been expressed in such things

¹⁹ Along side this claim, Filipinos in the export sector also claimed that the proceeds of foreign exchange belonged to them because they are "producers." But this is a different story and it deserves fuller re-telling sometime.

as the industrial priority formula adopted by the National Economic Council. Priorities were to be weighted by such factors as profits accruing to Filipinos, number of paid Filipino workers, and remittances of profits abroad. These weights on nationalism were rather high.²⁰ While in terms of the final weighted scores

each industrial applicant may offset such nationalistic barriers, vocal mistrust of foreign economic interests may have discouraged entry in some lines of manufacturing by foreign industrial concerns. Evidence of this is found in the restrictions imposed on foreign-owned oil companies in the late 1950's and, in 1964, against cement firms. Whether this is good or bad can only be judged in terms of the objectives of development policy -- the promotion of import substituting industries which had good long run prospects of survival.

I shall enumerate very briefly some other tools of policy used by the government in promoting industrial growth. First is the ^①tariff. But this thing has been saddled by disadvantages due to the Trade Agreement with the United States, which allowed low rates of tariffs for imports from the United States. However, some stopgap policies were adopted to circumvent these requirements

²⁰Footnote to be added here substantiating this claim.

-- the first being the foreign exchange tax, then the special import tax, and later the margin fees on the sale of foreign exchange.²¹ Moreover, since the tariff structure is most heavy on final goods imports and less on raw materials, its function during the 1950's was really not significant. The exemption of the "new and necessary" industries from tariff duties from 1951 to the present ("basic industries" after 1962) is an indication of its weakness as a tool of industrial policy in the 1950's. What it failed to accomplish, exchange and import controls performed. With higher rates of tariffs on US goods as foreseen in the Laurel-Langley Agreement, the tariff can become an important policy instrument in the 1960's.

The second type of protective policies can be grouped together as ^②credit policies. The favor given to domestic manufacturing can be discerned from the pattern of lending given by the Development Bank of the Philippines. It should be noted that only Filipinos have been awarded loans in manufacturing.²² Such low interest rates awarded to Filipino interests was an initial advantage in getting established as manufacturing concerns, relative to other enterprises that could not seek such favorable terms for

²¹See above pages, 10-4.

²²See Amado A. Castro, "Problems of Long-Term Financing of Enterprises," G.P. Sicat (ed.) The Philippine Economy in the 1960's.

long-term lending. The Development Bank has given substantial loans to manufacturing enterprises, especially after the mid-1950's.²³ There are other forms of subsidies, such as reparations procurement and help from special semi-government agencies, like the Industrial Development Center. These things are essential ingredients of any policy stimulating industrial growth, but they do not affect the substance of the paper's argument. So, I shall not pay much attention to them.

Other Basic Features of Philippine Industrial Development in the 1950's.

Judged by the multiple protection enjoyed by industry, the industrial development policy in the 1950's was a vigorous one. But a vigorous industrial policy is not sufficient to make a policy the correct long run policy. This implies that either import substitution was not the only available policy for the country to follow or that the particular import substitution policy adopted was not the one that should have been used. It shall be the task of the remaining pages to assess industrial policy in the Philippines in the light of the theoretical issues raised by Philippine experience.

²³Ibid.