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THE DEVELOPMENT OF PHILIPPINE MANUFACTURING SINCE WORLD WAR II

by

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I. A Short History

There was very little manufacturing in the Philippines before World War II. Most of the then existing industry was ancillary to the major agricultural export products. The prominent industries were those processing sugar, coconut, abaca and tobacco. Others were engaged in the processing of mine and forest products, the latter giving rise to some genuine manufacturing of furniture and some plywood. A predominant share of such manufacturing was owned and operated by aliens, primarily Chinese, or mestizo descendants of Spanish settlers. Even with the major changes implemented during the period of American occupation, Philippine manufacturing remained small. True, the scale of the market increased (population rose from seven million at the beginning of the century to more than twenty million at the outbreak of World War II), and there were increased monetization, a vast expansion in literacy and mass media. However, the free entry of American products and the paucity of local entrepreneurs made the development of competitive local manufacturing very difficult.

However, the changes that took place during that period prepared the ground for the great increase in manufacturing during the last two decades. Among these were the infrastructure investments by the American and later the Commonwealth governments, and the progressive breakdown of the old social system which was based on agricultural landlordism. The vast increase and spread of education in

English and the movement of people to towns created a ready labor force for industrialization.

Although only few Filipinos had capital and business experience or inclinations, the 1948 census showed that by that year Filipinos had already a substantial share of the ownership of various industries. The Filipinos comprised almost the entire labor force employed in all sectors and not all of them were confined to the lower echelons.

After the War

Most observers appear to agree that the period between 1945 and 1949 can best be described as the Restoration or Reconstruction Period. The vast destruction caused by the war, especially in Manila, required substantial investments just to get the economy back where it left off when the Japanese occupied the country. That occupation also halted the implementation of the Commonwealth plans for vigorous industrialization policies.

The financing of the reconstruction during the immediate post-war period came primarily from United States sources in the form of spending by the military and war damage payments. The recovery and the solidification of the economic base was further enhanced by the resumed market demand for Filipino exports, especially from the United States. The 1946 U.S.-Philippine trade agreement provided for eight years of free trade between the two countries, after which tariffs were to be gradually imposed and duty free quotas would be progressively reduced. This,

however, left enough room for an imposition of controls by the Philippine authorities beginning in 1949.[1/]

The years 1949 and 1950 mark the end of the reconstruction period. For one thing, the pre-war level of production was restored. For another, the Central Bank came into being and has played a major role in subsequent economic policies. Other factors also contributed to make those two years a turning point. The most important was the drain on the foreign exchange reserves brought about primarily by a combination of inflation, an overvalued peso and the pent up demand caused by wartime shortages. By December 1949 there was no escape from the imposition of import and exchange controls.

The period of controls which lasted until 1960-61 witnessed a remarkable growth of Philippine manufacturing (which is analyzed in detail below). In 1960 a phased decontrol began, the most important feature of which was the gradual elimination of the pegged exchange rate at two pesos per dollar. Until 1962 there were, in fact, multiple exchange rates. In that year, all restrictions on foreign exchange were removed except for 20% of export proceeds which had to be sold to the Central Bank at the old ₱2 to $1 exchange rate. This, too, was eliminated in 1965.[2/]

1/ In fact it was the Joint Philippine-American Finance Commission which studied the Philippine economy in 1947, and that recommended the imposition of controls.

2/ The details of the decontrol measures are presented in section III below.

Factors in the Development of Manufacturing in the 1950's

The balance of payments difficulties mentioned above were accompanied by internal changes, the most relevant was the increasing underemployment and unemployment caused by the sharp increase in population and the progressive exhaustion of land cultivable by traditional methods. Industrialization appeared to many as a solution to these problems. This opinion was strengthened by nationalist feelings against the dependence of the Philippine economy on agricultural exports to the United States.[1/] A semi-ideological commitment to industrialization has developed to make industrialization a major national objective.

Manufacturing proper was not easy to develop especially with the nationalist insistence that it had to be Filipino. Besides economic obstacles common in other underdeveloped countries, there were also noneconomic obstacles somewhat peculiar to the Philippines; e.g., a combination of a society built on a familial system of loyalties with a highly democratic constitution and political system. Although family-based manufacturing enterprises did develop (and most Filipino enterprises still are family firms) such a system has its limitations. For industry to develop apace, a greater emphasis on individual merits and a smaller dependence on the family equivalent of a social security system is required. Only a relatively small, although growing, group had existed which was comparatively free of family bonds. But the

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1/ The alternative to the American market was the notoriously unstable world market for primary products.

impact of the American cultural influence and the mounting economic pressures facilitated a fairly quick change in attitudes. Wealth no longer has to be acquired from landed estates to be respected. Successful industrialists are increasingly gaining in social status.

The new Filipino industrialists had to contend also with the aliens already well established in business. The main alien groups have been the Chinese and the Americans, the latter enjoying the same treatment as nationals. Under the circumstances, the government had to enter into manufacturing if it wanted to enhance its Filipino character. However, the ideological commitment to private enterprise was not entirely consistent with such direct government involvement. Therefore, there was a growing tendency to substitute direct government participation by policies which would encourage and discriminate in favor of Filipino manufacturing. Filipinization of the economy, autarky, and increasing employment have become major goals to guide policy-makers. The resulting policies took the form of high protection and controls against imports, foreign exchange allocations at a highly favorable rate, subsidized credit, and tax exemptions to industries were defined as "new and necessary."[1/]

Such a system of controls gave rise to inevitable favoritism and corrupt

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1/ These policies are discussed in more detail in section III below.

practices. But at the same time the development of Filipino manufacturing has unquestionably proceeded. There have been serious doubts as to the viability of the new industries. Such viability can be gauged by studying the development under the policies of decontrol which partially began in 1960 and have been fully in force since 1962.[1/] This inquiry will constitute an important part of my study.

Although some lip service is being paid to the importance of cottage industry - there is even a government department to look after the interests of such industry, (the NACIDA) - very little importance is given it in actual practice. However, tax exemption is enjoyed by cottage industry. As a result, non-cottage establishments strive to be classified as cottage industries to enjoy this tax benefit. The current number of 36,000 establishments listed with NACIDA is an inflated figure.

As we have seen, the paucity of Filipino businessmen (as distinct from Chinese and other aliens including those who were naturalized) motivated the government to enter industry directly during the early stages of independence. The major instrument used for the establishment of such industry was the National Development Company (NDC). Although it was founded in 1919 by the Americans, only in 1936, with the establishment of the Commonwealth, did the NDC gain impetus. It was to engage in a great variety of economic activities, primarily in the form of a holding company for various government economic entities to be established. But the NDC

1/ The only exception was a requirement that exporters surrender, at the rate of $2 to $1, 20% of their export proceeds to the Central Bank.

was always looked upon as an essentially temporary arrangement in a country committed to private enterprises. Moreover, like many similar forays of government into business in other countries, the NDC turned out to be rather ineffective and its overall impact on the economy has been small.

The experience with government policies in support of private enterprise in the 1950's proved more effective. The controls during the 1950's gave rise to what appeared to be a booming industrial development. The limitations on imports protected against foreign competitors and assured local industries of a ready market. Rates of return ran high because of the rise in prices caused by short supply and also because of the low costs of machinery and raw materials due to the overvalued peso. A significant number of entrepreneurs came from the import sector which has become unprofitable because of the various restrictions. Importers of finished goods became manufacturers who could enjoy the right of importing at favorable exchange rates, materials which they could classify as raw materials.

The decontrol measures exposed certain weaknesses in Filipino manufacturing and have led to soul searching among the entrepreneurs. This reevaluation included changing attitudes toward the desirability of "opening" the family corporations to include qualified outsiders in managerial positions. It also demonstrated a somewhat greater willingness to sell equity shares. However, the stock market is still in its infancy.

Financing

The closed nature of Filipino firms has limited their noncredit financing

resources to the fortunes owned by the family and to the profits derived from their operations. This placed constraints on the possibility of expansion. At first, many firms were also reluctant to obtain loans, but such reluctance substantially decreased in the 1950's. The banking system, especially the banks willing to provide medium and long-term credit, has become essential for the industrialization process.

Banking in the Philippines is fairly well developed as underdeveloped countries go. More important, it is developing vigorously both in terms of the size of the banking sector and in terms of their areas of activity. From 1962 to 1964, "total resources" of the commercial banks increased from ₱3.7 billion to ₱5.9 billion and the number of head offices increased from 27 to 39. Even more relevant has been the increase in the numbers of "development banks" which numbered twenty four in 1964 (as compared to only two in 1959) with estimated resources of more than one billion pesos.

Supplementing these major financing institutions are the rural banks, now numbering 283 with total resources worth ₱245 million, the privately owned insurance companies, and the savings banks. Government financing institutions such as the Government Service Insurance System and the Social Security System have also helped push through the country's industrial program. In fact, these latter institutions are becoming important sources of credit.

The major source for industrial credit has been the Development Bank of the Philippines. During the 17 year period 1947 - 1964, the Development Bank of the Philippines (DBP), formerly known as the Rehabilitation Finance Corporation,

granted ₱1.3 billion in loans to 11,597 industrial enterprises for their establishment and/or rehabilitation. Besides lending, the DBP also provided guarantees for foreign loans from foreign banks with which it entered into agreements. Another of its activities has been the sponsoring and supporting of the development banks mentioned above.

Short-term loans to the industrial sector have been provided by the Philippine National Bank. To meet demands for underwriting new capital issues and expansion loans, two new institutions were organized in 1963, the Private Development Corporation of the Philippines (PDCP) and the National Investment and Development Corporation (NIDC). The PDCP objectives are: (1) to provide medium and long-term loans and equity financing, (2) to extend technical services, (3) to sponsor any issue or conversion of shares and activities of other corporations, and (4) to guarantee the payment of loans.

The underlying idea which led to the establishment of the PDCP was to have an institution which would provide medium and long-term equity and debt-financing to private productive industries seeking such help. The initial fund amounted to ₱112.5 million, ₱25 million representing equity capital, and ₱87.5 million loan capital, furnished by the World Bank and the Agency for International Development. Among those aided have been a sugar central, a deep-sea fishing project in the Visayas, a chemical conversion plant, and a ceramics enterprise. Except for three new projects, the loans were for expansion purposes.

As a subsidiary investment corporation of the Philippine National Bank (PNB), but with a separate investment program, the NIDC will primarily participate in medium and long-term loans and underwrite investment issues of basic industries, new export products, and "wage goods" production, in an effort to speed up the country's industrialization program. It has an authorized capital of ₱100 million, of which ₱32.2 million has been paid up. Of the latter, ₱25 million was PNB subscribed, in addition to an outstanding guarantee of ₱63 million.[1/]

In order to more effectively utilize the resources of the financial institutions controlled by the government, a Loans and Investment Council was organized. This Council enables the pooling together of the resources of these institutions to meet capital demands. A good example of how this worked out in practice was the support provided to the first integrated steel mill in the Philippines by the syndicated financing of the member institutions of the Council.

Branches of Manufacturing

Among the earliest industrial complexes set up in the 1950's were textile mills, food preservation and processing plants, wood manufacturing firms, and metal products mills, including those for the manufacture of pipes and fittings. Other industries followed, such as pulp and paper, cement, fuel refinery, ceramics, and milk.

1/ The last three paragraphs are based on Philippine Department of Commerce and Industry, Philippine Industry, 1965, pp. 148-9.

Meanwhile, the manufacturing enterprises already in existence were encouraged to utilize their full rated capacities in pursuance of the immediate national objectives. Industrial policies, however, emphasized the development of basic industries: (1) an integrated steel industry, (2) metal industrial for the smelting of aluminum, nickel, and zinc, (3) chemical industries which included soda ash, caustic soda, and fertilizers, (4) pulp and paper industries, and (5) firms for the manufacture of non-metallic products which included the manufacture of glass, ceramics, and cement.

The shift has been encouraged by government policies. Philippine industry really got underway beginning in 1950 and after 14 years had made substantial headway, although it failed to reach the expected targets. At present, some of the largest industrial ventures are concentrated in food manufactures, textiles, cement, chemicals and chemical products, plywood and veneer, beverages, and pulp and paper. Present industrial enterprises are gradually moving away from such essentially stopgap industries as processing, packaging, and assembling of products to the heavier, more complex, and more basic industrial activities. There is an ongoing construction of the ₱460 million integrated iron and steel plant in Iligan, Lanao del Norte, with an annual rated capacity of 230,000 metric tons of steel products at an estimated value of ₱86 million. Almost on the same timetable is the Sta. Ines integrated steel mill in Rizal province with a yearly rated capacity of 250,000 metric tons. Besides generating ancillary industries, these two integrated

iron and steel mills are expected to reduce the annual importation of steel products by more than $45.5 million.

In spite of the difficulties caused by decontrol, investments continued to grow. By industrial group, manufacturing, construction, and transportation recorded the highest shares of gross domestic investment for the years 1960-64. In 1963 these three industrial groups invested ₱1,557 million or 67.76 percent of total gross domestic investment. They also registered an 84.2 percent increase in 1961 over the previous year's record.

II. Measurements of Industrial Growth and Structural Change

There is substantial evidence that the Philippine national income statistics are badly in need of improvement. The data used for manufacturing, for example, is completely divorced from the information collected yearly through the Survey of Manufactures. Instead, the national income data are based on the reports sent to the Central Bank by cooperating firms, and then inflated by the total number of manufacturing establishments in each industry class which are listed in the Central Bank. This constitutes a shaky foundation for value added data in manufacturing. For one thing, the reporting firms include only those which have been in existence for a number of years, no new firms (or even industries) have been added. For another, it is doubtful whether the reporting firms constitute a representative sample even of the already existing firms. Moreover, the total number of firms listed by

the Central Bank is neither complete nor up-to-date.

Without getting into further detail, it is fairly clear that the published data on total value added in manufacturing, on rates of growth, on the percentage of the contribution of manufacturing to national income, and on the structural change within manufacturing are unreliable and even misleading. In this paper we will attempt to utilize available data from a variety of sources to present the picture of the growth and change in manufacturing from a number of different angles.

The Program Implementation Agency's Estimates

The Program Implementation Agency (PIA) attempted such measurements, utilizing the following major official sources: the National Economic Council (which compiles the national income statistics), the Central Bank, and the Surveys of Labor Force and manufactures.[1/] Because of the effort made in that study to these official sources together, it seems most appropriate to start this chapter with their findings.[2/]

The summary of the conclusions of the PIA study is as follows:

Trend

1. Organized manufacturing had grown at an average annual rate of 9 percent

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1/ P.I.A., Operational Planning and Statistics Monograph Series, Income and Production No. 1, Trend and Structure of Philippine Manufactures, 1953-1963, (Mimeo, n.d.)

2/ Many adjustments had to be made, but these are too detailed to be presented in the present paper.

(measured at constant prices during the period 1953-1963. This rate is higher than the average annual rate recorded by the Central Bank (CB) (8.7 percent) and the National Economic Council (NEC) (8.6 percent).

2. Due to this very rapid advance of manufacturing proper - rapid relative to other sectors of the economy - it has increased its total share in national income. In 1953, it accounted for less than twenty percent of national income; in 1963, its share was almost a quarter (Table 1).

3. Unorganized manufacturing (defined as establishments employing less than five workers each) is as might be expected, losing its importance. Its decline, which has been very rapid, most probably was brought about by the graduation of many establishments into organized manufacturing. The declining share of unorganized manufacturing bears witness to the hectic pace maintained by organized manufacturing. The lukewarm pace maintained by unorganized manufacturing pulled the growth rate of total manufacturing below the rate of growth of organized manufacturing.

Structure

For the period of 1953 - 1963, with value of products sold as the criterion, one finds that food products claim about 33 percent, household furnishings and supplies 12 percent, clothing 13 percent, and miscellaneous 42 percent (Table 2). It is evident that much of the manufacturing activity is geared to the provision of goods which may be considered as "non-basic." It is also evident that this has not

Table 1

PERCENTAGE DISTRIBUTION OF NATIONAL INCOME BY INDUSTRIAL ORIGIN

CALENDAR YEARS 1953 - 1963

(Based on values at current prices)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Agriculture	28.49	27.33	27.09	25.55	24.74	25.70	24.74	24.51	24.66	23.92	23.99
Mining	1.14	1.10	1.12	1.26	1.34	1.20	1.31	1.23	1.29	1.32	1.39
Manufacturing	19.15	20.42	21.08	21.43	22.20	22.69	23.73	23.21	23.88	24.05	24.34
Construction	5.34	4.61	4.77	6.18	6.51	5.44	5.27	5.29	4.97	4.11	4.65
Trade	11.17	11.15	11.27	11.33	12.21	12.13	12.00	12.96	13.75	14.48	15.08
Transportation	3.45	3.62	3.44	3.71	3.55	3.65	3.83	3.82	3.53	3.45	3.31
Government	7.79	8.25	8.71	8.51	8.04	8.23	8.14	8.30	8.39	8.96	9.16
Services	23.47	23.52	22.52	22.03	21.41	20.96	20.98	20.68	19.58	19.51	18.08
National Income at Factor Cost	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Program Implementation Agency

Table 2

PERCENTAGE DISTRIBUTION OF VALUE ADDED IN MANUFACTURING

CALENDAR YEARS 1953 - 1963

(Based on values at current prices)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I. Food & Beverages	45.31	42.87	36.96	36.47	32.68	33.82	32.60	34.73	33.40	33.24	34.66
II. Clothing	14.01	13.65	12.08	10.73	11.24	9.97	10.39	9.59	7.70	10.77	9.94
III. Household F.	9.56	9.60	10.53	10.93	9.42	9.47	10.40	10.24	9.56	10.99	10.64
IV. Miscellaneous	31.12	33.88	40.43	41.87	46.66	46.74	46.61	45.55	49.34	45.00	44.76
Wood Paper & P. Prod.	7.90	9.44	9.20	10.52	12.18	10.76	10.90	10.18	9.80	9.16	7.94
Tobacco	10.21	8.40	8.25	7.35	8.38	8.09	5.74	4.97	6.01	5.35	4.09
Leather	0.82	1.20	0.96	1.13	2.68	3.54	3.89	3.74	3.89	3.71	3.78
Metal	2.14	2.10	3.59	3.68	4.32	6.36	6.19	7.19	6.58	6.07	3.50
Machinery	3.63	4.34	4.55	4.49	6.22	5.42	7.07	7.67	8.60	8.56	10.01
Others	6.42	8.40	13.88	14.70	12.88	12.57	12.82	11.69	14.46	12.15	13.44

Source: Calculations made by the Program Implementation Agency from a variety of official sources

Table 3

GROWTH RATES OF VALUE ADDED IN MANUFACTURING

AT CONSTANT 1959 PRICES

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	Average
Food & Beverages	3.99	15.68	26.81	4.04	0.23	16.40	10.18	6.39	6.01	6.14	9.59
Clothing	2.68	-1.96	-17.33	4.84	17.69	6.54	3.68	-4.14	19.14	-9.84	2.13
Household Furnishings and Supplies	5.05	14.42	23.53	3.40	3.95	3.16	-	6.75	24.71	7.37	9.23
Miscellaneous	20.58	8.27	14.53	13.76	16.82	18.28	6.57	6.80	4.45	1.61	11.17
Wood & Paper Products	32.31	3.49	16.85	13.46	12.71	28.57	2.34	0.57	-2.84	17.54	12.50
Tobacco Products	22.22	25.76	-10.84	14.86	8.24	-2.17	-3.33	-1.15	8.14	-3.23	5.85
Leather & Rubber Prods.	-10.53	11.76	10.53	52.38	15.63	64.86	13.11	-1.45	-	-30.88	12.54
Metal Prods.	8.33	38.46	52.78	3.64	26.32	34.72	-7.22	14.44	6.80	7.27	18.55
Machinery	19.56	18.18	9.23	15.49	13.41	19.35	27.93	20.42	8.19	-3.78	14.80
Others	21.36	-8.80	22.81	10.71	23.22	5.23	7.46	5.55	6.14	2.89	9.65
TOTAL	10.06	9.58	14.89	7.95	9.53	14.62	6.76	5.55	8.32	2.61	8.99

Source: See Table 2.

always been so. In all the early Census years - 1938 and 1948 - the relative importance of the manufacturing components (on the basis of value of products sold) shows an interesting contrast to the pattern found in the 1961 Census and in the 1956-1962 Surveys of Manufactures. In the earlier years, most of the manufacturing was in food products, miscellaneous goods accounted for only 20 percent of value of manufacturing products, instead of the more than 40 percent since 1955. A similar picture emerges from Table 3 which shows that the rate of growth of miscellaneous manufacturing was higher than that of the other major classifications.

It has always been claimed that the economic policies during the period of controls placed much emphasis on manufacturing; but it was not always made clear which type of manufacturing was emphasized. The discussion above indicates that the stress was on miscellaneous manufacturing, assuming that government policies were the major determinant.

Miscellaneous manufacturing has been presented here to contrast with manufacturing activity geared to the provision of basic needs. A look at what happened to the component parts of this category will shed more light on the structural change. Table 4 shows that all the components of miscellaneous manufacturing have gained on their shares in total manufacturing since 1948.

It can be seen that while all types of miscellaneous manufacturing improved on their share in total value added by manufacturing, some improved their shares more than others. These were the metal products, leather and rubber, machinery and

Table 4

Shares of Miscellaneous Manufactures

in Total Value Added by Manufacturing, 1948 - 1960

Type of Manufacture	Share in 1948	Share in 1960
Wood and Paper	5%	10%
Leather and Rubber	less than 1%	3%
Metal	less than 2%	6%
Machinery, Transport equip.	less than 2%	8%
Tobacco	2%	4%
Others	3%	11%

Source: Calculations of PIA

transport equipment. In terms of absolute value of products sold, these types of miscellaneous manufacturing rose by 1488.15%, 2007.95%, and 1536.14%, respectively, between 1948 and 1960. The less dynamic sectors, wood and paper, tobacco, and others, increased by 819.92%, 953.10%, and 906.84%, respectively, during the same period. These differences in relative growth rates have changed the composition of miscellaneous manufacturing. The more dynamic improved their shares not only in total manufacturing but also in miscellaneous manufacturing; the less dynamic improved on the first count but lost ground on the second (Table 5).

The more rapid advance in metals, leather and rubber, machinery and transport equipment reflects the preferential treatment accorded them in the industrialization program of the government. In weighing the pros and cons of such government policies one should bear in mind that in most miscellaneous industries, the development was mainly in the finishing stages requiring the importation of raw materials.

Productivity and Profitability

There has been a consistent increase in the productivity of labor in the manufacturing industries, which has partly been reflected in an increase in the average individual payroll. In 1956, the average value added per person in manufacturing was ₱1,010; in 1960 this was up to ₱1,432, an increase of 42 percent. The average individual payroll in turn increased by 18 percent. The usual reason for growth of productivity is increased capitalization. That this, in fact, has occurred is

Table 5

Share in Value of Products Sold

by Type of Miscellaneous Manufacturing, 1948-1960

	1948	1960
Miscellaneous	100.00	100.00
Wood and Paper	36.79	24.36
Leather and Rubber	4.37	8.48
Metal	12.09	17.66
Machinery and Transport Equipment	9.78	14.72
Tobacco	24.32	22.53
Others	12.65	12.25

Source: Calculations of PIA

evidenced by the increase in the fixed assets per worker, which rose from ₱4,050 per worker in 1956 to ₱5,300 per worker in 1960.

There has been a climate of confidence in the growth prospects, and this confidence was induced by the favorable environment for profits. The payroll/value added ratio has been declining. Since value added is a composite of payrolls, rent and profits, and since the rent index has anchored itself to an almost constant level, the decline in the payroll/value added ratio must mean a rise in the profit/value added ratio. This means that the percentage increase in profits was higher than in value added and probably also than in gross receipts.

Growth and Structure of Assets

So far, the development of manufacturing was expressed in terms of changes in output, its composition, and its contribution to national income. It would be interesting to supplement, corroborate or contest these results with the help of other indicators. One interesting indicator of change is the growth and composition of assets. Such data can be used to determine whether or not there was a change in capital/output ratios over the years, as well as to give insight into the methods of financing the expansion in manufacturing. Unfortunately, the only available study on the subject could cover only the terminal years of 1948 and 1958, and use only partial data.[1/] The results are nonetheless instructive and are presented in Table 6.

1/ David C. Cole, The Growth and Financing of Manufacturing in the Philippines 1948 - 1958, Institute of Economic Development and Research, University of the Philippines 1962.

Table 6

COMPOSITION AND GROWTH OF ASSETS OF MANUFACTURING ESTABLISHMENTS FROM 1948 TO 1958

(in millions of pesos)

	1948		1958			
	Value of Assets	Per cent of Total Assets	Value of Assets	Per cent of Total Assets	1958 as per cent of 1948	Average annual growth rate (per cent)
Cash	₱ 71.9	12.8	₱ 230.2	7.4	320	12.3
Accounts, notes and bills receivable	54.1	9.6	534.8	17.2	999	25.8
Inventories	164.0	29.2	623.1	20.0	379	14.3
Investments	57.0	10.2	122.5	2.9	215	8.0
Total current assets	347.0	61.8	1,511.6	48.5	436	15.9
Office equipment	23.8	4.3				
Machinery and factory equipment	97.3	17.3				
Land and buildings	68.8	12.3				
Total fixed assets	189.9	33.9	1,198.3	38.5	631	22.0
Other assets	24.1	4.3	404.7	13.0	1,679	32.6
Total assets	569.0	100.0	3,114.2	100.0	556	18.7

Source: Consolidated from tables compiled by David C. Cole, Ibid.

Although various reservations should be attached to these results because of the incomplete comparability between the two sets of data and some doubts should be raised about the accuracy and coverage of the basic data, these are the best available. Moreover, the general tendencies shown in these results are not inconsistent with information available from other sources. Some general tentative conclusions can be derived from these results as follows:

1) There was an impressive expansion in manufacturing assets during the ten year period.
2) The largest to grow were the receivables and fixed assets (including land).[1/]
3) These changes are reflected in the changes in the composition of the assets.
4) One important factor in this changed composition is the shift toward less liquid assets.
5) The increase in receivables reflects increased financing opportunities made available to the manufacturers for the sale of their products.

Some of these conclusions are corroborated by another indicator - the rising share of corporate-owned establishments in total manufacturing assets. For example, recourse to and supply of credit are usually higher for corporations than for private proprietorships. At the same time, data on the structure of liabilities and net worth (not reproduced here) show that in Philippine Manufacturing net worth comprises a very high percentage of total liabilities (52.5% in 1958 as compared to

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1/ The high growth of "other assets" is probably due to differences in coverage.

28.22% in Japan in 1957). The opposite relationship is shown for accounts payable, which are an insignificant percentage (7.7%) of total liabilities. Both reflect the continuing high preference for family firms among the Filipinos.

Energy Input

In view of the difficulties in securing reliable direct production data, it would be enlightening to estimate growth of manufacturing from the input side. The most accurate data on industrial inputs in the Philippines, and in some respects the most revealing, are the data on energy consumption by industry. Such data compiled by James C. Warren, Jr. show that the consumption of energy by industry has been climbing unabated even after the imposition of decontrols (Table 7). In fact, this increase has been quite impressive both in absolute terms and in rates of growth. What is particularly interesting is that the picture portrayed by this indicator is much more encouraging than that portrayed by the Central Bank data on manufacturing. Of course, a number of reservations can be attached to industrial energy consumption as an index of industrial activity, but they are far outweighed by the simple argument that energy bought by industry is a very good indicator of production activity. It is very difficult to store energy. Therefore, current energy purchases should be highly correlated with production.

On the basis of these figures, Warren claims that 1963 was a very good year for Philippine manufacturing, contrary to opinions of various public figures quoted by him. (Actually these quoted statements are contradictory, which is a further

Table 7

ENERGY CONSUMPTION BY PHILIPPINE INDUSTRY

	(1) Fuel Oil Sales Excl. Sales to Meralco (M Bbls)[a]	(2) Industrial Power Sales By Meralco & Maria Cristina FOE (M Bbls)	(3) TOTAL (M Bbls)	(4) % Change	(5) CB Physical Mfg. Index: Index	(6) CB Physical Mfg. Index: % Change
1953	1,193	357	1,550	-	79.0	-
1954	1,321	416	1,737	+12.1%	88.0	+12.4%
1955	1,396	506	1,902	+ 9.5%	100.0	+12.6%
1956	1,566	568	2,134	+12.2%	115.7	+15.7%
1957	1,933	764	2,697	+26.4%	125.0	+ 8.0%
1958	2,352	915	3,267	+21.1%	134.6	+ 7.7%
1959	2,634	1,147	3,781	+15.7%	145.8	+ 8.3%
1960	2,951	1,215	4,166	+10.2%	150.0	+ 3.2%
1961	3,298	1,479	4,777	+14.7%	160.5	+ 6.6%
1962	3,598	1,712	5,310	+11.2%	169.7	+ 5.7%
1963	4,237	1,961	6,198	+16.7%	180.6[b]	+ 6.4%

a. Coal is excluded because of unreliable statistics.

b. Preliminary

Original Sources & Methods: (1) Fueld oil data are Esso estimates from the Petrolium Institute of the Philippines (PIP) and Esso data less consumption figures supplied by the Manila Electric Company (Meralco); (2) Power sales to industry are Esso estimates for Maria Cristina based on the National Power Corporation (NPC) figures, plus actual sales to industry supplied by Meralco; (5) CB Volume Manufacturing Index is from the Central Bank News Digest, March 10, 1964.

Source: James C. Warren, Jr., "Energy and Economic Advance," The Philippine Economic Journal, First Semester 1964, Vol. III, No. 1.

indication of the shortage of reliable data.) It would be difficult to contradict his argument unless it can be shown that an important change in technology, necessitating a great increase in energy requirements per unit of products had taken place. We are not aware of the existence of such evidence. Another possibility is that there was a shift from certain types of manufacturing requiring little energy to other types requiring more energy. This appears plausible, but only a detailed analysis of the users of energy can substantiate this possibility. If proved true, it would show that the current pessimistic prognostications are not entirely groundless, but that they apply only to some industries and not to others.

The tables on the composition of imports presented elsewhere in this paper, appear to support the arguments in this section. These data show that, if anything, the importation of machinery, other capital goods, and raw materials at various stages of processing, were higher from 1960 on than in the immediately preceding years. While this seems to indicate continued expansion, in corroboration of the energy consumption data, it does not necessarily contradict those maintaining that industry is going through a crisis. Some firms had to proceed with their expansion plans in spite of the changing conditions caused by decontrol. Such expansion involved considerable hardships because of the higher exchange rates. This applies particularly to the "new and necessary" industries, most of which are highly dependent on import not only for initial machines and equipment but also for raw materials required for continued operations. Thus, what appeared as contradictory

at first sight might not be so contradictory after all; i.e., the manufacturing sector may have expanded substantially during the first 3 - 4 years of decontrol, but important branches in it have been in difficult financial straits. Preliminary data on 1965 indicate that expansion in most industries has practically stopped. It appears that the accumulated financial difficulties have caught up with manufacturing to create a real crisis.

Degree of Concentration

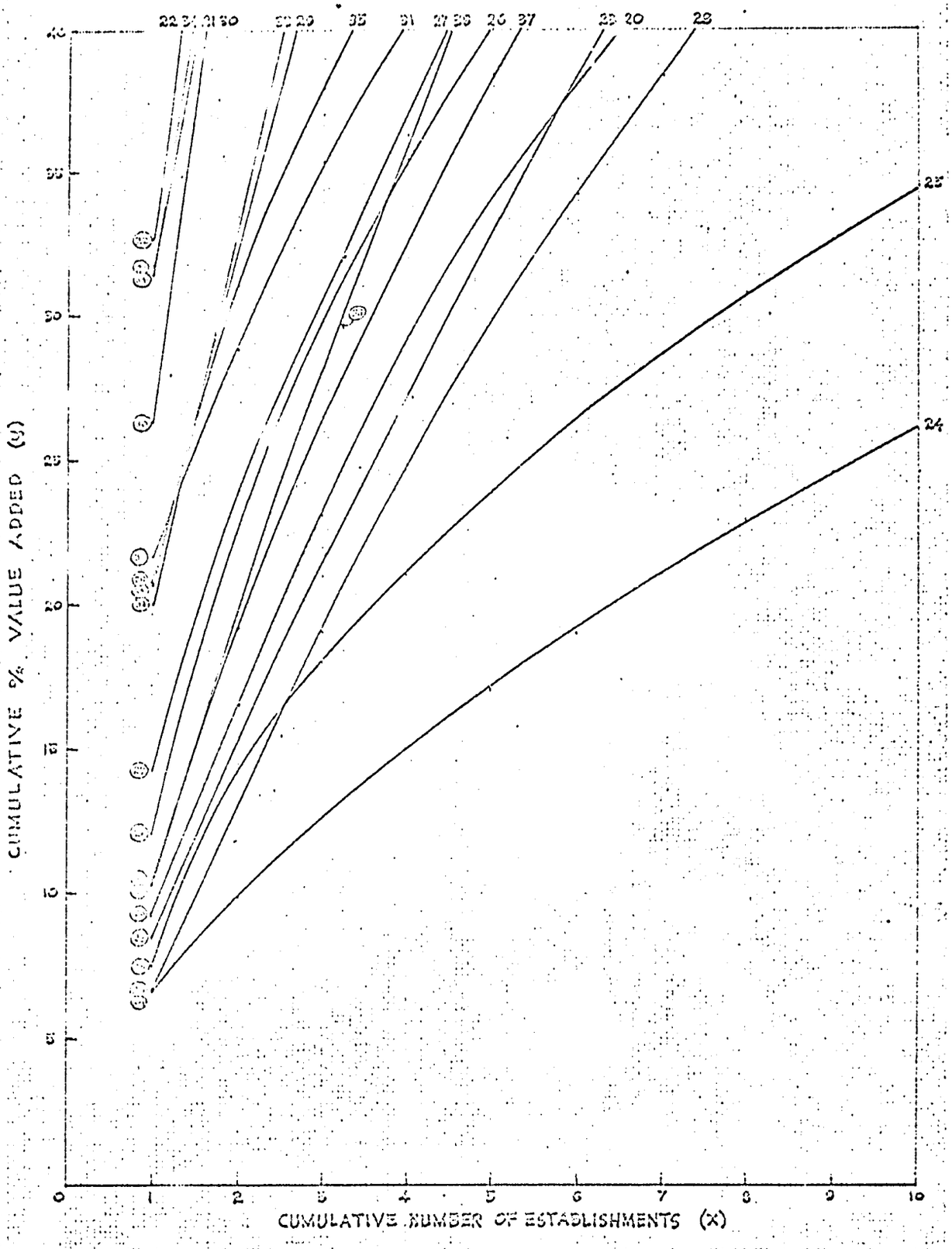
For a number of analytical purposes it would be instructive to know the degree of concentration in various industries. Crude measures would be the percentages of total output and certain inputs which are connected with a specified number of the biggest firms in the various industries. Put differently, such indicators would show what percentages of each industry's activities are concentrated in the hands of few large firms. Such concentration may be determined by the size of the market, by technology, and similar factors determining preferred scales for establishments.

On the basis of the data collected in the 1960 Survey of Manufactures, Dr. Gerardo P. Sicat charted concentration graphs showing the cumulative number of firms responsible for each percentage level of total value added by firms employing twenty workers or more in each two digit industry classification. We reproduce here the part of Sicat's chart with the scope limited to forty percent of total value added (Chart 1).

It is immediately clear from the chart that the degree of concentration differs

Chart 1

DEGREE OF CONCENTRATION OF VALUE ADDED
IN PHILIPPINE MANUFACTURING INDUSTRIES, 1960



among industries. The highest concentration was recorded in tobacco (22), basic metals (34), and beverages (21). The lowest concentration was found in footwear (24), and wood (25) industries. 1/ In order to present the numerical values as percentages of total value added in each classification we compiled Table 8. In that table we present two columns showing these percentages for which the five and ten largest establishments were responsible, respectively. The picture that emerges is basically the same as that derived from the chart, with minor differences. Table 8 also shows that the ranking of industries would change somewhat according to whether we study the largest five or the largest ten establishements.

We conducted similar operations with regard to a major input - employment. Except for power, employment is the only input which is fairly uniform across industries. One would expect that the concentration according to employment would differ somewhat from that according to value added because of the differing factor proportions in different industries. Chart 2 (which like Chart 1, is also taken from Sicat) and Table 9 show the concentration of employment in the manufacturing firms with twenty or more workers. Some industries like basic metals (33) and rubber (30) are highly concentrated in terms of both value added and employment. Footwear (24) and wood (25) are again the industries with lowest concentration. But the ranking of the various other industries is somewhat different when the attribute studied is

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1/ See Table 8 for identifying the nature of the two digit classifications of industries recorded on the chart.

Table 8

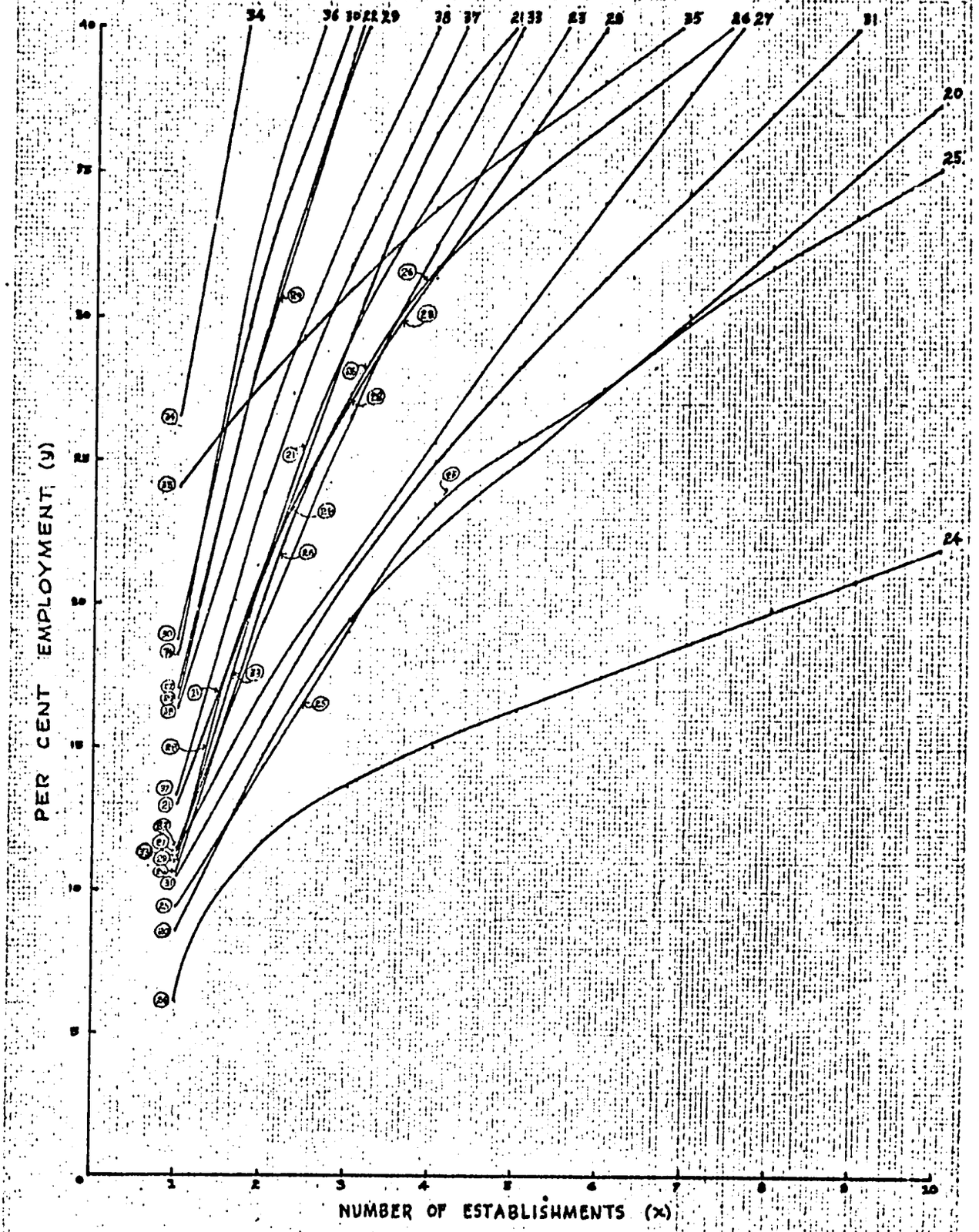
INDICATORS OF CONCENTRATION OF VALUE ADDED
IN PHILLIPINE MANUFACTURING INDUSTRIES, 1960
FOR ESTABLISHMENTS WITH TWENTY OR MORE WORKERS

INDUSTRY		Percent of Total Value Added in Each Industry Produced by the		Total Number of Establishments in 1960
Two-Digit Standard Classification	Product	Biggest Five Establishments	Biggest Ten Establishments	
20	Food	34.17	51.47	315
21	Beverages	65.40	77.86	62
22	Tobacco	74.35	86.65	53
23	Textile	33.03	54.83	81
24	Footwear	17.13	26.07	385
25	Wood	23.85	34.47	180
26	Furniture	40.10	56.15	60
27	Paper	43.13	64.95	57
28	Printed	29.91	49.93	93
29	Leather	61.01	81.16	21
30	Rubber	79.94	88.68	30
31	Chemicals	44.17	58.03	112
32				
33	Non-Metallic	66.22	79.73	74
34	Basic Metal	77.74	89.91	25
35	Metal Products	49.19	60.59	115
36	Machinery	78.68	87.14	42
37	Electrical	38.46	58.94	47
38	Transportation	43.83	69.34	55

Source of Basic Data: Philippines, Bureau of the Census and Statistics, Annual Survey of Manufacturing 1960.

Chart 2

DEGREE OF CONCENTRATION OF EMPLOYMENT IN PHILIPPINE MANUFACTURING INDUSTRIES, 1960*



* SOURCE OF BASIC DATA: SURVEY OF MANUFACTURES, 1960
DATA USED REFER TO ESTABLISHMENTS EMPLOYING 20 OR MORE WORKERS

Table 9

INDICATORS OF CONCENTRATION OF EMPLOYMENT IN PHILIPPINE MANUFACTURING ESTABLISHMENTS WITH TWENTY OR MORE WORKERS, 1960

INDUSTRY		Percentage of the Total Employment in Each Industry Employed by the		Total Number of Establishments in Each Industrial Classification
Two-Digit Standard Classification	Product	Largest Five Establishments	Largest Ten Establishments	
20	Food	24.99	37.29	315
21	Beverages	40.96	56.95	62
22	Tobacco	54.94	72.81	53
23	Textile	37.35	57.25	81
24	Footwear	16.32	21.96	385
25	Wood & Cork	25.68	35.16	180
26	Furniture	34.37	45.15	60
27	Paper	29.84	48.69	57
28	Printed	35.73	51.62	93
29	Leather & Leather Products	50.96	71.54	21
30	Rubber	55.96	74.11	29
31	Chemicals & Chemical Products	28.24	42.65	112
32	Non-Metallic	39.70	58.65	74
33	Basic Metal	69.35	84.34	25
34	Metal Products	35.98	45.63	115
35	Machinery	55.97	68.12	42
36	Electrical	42.66	62.89	49
37	Transportation	44.98	60.96	55

Source of Basic Data: Philippines, Bureau of the Census and Statistics, Annual Survey of Manufacturing 1960.

concentration of employment, as compared to concentration of value added. In our continuing study we will probe deeper to find the reasons for the various degrees of concentration in the different industries.

Rates of Return and Their Implications

An important question relating to the growth and structure manufactures is the rate of return in the various industries. Government policies have been an important determinant of the rates of return. During the 1950's the Philippine government granted multiple incentives to "new and necessary" industries. Elsewhere in this report we go into some detail about the various forms which such incentives took. Here it is sufficient to remark that much of it was in the form of tax exemption and allocation of foreign exchange at favorable rates.

The prevailing opinion is that the impressive development of Philippine manufacturing since 1950 was largely a result of these policies. This might well be so. However, some also go further to state that the industries benefiting from these incentives enjoyed much higher rates of return than the others. This latter opinion, although intuitively reasonable, has not yet been substantiated by a careful analysis of the facts.

A partial attempt in that direction was made by Dr. Sicat in his unpublished paper, "Rates of Return in Philippine Manufacturing." There is no need here to go into the details of the various operations performed by Sicat on the data, or the difficulties with the series of the basic data. Suffice it to say that Sicat attempted

to separate the tax-exempt from the non-tax exempt enterprises to find the differences, if any, in the rates of return relative to sales and to equity capital. Because of gaps in basic data that study had to be confined to the period 1957 - 1962.

According to Sicat's paper, tax-exempt industries had higher average rates of return (computed cross-section) during 1957-60, namely while the controls were on. The opposite was true in 1961 and 1962. But these differences were fairly small. More rigorous statistical tests and comparisons over the years reduced further the differences between the two groups. Moreover, the standard deviations for each mean of all industry groups were quite high, often as much or more than the measured value of the mean. These were particularly large for the tax-exempt firms. In other words, there were very wide variations in the profitability of different firms in the tax-exempt industries.

Only firms which were able to maintain foreign exchange allocations had more consistently high profits. This, and the turning point between 1960 and 1961 suggest that the high dependence on imports, which was particularly strong among the tax-exempt firms, was an important factor reducing profits when decontrol, with the resulting depreciation of the peso, was introduced.

Tentatively it might be concluded that the higher fluctuations in the returns of the tax-exempt firms suggest that the support they received was an important factor in their survival. Since they were more import dependent than the non-tax-exempt industries, they benefitted particularly from the foreign exchange allocations.

These same factors, however, were responsible for their difficulties once these allocations were no longer forthcoming, because the tax-exempt industries have remained highly dependent on imports. To some extent such import dependence is unavoidable in certain industries using raw materials which are not locally available. Yet, such dependence could have been foreseen. There is reason to believe that the supported industries made little effort to be more independent of imports or of government support.

Some idea of the degree of the import dependence can be derived from an estimate by the World Bank Mission for the year 1960. The import content of Philippine industrial output was estimated for that year (which marked the beginning of the end of the controls) to be thirty percent.[1/] It would be higher for some industries, especially among the tax-exempt group.

The Mission ascribed this high dependence on imports to the following three reasons: "First, industrialization started at the finishing end of the manufacturing process with inputs supplied from abroad. There was already a market for consumer goods, capital requirements for an optimum size plant in assembly, finishing and

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1/ Imports were valued at the rate of ₱3.50 to $1 plus allowance for tariffs, trade profits etc. expressed as percentage of gross value of output. If they were valued at the past rate of ₱2 to $1, the import coefficient would have amounted to seventeen percent. See I.B.R.D. Economic Growth of the Philippines, A Preliminary Report Prepared by the Bank Staff, January 19, 1962, p. 19.

light industries in general were lower than in more basic processes, and the technology was simpler than in the production of intermediate products.[1/] Secondly, the Philippines lack raw materials resources for some of the industries; and these industries happened to develop very fast in the postwar period (flour milling, cotton textiles, refining).[2/] However, the third factor conducive to import dependence and directly related to the prevailing foreign exchange system was that raw materials and intermediate products were bought at the official rate of exchange of ₱2 to $1 through the import and exchange control mechanism, and were also exempt from all import duties under the "new and necessary industries" legislation. By contrast, sales prices of finished consumer goods at home, heavily protected by controls and tariffs, were geared to an exchange rate considerably in excess of ₱3 to $1. Cheap imported inputs militated against the domestic development of import substitutes in intermediate products; domestic entrepreneurs were maximizing their profits per unit of equity when they maximized the use of cheap imported materials.[3/]

"Devaluation will affect adversely the segment of industry which is most dependent on imports. This includes textiles, footwear, paper products, rubber products, some chemicals and metal working industries. In most cases profits have been so high in

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1/ G. Y. Itchon, Speculations on the Course of Industrial Development, Bulletin of the Central Bank of the Philippines, September 1961.
2/ Attempts are underway to develop cotton growing.
3/ Sixto K. Roxas, The Basic Industries Act, Manila Times, July 7, 1961.

the past that the cost-price squeeze only means that returns are brought to more normal levels. However, our analysis indicates that some firms may be wiped out unless there is rise in sales prices or a dramatic improvement of efficiency. On the other side of the spectrum are the export industries - sugar mills, plywood plants, coconut oil factories, some other food processing industries - which will earn extremely high profits. A similar situation exists in the relatively few industries that produce basic materials for the home market in competition with imports which have now become much more expensive than in the past (rolled steel, pulp, paper). The net effect of these mutually offsetting changes would be a sharp decline in aggregate profits if sales prices remained unchanged. Some price increases have already taken place."[1/]

These predictions, although reasonable, have not been fully confirmed by later developments. The most surprising departure was the sharp decline in value added in sugar processing. A similar decline was evidenced in "manufacturing exports not elsewhere classified." The explanation given,[2/] for the latter was that the decline in output resulted from reduction in investment. Since these industries are typified by short gestation periods this reduction in investment was reflected quickly in output. This suggests that the difficulties might have arisen on the supply side of investment,

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1/ IBRD, op. cit., pp. 19-20. Footnotes cited in quotations are in the original.
2/ In the National Economic Council, Office of Statistical Coordination and Standards, The National Income of the Philippines CY 1963-1965 (mimeo. March 30, 1966).

probably because of shortage of credit. This is another aspect we intend to probe further.

In summary, the various findings presented in this chapter suggest that manufacturing was developing very rapidly during the 1950's to a large extent because of favorable government policies. The nature of the policy incentives was such that they encouraged industries which were highly dependent on imported raw materials. Consequently, with the relaxation of controls, especially the overvalued exchange rates, these industries found themselves in financial straits. Such difficulties notwithstanding, many industries continued to expand both capacity and production. The reasons appear to have been the already existing commitments and the still accruing profits, albeit at a markedly reduced rate. It further appears that by 1965 the squeeze of reduced profits, higher peso costs of imported raw materials, higher wages, and the constraints placed on credit by the policies of the Central Bank had placed many industries in a difficult situation. As our study progresses we will have more to say on this subject.

III. Control, Tax Exemption and Decontrol, A Short History 1/

The par value of two pesos per dollar was established as far back as 1903. In

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1/ This section is based on various periodical publications of the Central Bank and trade associations and writings of some economists. Since it deals primarily with generally accepted facts, specific references are avoided. The opinions expressed are the author's.

spite of the World War II inflation in the Philippines the same rate was maintained after the war in an agreement signed December 18, 1946, with the International Monetary Fund. The inflation and the cheap foreign exchange encouraged very large imports, resulting in serious declines in foreign exchange reserves. In January 1949, the Central Bank was established, opening the way for a managed currency system to replace what was essentially a gold exchange standard.

Import controls attempted in 1948 were not very effective. But with the establishment of the Central Bank a new powerful policy tool was added to the Philippine authorities - exchange controls. Because of the limitations imposed by the 1946 Trade Agreement with the U. S. on Philippine autonomy in imposing tariffs, the exchange controls acquired special importance. On December 9, 1949, such controls were imposed with two major features: (1) maintenance of the rate of ₱2 to $1 as the official rate, and (2) establishment of a mechanism for the rationing of foreign exchange. Together with import licensing, the new controls were effective in transferring the 1949 balance of payments deficit into a surplus in 1950.

Tax Exemptions

Besides the need to redress the balance of payments deficit, the controls later became a tool for the promotion of import-substituting industries. Although the brunt of such promotion was carried by the measures discussed below, the favored industries benefited from what amounted to a special exchange rate. Republic Act 600 of March 28, 1951, which imposed a 17% excise tax on those buying foreign

exchange from the Central Bank, specifically exempted exchange required for the importation of capital goods and raw materials.

For promotion purposes, a new term was coined, characterizing the industries to be helped as "new and necessary." However, no clear criteria were established for determining which industries qualified. Two laws were passed to provide guidelines for such determination, but both left the definition of "new and necessary" rather vague, leaving much to the discretion of the executive branch of the government.

The first such law was the Republic Act 35 which empowered the President to exempt "new and necessary" industries from the payment of all internal revenue taxes for a period of four years. The definition of the beneficiary industries was left to the President's office.

The second law, Republic Act 901, of June 20, 1953, provided even further incentives. The "new and necessary" industries were exempted from all taxes, not only internal revenue taxes. This was to apply until December 1958, after which the taxes to be paid were to increase gradually culminating in 1962. Firms could enjoy the tax exemption for six consecutive years, after which they had to pay the full income tax.

In this law, a "new" industry was defined as "one not existing or operating on a commercial scale prior to January 1, 1945." The Department of Finance which became the implementing agency, considered an industry as being on a "commercial

scale" if it did not operate merely on an experimental basis and if the industry as a whole was still incurring a loss. A "necessary" industry was considered one that (1) contributes to the attainment of "a stable and balanced national economy." (2) can operate on a commercial scale, and (3) uses raw material imports not to exceed 60 percent of gross value of product. But a rider to the last provision substantially weakened the 60 percent provision, by specifying that notwithstanding such requirement, an industry might be classified as "necessary:"

(a) "if it is determined that a substantial portion of the imported raw materials may, as local industrialization and technological development advance, be available locally so as to enable the industry to utilize substantially greater quantities of domestic materials or if its products used principally in the manufacture or preparation of products of another necessary industry or products intended for exports," and

(b) "if the initial investment in machinery and equipment will be at least two hundred pesos."

This, of course, still left a considerable degree of vagueness. As for the determination of which industries were "conducive to the attainment of a stable balanced economy," the Department of Finance, in an appendix to the implementing circular of RA 901, restricted the definition to the following industries:

iron and steel products
processed local fuels
chemicals
copper and copper alloy products
refractors
processed foods
textile and fiber manufactured from local raw materials
fertilizers

agricultural equipment
refrigerator and airconditioning machinery
raw plastic materials
porcelain products
paper and paper products
medicinal and pharmaceutical products
rubber manufactures
electrical motor
office and school equipments and supplies
household and kitchen utensils
industrial abrasives and others which would be manufactured from by-products and wastes of local agricultural materials

The Screening Committee of the Department of Finance did not have explicit guiding rules for determining the merits of applications. Most difficult, of course, was the question as to how to assess future performance of any establishment or industry. Only in 1960 was a more systematic method introduced for screening applications. All such applications had to go through the National Economic Council, which applied the Industrial Priorities Formula in ranking the applicants, prior to processing by the Department of Finance.

Decontrol

The 17% foreign exchange tax was formally abolished by the Laurel-Langley Agreement of 1955. But the deteriorating balance of payments required a substitute. Such was found in Republic Law 2609 of July 16, 1959, which imposed a "margin fee" of 25 percent over the Bank's exchange rate. The fee returns were not a "tax" in that they accrued to the Central Bank and not the Government. In a curious way this restrictive move marked the dawn of decontrol in two senses: (1) The margin was

uniform and did not discriminate in favor of new and necessary industries (although they continued to benefit from other forms of tax exemption); (2) The margin fee was progressively reduced to 20 percent in November 1960 and to 15 percent in March 1961, until it was finally abolished on December 31, 1964. But the formal and explicit launching of the Philippine Decontrol Program was introduced by Central Bank Circular No. 105 of April 25, 1960. It was designed to gradually lift the exchange and import controls and restore a free trade policy.

The first phase of the program, contained in Central Bank Circulars 105-106, initiated the following: 1) a multiple rate system with dual buying rates and multiple selling rates all of which were administratively set by the Central Bank, 2) a delegation of regulatory functions of the Central Bank to the commercial banking system. All the rates were administratively set by the Central Bank and were not permitted to "freely fluctuate" in the market. The official rate plus the margin fee (for most categories) has become known as the "preferred rate" to distinguish it from the higher rate which was called the "free market rate." Actually, the "free market rate" was no more a free market price than the preferred rate; both were administratively set by the Central Bank fiat. In this first phase, a limited free market of foreign exchange was created wherein one quarter of all foreign exchange receipts were transacted at the initial rate of ₱3.20 to $1.00. This established rate applied in full to the proceeds from gold exports, incoming capital, and other invisibles, the ratios of which were as follows:

	Official Rate	Free Market Rate
a) Export receipts	75	25
b) Gold proceeds		100
c) Tourist receipts		100
d) Invisibles, others	75	25
e) U. S. Government	75	25

The remaining 75 percent was converted at the official rate of ₱2.00 to $1.00. On the import side, however, the cost of foreign exchange at the free market rate was limited to: 1) imports of other goods in excess of quotas for which exchange was made available at the official rate, 2) imports of certain specified categories, amounting to about 25 percent of total imports, and 3) most invisible payments and outgoing capital. In other words, imports classified as non or semi-essential had to be financed through the free market rate. Sales of foreign exchange at the official rate of ₱2.00 to $1.00, plus the margin levy, were limited to the following transactions:

a) Controlled imports (EC, DC, EP, and SEP categories under the Central Bank Commodity Classification)

b) Government expenditures

c) Existing contractual obligations previously approved by the Monetary Board

d) Reinsurance premiums

On September 12, 1960, the free market rate was changed from the original rate of ₱3.20 to $1.00 to ₱3.00 to $1.00, and the percentages subject to the official and free rates as follows:

	Official Rate	Free Market Rate
a) Export receipts	70	30
b) Gold proceeds		100
c) Tourist receipts		100
d) Invisible, others	70	30
e) U. S. Government	70	30

The second phase of the decontrol program was ushered in with the issuance of Central Bank Circular No. 117 on November 28, 1960. Fifty percent of export proceeds were to be surrendered to the Central Bank at the preferred rate of ₱2.00 to $1.00; the other fifty percent was to be converted at the free market rate. Receipts from foreign investments together with gold proceeds were to be converted in their entirety at the free market rate. Sales of foreign exchange (for imports) at the preferred rate of ₱2.00 to $1.00 were limited to 1) decontrolled imports, 2) 50 percent of existing Central Bank allocations for essential producer and consumer goods and some goods under the unclassified items, 3) 40 percent of existing allocations for semi-essential imports, 4) government expenditures within the budget for the fiscal year 1960 - 61 ending June 30, 1961, and 5) special financing items previously approved by the Central Bank. An accompanying measure for the second phase was the previously mentioned lowering of the margin levy on sales of foreign exchange from 25 percent to 20 percent. Central Bank Circular No. 121 of March 2, 1961, accelerated the decontrol program to its third phase. The ratio of foreign exchange receipts to be thrown to the free market rose from 50 percent to 75 percent. Only the following transactions were allowed the preferred

rate: 1) 25 percent of the import requirements of dollar-earning industries, 2) 50 percent of decontrolled imports, 3) government expenditures for the fiscal year 1960 - 1961 ending June 30, 1961, 4) forward exchange contracts approved by the Monetary Board. Other than these transactions, foreign exchange sales were to take place at the free market rate, those in excess of licenses granted by the Central Bank being also included.

Special treatment was given to profit remittance and dividends. Such profits and dividends of foreign investors earned after January 1960, were to be remitted abroad in full at the free market rate. Earnings of prior years could be remitted at the official rate in certain percentages from 25 percent to 100 percent of the non-resident's net profits, or from 20 percent to 60 percent of the capital investment, whichever is lower. The Central Bank was vested with power to determine the actual remittable amount which depended on the so-called "social productivity rating" of the enterprise. This, in turn, was based on the firm's contribution to, 1) national income and employment; 2) to the improvement of the country's balance of payments position; and 3) to supply of the economy's basic needs. The non-remittable part of non-resident profits, termed "blocked pesos" could be used to purchase gold from the gold producers at a specified subsidy price for resale to the Central Bank for foreign exchange at $35 per ounce or they could be reinvested subject to certain conditions and with prior approval of the Central Bank.

Central Bank Circular No. 133 of January 21, 1962, marked the culmination of the phases of the Philippine Decontrol Program. Restrictions on trade and payments were eliminated, resulting in a simplified exchange rate structure. The only remaining exchange control measure was the required surrendering to the Central Bank of 20 percent of the proceeds from merchandise exports. This too was abolished in 1965, thereby establishing a freely fluctuating exchange rate.