

SOUTHEAST ASIA DEVELOPMENT ADVISORY GROUP

Meeting of January 14-15, 1966  
Washington, D.C.

Background Paper

UNITED STATES AID TO THE PHILIPPINES

Agency for International Development

Bureau for the Far East

## REPUBLIC OF THE PHILIPPINES

### The Country

The Republic of the Philippines consists of more than 7,000 islands in the Southwest Pacific, stretching over some 1,100 miles. Its 32 million inhabitants are of predominantly Malay stock, though the population includes a substantial minority of overseas Chinese. The Philippine population is reproducing itself at one of the highest rates in the world--~~3 1/2 percent per annum~~. At present, the population is unevenly distributed, and some areas tend to be overpopulated. The basic social unit, as elsewhere in Asia, is the extended family, from which security and status are derived, and to which primary loyalty and feeling of responsibility are given. Most Filipinos live on the islands of Luzon, Cebu, Negros, Bohol, Leyte and Panay. On the other hand, five large islands--Mindanao, Mindoro, Masbate, Palawan and Samar--as well as parts of Luzon, are sparsely settled and could absorb more people.

The Philippines was granted independence by the United States on July 4, 1946 (though in 1962, the Philippine Government changed Independence Day to June 12, in commemoration of a declaration of independence from Spain proclaimed in 1898 by a national hero, General Emilio Aguinaldo).

### General State of the Economy

The Philippine economy, based on free enterprise, has made impressive progress since independence. The extreme dislocation and destruction of World War II had been overcome, and prewar levels of output restored, by 1948. In the next eight years, real output increased by two-thirds and in the six years following, i.e. to 1962, real national product is estimated to have increased by another 30 percent. All sectors of the economy, with the exception of construction, have grown at rates exceeding population growth. Since 1948, manufacturing output has increased at the rate of about 12 per cent annually. The index of the physical volume of manufacturing output is estimated to have increased over the fourteen years following 1949 by 280 percent. A substantial part of Philippine expansion is attributable to the large U.S. contribution for reconstruction after World War II.

Recently, however, the rate of growth has declined and, indeed, could be characterized as stagnant. For example, GNP in "real terms" rose by only 3.8 percent in 1964<sup>1/</sup>, as compared to a population rise estimated at 3.2 percent. The level of investment has fallen off due to, among other things, the pursuance of a tight money policy by the Philippine Government which has made credit extremely difficult to obtain. Capital is leaving the country at an estimated rate of \$100 million annually. Unemployment is rising. Badly needed public projects are not being built. Exports in 1964 were up only 1 percent, following growths of 10 percent in 1962 and 15 percent in 1963. A trade deficit of \$43 million was experienced in 1964, as compared to a \$95 million surplus in 1963.

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<sup>1/</sup> Philippine GNP in 1964, in constant prices, is estimated to have been about ₱12.9 billion (\$3.3 billion) or about \$104 per capita.

## Industry

Industrial output, which has tripled since 1949, has paced Philippine economic growth, with manufacturing now accounting for some 19 percent of GNP. It is in industry that American participation has made its greatest impact on Philippine economic development with investments totaling just under half a billion dollars.

However, industry has not been able to expand quickly enough to provide jobs for the growing labor force. Consequently, unemployment and under-employment are serious problems. Industrial expansion has been limited by inadequate power and transportation facilities and by the attraction of short-term profits in non-development activities. Perhaps more importantly, the tight credit policy pursued by the Philippine Government in recent years has resulted in an inability by businessmen to expand their operations, and has played a large role in forcing the flight of capital. Industrial expansion has probably also been limited by the consequences of the extended family system, which often substitutes family loyalty for efficiency, and tends to stifle initiative.

The largest industries are textiles, auto assembly, oil refining and mining.

## Agriculture

Notwithstanding the development of the industrial sector, the Philippine economy is still primarily dependent upon agriculture, which accounts for 40 percent of national income and absorbs 60 percent of the employed labor force. The physical environment for farming is excellent, with the possibility existing in many areas of harvesting two crops or more a year. Output has doubled since 1949, primarily from bringing new lands under cultivation. Nevertheless, the Philippines is still not self-sufficient in food production, primarily because of low productivity (the Philippines farmer's productivity is one of the world's lowest). This low productivity, in turn, stems from two factors: (1) an apparent lack of incentive by the farmer to grow more, and (2) a lack of adequate infrastructural facilities, such as irrigation works and farm-to-market roads. The Philippine Government has been concerned about its agricultural difficulties and has sought solutions. For example, in July 1963 a comprehensive agrarian reform law was passed; however, it has fallen far short of expectations because of poor implementation.

The principal agricultural products are rice, copra and coconut, abaca (Manila hemp), sugar cane, corn and tobacco.

### The Public Sector

The public sector has been a victim of the Philippine political process, with which it is so intimately and vitally connected. This has resulted in a serious lag in the development and maintenance of the infrastructural facilities which are indispensable to the growth of the productive sectors of the economy.

As an indication of the dimensions of the problem, a 1961 survey report of the International Bank for Reconstruction and Development pointed out the inadequacy of transportation facilities to meet the needs of commerce and development. For example, the report noted that, of the country's 44,000 kms of public roads and trails, only 7,000 were indicated as paved, 26,000 surfaced with gravel, 4,000 as improved dirt roads, and 7,000 as trails; the latter two categories are normally impassable for motor vehicles. Of the "better" roads, some 3,000 kms of the country's 6,000 kms of paved national and provincial roads and about 1,000 kms of the principal gravel-surfaced roads needed immediate repair and strengthening. In addition, there was the requirement for new roads. Similarly, the report noted the inadequacy of port facilities for international shipping. Conditions in both of these areas have not changed significantly since the report was written. Much work also remains to be done in the fields of electric power and water development, although here A.I.D. has sponsored comprehensive surveys whose results are designed to form the basis for a large-scale public and private investment program in the future.

### New Administration

Ferdinand Marcos, an experienced public leader, has just been installed as the new President of the Philippines. President Marcos has announced his intention to concentrate on the economic development of the country, and has laid down a general program emphasizing the achievement of self-sufficiency in rice and corn production (Philippine production of these crops has, since the early 1950's, generally been insufficient for the country's requirements) and promotion of industrial development. The new President has also vowed all-out war upon smuggling, and has promised to improve tax collections, both of which are basic requirements to provide the government with revenues for development which, heretofore, it has been unable to collect due to blatant violation and avoidance of law.

### U.S. Aid Program

The objective of United States economic assistance to the Philippines is to help that country to develop its human and material resources more rapidly and effectively, in order to meet the heavy demands of its exploding population.

Total economic assistance from the United States, fiscal years 1946-1965, has amounted to some \$1.4 billion. The great bulk was made available under legislation arising primarily out of World War II damage and rehabilitation claims. Some \$274 million came from A.I.D. and its predecessor agencies. 2/

A.I.D.'s program in the Philippines in recent years has averaged \$3 million annually for technical assistance. U.S. activities have concentrated on specialized help in agricultural credit, extension work, irrigation, etc., in connection with the Philippine agrarian reform program; managerial and technical help to accelerate industrial growth in the private sector; handling of government financial and equipment accounts; collection of taxes and customs; and aid in the improvement of civil service standards.

Of special significance are two A.I.D.-financed surveys on the future requirements for electric power (completed in November 1965), and the multipurpose use of water resources (to be completed in June 1966). These surveys are designed to form the basis for a multi-million dollar capital investment program by the Philippines public and private sectors over the next two decades.

Specific programs administered by A.I.D. and predecessor agencies in the field of technical assistance have included:

Agriculture and Forestry - organization of an agricultural extension service covering all of the Islands; soil conservation; improvement of varieties of plants and breed of domestic animals; establishment of improved credit facilities and land development and resettlement projects.

Education - advisory services (including contracts with the University of Michigan, Cornell, Stanford and Syracuse), participant training and commodity assistance provided for all levels of instruction, stressing raising of educational standards, extending education to minority groups, and emphasizing the use of English.

Health and Sanitation - rehabilitation of city, provincial and emergency hospitals (63 were improved and re-equipped); establishment of rural health units; training of doctors and nurses; and a nationwide malaria eradication program resulting in the establishment of 30 eradication units spraying 1.5 million houses annually, protecting 7 million people in malarious areas.

Community Development, Social Welfare and Housing - self-help projects, such as road building, bridge repair and training in civic affairs. Seven thousand out of 24,000 barrios have been helped; 120,000 elected barrio officials received training. Thirty-one

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2/ For details, see table attached as Appendix A.

thousand community projects such as small irrigation systems, oyster beds, improved poultry and swine and swine breeds, salt ponds, community social centers, water systems and spring development projects were initiated. In addition, local barrio roads have been constructed.

Industry and Mining - supporting efforts to stimulate private enterprise and investment through the Industrial Development Center, surveys and training in geology and mining, research and advisory service in management training and industrial engineering.

Public Administration - assistance provided for reorganizing government departments, modernizing budgetary practices, streamlining purchasing procedures and extending statistical data collections.

Aside from technical assistance, there has been provided balance-of-payments-type aid, primarily by financing the importation of surplus agricultural commodities under Section 402 of the Mutual Security Act, and aid for capital investments in the following areas: 269 pump projects which irrigate more than 11,000 acres; 6 gravity irrigation systems have been installed for 178,000 acres (an estimated 3 million additional bushels of food have been produced annually as a result of these improvements); 462 farmers' credit cooperatives have been organized with a membership of 276,000 families, and loans made of nearly \$85 million equivalent of local currencies; rehabilitation and improvement of the College of Forestry has been completed and a Forest Products Research Institute is conducting experiments in utilization of timber resources; industries assisted include textiles, cement, plywood, veneer, paper, logging, mining and road building; more than 300 buildings have been constructed for trade and agricultural schools at a cost of more than \$5 million equivalent pesos to the Philippines and \$4 million assistance from the United States.

In the field of capital development, A.I.D. (DLF) made four dollar loans to the Philippines: two to the private sector (Bataan Pulp and Paper Mill, \$5.4 million; Mindanao Portland Cement Corporation, \$3.7 million) and two to the public sector (Small Industry Loan Fund, \$2.6 million; Roads and Bridges, \$15.5 million).

In addition to the assistance administered under the A.I.D. legislation, the Philippines received approximately \$105 million of P.L. 480 surplus agricultural commodities; \$37 million under Title I, \$2 million under Title II, and \$66 million under Title III for relief of the needy.

The Export-Import Bank has made lines of credit available in the amount of \$179 million. Other U.S. economic programs, intended primarily for rehabilitation and reconstruction after World War II, have totaled \$777.3 million (Philippine Rehabilitation Grants, \$634.6 million; RFC loan, \$60 million; Debt funding, \$37.5 million; Civilian supplies, \$28.3 million; Surplus Property Credits, \$9.2 million; and UNRRA, \$7.7 million).

Current emphasis in the A.I.D. program is being put upon a comprehensive pilot program of rural development in two provinces. This program is designed to improve the productivity of the peasant in order to enable the Philippines to achieve self-sufficiency in food production (primarily rice)<sup>3/</sup> and to provide the peasant with a purchasing power which will serve as a stimulus to the further development of industry and commerce. It is hoped to demonstrate that, given the necessary information, tools, supplies and infrastructural facilities, the Philippine peasant can become an efficient, productive, scientific farmer. If this pilot effort is successful, it is hoped that it can be applied on a larger scale throughout the entire country.

Other Assistance Donors<sup>4/</sup>

The U.N. program is by far the most important in terms of technical assistance. In 1965 programs from the Special Fund, EPTA and the regular budgets totaled about \$2.7 million with an additional \$1.5 million from UNICEF and the World Food Program (WFP). In 1966 it is estimated that total technical assistance programs will rise to \$3.1 million, and UNICEF and WFP may increase to \$2.3 million. Two Special Fund projects -- Coal Resources Survey and Deep Sea Fisheries Development -- have received final approval and plans for implementation have been developed. Three new projects are at present with the Special Fund for consideration, namely, Laguna de Bay Feasibility Studies, Management Training and Productivity and a proposal for an Institute of Meteorology. A proposal for a survey for the Water and Sewerage System of Greater Manila is being prepared for submission.

Colombo Plan assistance is relatively small in magnitude (see Appendix B.), and as for aid from other nations, this has been and will continue to be primarily in the form of export credits. The biggest such program is with Japan where reparation goods are beginning to be utilized at an accelerated rate.

Ford Foundation principally, and to a lesser extent Rockefeller and Asia Foundations have been supporting selected educational research activities and institutions.

The IBRD has made eight loans to the Philippines totalling some \$111 million, in the fields of power, waterworks and port development and education, as well as to certain banks for relending for both industrial and agricultural development.

Prepared by:  
AID/FE/SPA/PHIL  
January 6, 1966

For footnotes <sup>3/</sup> and <sup>4/</sup> see following page.

- 3/ At present, production of rice, which is the main diet of the Filipino, falls about 10 per cent short of requirements. It is estimated that, given the current rate of population growth, rice production must increase by 3.5 per cent annually if the present deficit is to be made up and the population adequately provided for by 1975.
  
- 4/ A comprehensive picture of foreign assistance to the Philippines is contained in A Survey of Foreign Economic Aid and Technical Assistance Programs in the Philippines, published by USAID/Philippines in 1964. This document is currently being updated.

Philippines

(U.S. Fiscal Years - Millions of Dollars)

PROGRAM	U.S. OVERSEAS LOANS AND GRANTS - NET OBLIGATIONS AND LOAN AUTHORIZATIONS										REPAYMENTS AND INTEREST 1946-1964	TOTAL LESS REPAYMENTS AND INTEREST	Total 1946-1965		
	POST-WAR RELIEF PERIOD	MARSHALL PLAN PERIOD	MUTUAL SECURITY ACT PERIOD					FOREIGN ASSISTANCE ACT PERIOD						TOTAL 1946-1964	
			1946-1948	1949-1952	1953-1957	1958	1959	1960	1961	1962					1963
<b>A.I.D. AND PREDECESSOR AGENCIES - TOTAL</b>	-	27.1	121.9	19.2	55.9	18.1	4.0	-1.4	0.7	-1.2	274.3	3.8	265.5	0.2	274.1
Loans	-	-	20.0	-	27.9	-	-7.3	-5.2	-1.2	-3.5	49.7	3.8	40.9	-2.1	47.3
Grants	-	27.1	101.9	19.2	18.0	15.1	11.8	3.8	2.5	2.3	224.7	-	224.7	1.9	225.6
<b>SOCIAL PROGRESS TRUST FUND</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>FOOD FOR PEACE - TOTAL</b>	-	0.1	11.7	2.9	8.4	5.3	6.8	23.9	9.2	17.1	93.0	0.5	92.5	12.8	104.9
Title I - Total Sales Agreements	(-)	(-)	(10.0)	(3.8)	(-)	(-)	(-)	(21.8)	(-)	(11.4)	(47.0)	(-)	(27.0)	(12.6)	(58.6)
Less: Planes for U.S. Use	(-)	(-)	(3.0)	(2.1)	(-)	(-)	(-)	(5.5)	(-)	(5.7)	(16.3)	(-)	(16.3)	(5.0)	(21.3)
<b>PLANNED FOR LOANS AND GRANTS</b>	-	-	7.1	1.8	-	-	-	16.3	-	5.7	30.7	0.5	30.2	7.5	37.4
154c - Grants for Common Defense	-	-	2.1	0.7	-	-	-	5.0	-	-	7.8	-	7.8	2.5	10.1
154e - Grants for Economic Development	-	-	-	-	-	-	-	3.1	-	-	3.1	-	3.1	-	2.9
154e - Loans to Private Industry	-	-	-	0.9	-	-	-	5.4	-	1.7	8.0	0.2	8.0	1.3	9.1
154g - Loans to Governments	-	-	5.0	-	-	-	-	2.8	-	4.0	11.8	0.3	11.5	3.8	15.4
TITLE - RIGHT FROM OTHER COUNTRY SALES AGREEMENTS	-	-	-	-	0.5	-	-	-	-	-	0.5	-	0.5	-	0.5
TITLE - EMERGENCY RELIEF ECONOMIC DEVELOPMENT	-	-	-	-	-	-	-	-	-	-	1.1	-	1.1	0.5	1.5
TITLE - MILITARY RELIEF AGENCIES	-	0.1	4.6	8.3	7.9	5.3	6.3	7.6	9.8	10.3	60.7	-	60.7	4.8	65.5
TITLE - FOOD FOR PEACE SALES	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>EXPORT-IMPORT BANK LONG-TERM LOANS</b>	-	20.0	92.7	-	57.1	-	70.8	0.3	3.9	-	150.7	62.1	98.6	18.2	178.9
<b>OTHER U.S. ECONOMIC PROGRAMS</b>	256.7	520.5	-	-	-	-	-	2.4	77.4	2.5	359.6	117.3	742.3	3.7	863.3
<b>TOTAL ECONOMIC</b>	256.7	587.7	156.3	29.1	111.4	23.4	87.6	25.2	91.8	18.4	1,387.6	188.7	1,198.9	34.5	1,421.2
Loans	69.2	57.5	47.7	0.9	85.0	-	69.0	3.3	2.1	2.2	336.9	188.7	148.2	21.2	357.6
Grants	137.5	530.2	108.6	28.2	26.4	23.4	18.6	21.9	89.7	16.2	1,050.7	-	1,050.7	13.3	1,063.6
<b>MILITARY ASSISTANCE PROGRAM - (Chg. to App.)</b>	-	19.5	119.2	21.1	20.5	19.5	23.6	20.5	23.7	10.7	312.4	-	312.4	NA	NA
(Addition) Grants from Excess Stocks	(-)	(4.5)	(11.7)	(20.0)	(0.9)	-	(1.0)	(9.1)	(2.0)	(3.4)	(53.4)	(-)	(53.4)	NA	NA
<b>OTHER MILITARY ASSISTANCE</b>	72.6	59.1	-	-	-	-	-	-	1.0	-	132.7	-	132.7	NA	NA
<b>TOTAL MILITARY</b>	72.6	78.7	119.2	21.1	20.5	19.5	23.6	21.5	23.7	10.7	445.1	-	445.1	NA	NA
Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	NA	NA
Grants	72.6	78.7	119.2	21.1	20.5	19.5	23.6	21.5	23.7	10.7	445.1	-	445.1	NA	NA
<b>TOTAL ECONOMIC AND MILITARY</b>	329.3	666.4	275.5	50.2	131.9	42.9	111.2	46.7	115.5	29.1	1,832.7	188.7	1,644.0	NA	NA
Loans	69.2	57.5	47.7	0.9	85.0	-	69.0	3.3	2.1	2.2	336.9	188.7	148.2	NA	NA
Grants	260.1	608.9	227.8	49.3	46.9	42.9	42.2	43.4	113.4	26.9	1,495.8	-	1,495.8	NA	NA

b/ Includes Phil. Overseas Rehabilitation grants, \$634.6 million; RFC loans, \$100 million; Credits, \$9.2 million; UNRRA, \$7.7 million; Philippine War Damage Claims, \$73.0 million; and other grants, \$2.2 million.

b/ Annual data represent deliveries, including any credit sales, total through 1964. NA is the cumulative amount.

# Malaysia

(U.S. Fiscal Years - Millions of Dollars)

FAR EAST

PROGRAM	U.S. OVERSEAS LOANS AND GRANTS - NET OBLIGATION ONE AND LOAN AUTHORITY ONE										REPAYMENTS AND INTEREST 1946-1964	TOTAL REPAYMENTS AND INTEREST	
	POST-WAR RELIEF PERIOD	MARSHALL PLAN PERIOD	MUTUAL SECURITY ACT PERIOD					FOREIGN ASSISTANCE ACT PERIOD		TOTAL			
	1946-1948	1942-1952	1953-1957	1958	1959	1960	1961	1962	1963	1964			1946-1964
<b>A.I.D. AND PREDECESSOR AGENCIES - TOTAL</b>			-	-	20.0	-	-	-	-	-	20.0	3.9	16.1
Loans			-	-	20.0	-	-	-	-	-	20.0	3.9	16.1
Grants			-	-	-	-	-	-	-	-	-	-	-
<b>SOCIAL PROGRESS TRUST FUND</b>			-	-	-	-	-	-	-	-	-	-	-
<b>FOOD FOR PEACE - TOTAL</b>			1.3	0.4	0.5	0.5	0.7	0.8	1.2	1.7	8.3	-	8.3
Title I - (Total Sales Agreements)			(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Less: (Planned for U.S. Use)			(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
TITLE II - (PLANNED FOR LOANS AND GRANTS)			-	-	-	-	-	-	-	-	-	-	-
1950 - Grants for Economic Defense			-	-	-	-	-	-	-	-	-	-	-
1950 - Grants for Economic Development			-	-	-	-	-	-	-	-	-	-	-
1950 - Loans to Private Industry			-	-	-	-	-	-	-	-	-	-	-
1950 - Loans to Governments			-	-	-	-	-	-	-	-	-	-	-
TITLE III - ASSISTANCE UNDER COUNTRY SALES AGREEMENTS			-	-	-	-	-	-	-	-	-	-	-
TITLE IV - EMERGENCY RELIEF AND ECONOMIC DEVELOPMENT			-	-	-	-	-	-	*	-	*	-	*
TITLE V - VOLUNTARY RELIEF AGENCIES			1.8	0.4	0.5	0.5	0.7	0.8	1.2	1.7	8.3	-	8.3
TITLE VI - DOLLAR CREDIT SALES			-	-	-	-	-	-	-	-	-	-	-
<b>EXPORT-IMPORT BANK LONG-TERM LOANS</b>			-	-	-	-	-	-	-	-	-	-	-
<b>OTHER U.S. ECONOMIC PROGRAMS</b> <sup>a/</sup>			-	-	-	-	-	1.0	1.6	2.3	4.9	-	4.9
<b>TOTAL ECONOMIC</b>			1.3	0.4	20.5	0.5	0.7	1.6	3.5	4.0	32.2	3.9	29.3
Loans			-	-	20.0	-	-	-	-	-	20.0	3.9	16.1
Grants			1.3	0.4	0.5	0.5	0.7	1.6	3.5	4.0	13.2	-	13.2

\* Less than \$50,000.

a/ Data represent Peace Corps.

Appendix B

PHILIPPINES  
Non-A.I.D. Assistance <sup>a/</sup>  
(in millions of dollars)

	<u>Fiscal Years</u>		
	1963 (actual)	1964 (actual)	1965 (est. 4/30/65)
UN			
Special Fund	1.5	3.3	NA
Technical Assistance	0.9	0.9	9.9
UNICEF	0.9	0.6	0.6
WHO	0.1	0.2	0.2
UNTA, ILO, UNESCO	0.1	0.1	0.2
IBRD <sup>b/</sup>	18.9	---	26.0 <sup>c/</sup>
Export-Import Bank	3.9	--- <sup>d/</sup>	18.2 <sup>e/</sup>
Rockefeller Foundation	1.7	0.6	0.6
Ford Foundation	2.3	1.2	0.8
Asia Foundation	0.2	0.2	0.2
Peace Corps	4.4	2.5	2.5
Japanese Reparations	25.0	25.0	25.0
Colombo Plan	0.6	0.6	0.6
Spain	---	---	10.0
Germany	0.1	10.4	0.9
TOTAL	<u>60.6</u>	<u>45.6</u>	<u>86.7</u>

General Note: In addition, technical assistance scholarships are granted by Spain, The Netherlands, Japan on an annual basis, and by private groups in Germany. About 300 Filipinos study in Australia under SEATO and Colombo Plan scholarships as well as non-government scholarships.

<sup>a/</sup> Obligations or loan authorizations.

<sup>b/</sup> IBRD has projected an annual capital input requirement of \$100 million on conventional terms; an additional \$25-30 million on concessional terms.

<sup>c/</sup> Includes NAWASA \$20 million, July 1964, Univ. Phil. \$6 million, July 1964.

<sup>d/</sup> Excludes \$62.3 million Iligan Steel Mill because it was authorized during FY 1961.

<sup>e/</sup> Includes Phil. Long Distance Tel. \$11.6 million, July 1964; increase Manila Airport \$0.6 million August, 1964 CAA-ITT; Makati Development Corp. cement plant \$6 million, April 1965.

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April 30, 1965