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The Economy

# Philippines

December 1973

NATIONAL INTELLIGENCE SURVEY

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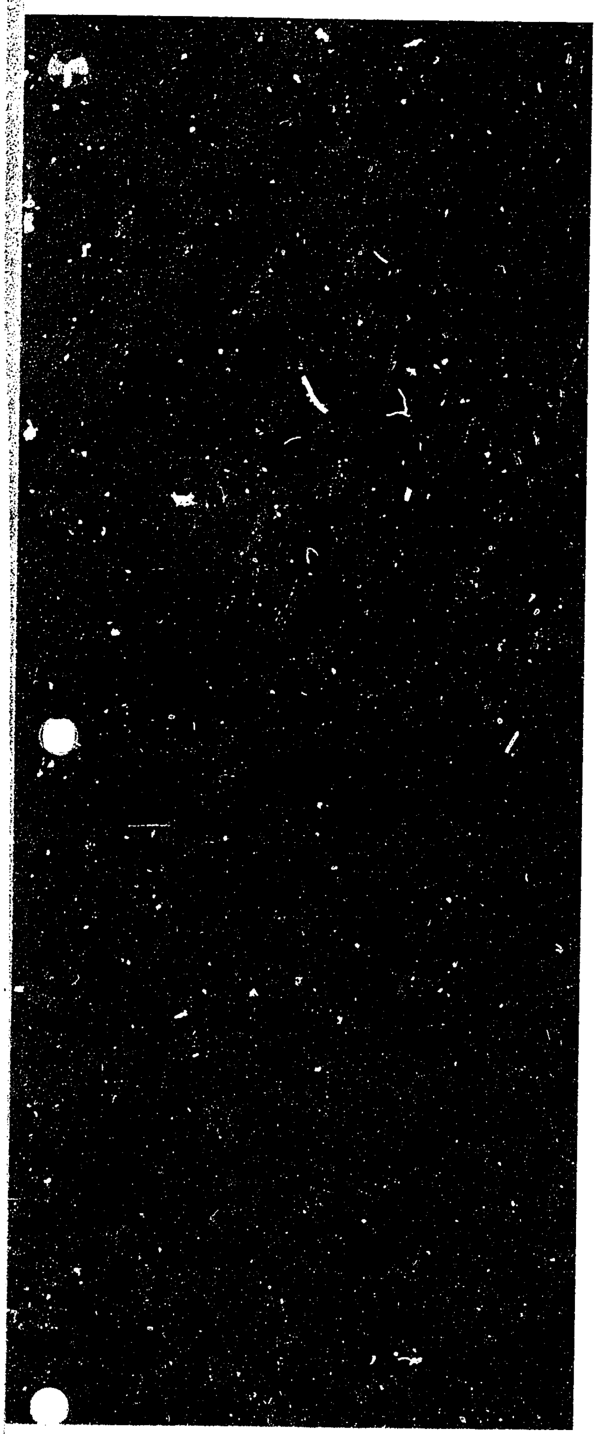

# Philippines

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*This chapter supersedes the economic coverage in the General Survey dated October 1968.*



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## FIGURES

# The Economy

## A. Economic appraisal (U/OU)

Although the Philippine economy grew at a rate of only 3.5% in FY72,[1] the annual average rate of growth between 1965 and 1971 was 6.3%, compared to about 5.6% per annum in 1960-65. Because of the rapid rate of population growth (about 3% annually), however, the economic growth rate per capita has been considerably lower, and per capita income in 1972 was probably still below US$200 in current prices. The modern sector of the economy is relatively small. Agriculture is the predominant economic activity, but much of the agricultural sector is characterized by subsistence-type farming. The Philippines is fairly well endowed with natural resources, but attempts to develop them have been hampered by the presence of a small but strong economic oligarchy, consisting of relatively few wealthy families who are more concerned with promoting their own interests than with promoting the economic development of the country. As a result, there is extreme maldistribution of wealth between the oligarchs and the mass of the population.

Agriculture is the backbone of the economy. Over half the total labor force is engaged in farming, and agriculture accounts for the bulk of Philippine export earnings. The sector still is dominated by traditional farming techniques, however, and modernization efforts have not been vigorously pushed. Irrigation is limited, and most farmers do not use fertilizer or pesticides regularly. Use of high-yielding variety seeds has increased in recent years but it remains limited. Because of these problems, yields of most major crops are low, and farm output in general has expanded slowly.

[1]The Philippine fiscal year ends 30 June of the stated year.

A variety of factors continue to hamper development of the agricultural sector. Most peasants are reluctant to adopt new production techniques, and at the same time the government has been unwilling or unable to make necessary inputs available at reasonable prices. The government did initiate a program in the mid-1960's aimed at achieving self-sufficiency in rice, and substantial gains were made by 1970. Since then, the government has relaxed its efforts to stimulate production, and output, affected by poor weather conditions, rose marginally in 1971 and actually declined in 1972. As a result, the Philippines has again become one of the world's largest rice-importing countries. The government has just begun to implement the land reform program that was announced a decade ago, and many Philippine farmers are still sharecroppers. After declaring martial law in September 1972, President Marcos announced plans to initiate a new, wide, ranging land-reform program, but as of mid-1973 the effectiveness of the new program was still in doubt.

The manufacturing sector is fairly large and well developed compared to those of most less developed countries. Besides food processing, Philippine manufacturing consists primarily of import-substitution industries established as a consequence of the government's high tariff policies introduced in the 1950's. These tariffs were aimed at providing a protected market for local business, but one result has been the formation of an inefficient industrial sector that suffers from substantial overcapacity. Although the government is moving to rationalize some sections of industry, progress has been slow, and only a few export-oriented firms have been established in recent years. The performance of the manufacturing sector has improved over the past half-decade or so, however, and since the mid-1960's manufacturing output has increased by about 6% annually.

Growth of the Philippine economy has not been fast enough to absorb the rapid increase in the labor force, and unemployment and underemployment remain serious problems. Unemployment is particularly serious among young urban workers, and underemployment is especially pronounced among rural workers. In spite of the high level of unemployment, inflation also has been serious since the start of the 1970's. In 1971, average consumer prices rose an estimated 15%. Austere fiscal and monetary policies were adopted to control inflation, but the emergence of rice shortages helped boost prices by 10% in 1972. Food shortages and other damage caused by the serious floods in the summer of 1972 brought an acceleration in government spending to rehabilitate devastated areas and industries. Recovery from the flood was rapid, and the increased supply of food coupled with government efforts to increase tax revenues through higher levies and improved collection, minimized the inflationary impact of higher government spending.

Domestic economic problems are reflected in recurring balance of payments difficulties. In the late 1960's the balance of payments situation deteriorated because exports stagnated while imports rose sharply in response to heavy government spending. To help reverse these trends, the government initiated a major financial reform program in early 1970 that included a sharp devaluation of the peso and restrictive fiscal and monetary policies. This program helped reduce the trade deficit to manageable proportions, but the country still is burdened with a foreign debt that amounted to over $2.2 billion at the end of 1972.

Much of the payments problem reflects the Philippine export structure, which is characterized by heavy product and market concentration. Four commodity groups—sugar, coconut products, logs and lumber, and copper concentrates—account for over 70% of total exports, and the United States and Japan purchase about 75% of all exports. Dependent almost exclusively on primary products, export earnings have fluctuated widely. Furthermore, an overvalued peso throughout the last decade reduced the Philippines' competitiveness in world markets. After improving somewhat in 1970 and 1971, the trade balance deteriorated sharply in 1972 as imports rose rapidly and exports declined. Meanwhile, with foreign borrowing increasing, the debt service ratio (ratio of debt payments to foreign exchange earnings) reached an alarming 36% in 1972. Due in part to large increases in foreign loans and credits, the overall balance of payments in 1972 was favorable and the international reserves rose.

Public disorder and the threat of insurrection prior to September 1972 had a deterrent effect of the inflow of private investment capital from abroad. Uncertainty over the government's attitude toward foreign capital, embodied in the trend "Filipinization" implied in various Supreme Court decisions affecting foreign ownership of land and natural resources, further deterred private capital inflows. The imposition of martial law in September 1972 restored order in most of the country, and the adoption of a new constitution in January 1973 reassured foreign investors against adverse changes in rules governing foreign investments, and foreign investment inflow has apparently accelerated.

The Philippines continues to be heavily dependent on the United States in its foreign economic relations. Tariff preferences and quota arrangements under the Laurel-Langley Agreement of 1955 encouraged Philippine concentration on the U.S. market. Preferential treatment of U.S. trade and investments under that agreement also encouraged heavy U.S. investments in Philippine industries and resources; the

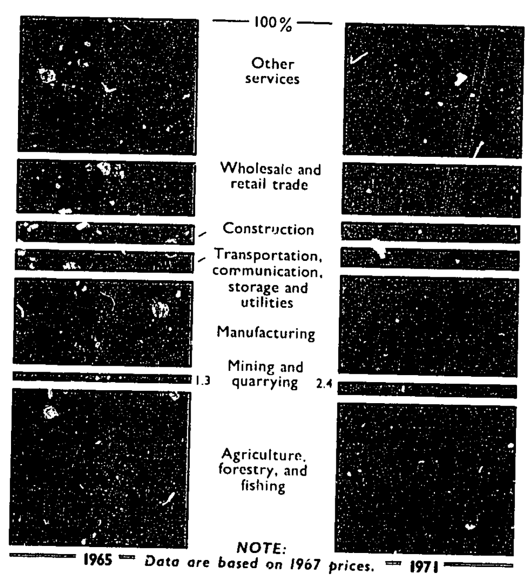


FIGURE 1. Net domestic product at factor costs, by industrial origin (U/OU)



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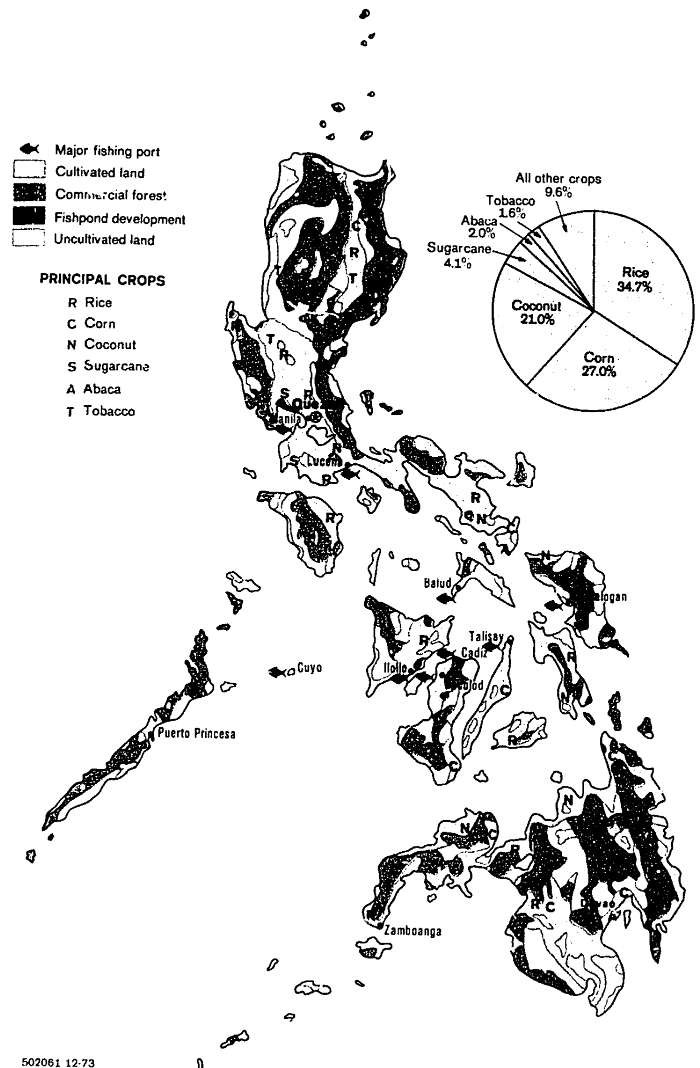


FIGURE 2. Land utilization and major crops (U/OU)

impending termination of the agreement in July 1974 has created uncertainty among U.S. investors in Philippine land and resources (mineral and logging concessions), insofar as investments in those assets are to be restricted to 40% foreign ownership. The United States is the largest foreign investor in the country, the largest source of foreign aid, and the largest trading partner. The United States takes 40% of Philippine exports, including all of its sugar exports plus a major part of its exports of primary products. Japan has cut into the U.S. sales to the Philippines in recent years, but the United States still supplies about 25% of all Philippine imports. U.S. economic aid to the country between 1946 and 1972 totaled over US$1.8 billion.

## B. Structure of the economy

The structure of the Philippine economy has changed little in recent years, and agriculture has retained its position as the dominant sector. As shown in Figure 1, agriculture, forestry, and fisheries showed a slight decline in their percentage contribution to net domestic product (NDP) in 1972, which reached in that year approximately US$6.7 billion. The decline in that sector in 1972, however, was probably due to adverse effects of inclement weather on production of several major crops; the trend in the sector's contribution to NDP between 1965 and 1971 had been generally upward. The manufacturing sector showed a slight increase in relative importance. The services, including trade, transportation, communications, storage, and utilities, and other services all declined slightly in relative importance. (U/OU)

### 1. Agriculture, forestry, and fisheries (U/OU)

Agriculture is by far the most important sector of the economy (Figure 2). The bulk of the population is engaged in farming, and about one-half of the country's exports consist of agricultural products; exports of agricultural products in 1972 amounted to about US$530 million. The major exports of agricultural origin are sugar, coconut products, pineapples, abaca, and tobacco. Rice and corn are the major food crops. The bulk of the food crops are produced by subsistence farmers, whereas most of the export crops, especially sugar and pineapples, are produced by a few large plantations.

Agricultural output grew at an average annual rate of about 4.7% during the decade of the 1960's, but the growth was heavily concentrated in the second half of the decade, during which period the government actively encouraged the sector to expand its production—largely through the widespread planting of high-yielding varieties of grain and increased application of fertilizers. In 1971, following a relaxation in government efforts, and partly in response to rising prices of imported fertilizer following the devaluation in 1970 and increasing incidence of tungro disease in rice areas, agricultural growth slowed perceptibly; typhoons and drought also appear to have affected the sector's output that year. In 1972, the sector was further affected by severe floods in several major crop areas, but as of mid-1973, rehabilitation and recovery from the flood damage were reportedly about complete, and government planners anticipated a resumption of growth in the sector.

Yields of several major crops improved perceptibly during the period of rapid growth between 1965-69, but they are still below regional and world norms. Government efforts to raise yields have met only limited and temporary success. Public investment in agriculture has traditionally been low and has always been among the first items cut during the frequent periods of belt-tightening. New methods of farming introduced by the government have been adopted half-heartedly by farmers, and they have generally reverted to traditional methods when government pressure lapsed. An antiquated system of land tenancy exists, reducing the incentive for private investment except in the case of a few major export crops.

Philippine agriculture is strongly influenced by a tropical, humid climate. Rainfall is abundant throughout much of the country, but a pronounced dry season occurs in the Central Luzon Valley, on the Ilocos coast in northwest Luzon, in parts of Negros, and on Panay and Cebu. In these major producing areas, year-round cultivation requires irrigation. About 30% of the total land area is arable—22% in seasonal crops and 8% in permanent crops—but double-cropping on the area planted to seasonal crops raises the harvested area about 7% annually (Figure 3). Most of the cultivated area is on coastal plains and several inland plains. Typhoons, floods, and droughts affect agricultural production and have caused major crop losses in recent years.

Most Philippine farmers are sharecroppers engaged primarily in growing rice and corn. The government has initiated several land reform programs aimed at eliminating sharecropping, but so far little has been accomplished because of opposition from the powerful

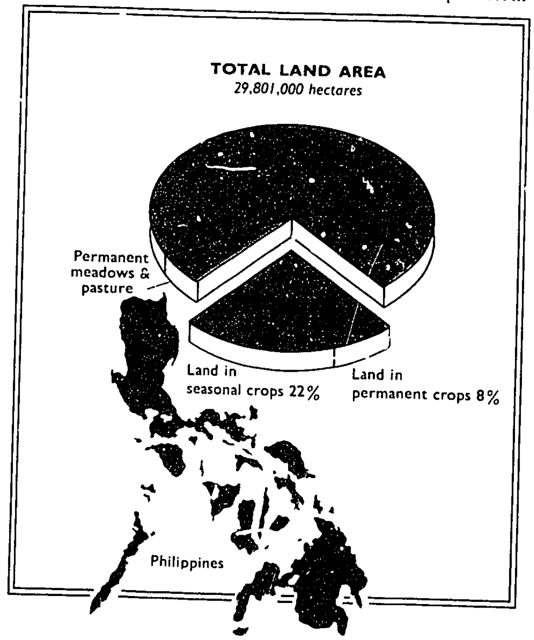


FIGURE 3. Land use, 1970 (U/OU)

economic and political oligarchy. Attempts at land reform go back at least to the 1950's, when Congress, under prodding from then President Magsaysay, approved a program requiring that harvests be apportioned 70% to the tenant and 30% to the landowner, instead of the 50-50 division that had been common. That requirement was never fully enforced, however, and the program was virtually scrapped following Magsaysay's death in 1957. In 1963 a new program was begun under which tenants were to become leaseholders and eventually landowners, with the government providing financing and technical assistance. That program, however, never got much beyond the expe imental stage.

The most recent land reform proposal was announced in late 1972, when President Marcos imposed martial law. While some significant details of the reform program are still under consideration, its general aim is to turn over title to all land under rice and corn to the tenants presently tilling it. Former tenants would be required to pay for the land a sum equivalent to two and one-half times the average annual harvest in three normal years immediately preceding the announcement of the reform decree; the payments are to be spread over a period of 15 years. About 2 million hectares—1.7 million in rice and 0.3 million in corn—and more than 1 million tenant families reportedly would be involved in the program. Opposition to the reform remains strong, however, particularly among the small landlords. As of mid-1973, however, the government had made considerable progress in breaking up large estates, i.e., those 50 hectares or more in size.

While the tenancy system hampers modernization of the agricultural sector, other factors in the poor performance of recent years have been the inadequate irrigation system and the lack of credit facilities. Despite numerous government programs aimed at expanding the area under cultivation, most major crops are grown on land with little or no dependable irrigation. Almost all the land devoted to sugar, for example, is unirrigated. Farmers lack sufficient credit to finance expansion or improvement of the existing irrigation system. The government extends credit to the agricultural sector through the Philippine National Bank, the Development Bank of the Philippines, the Agricultural Credit Administration, and numerous rural banks, but by and large the funds extended to the farm sector have increased only slowly and are not sufficient to finance any significant development effort.

### *a. Crops*

(1) *Rice*—Rice is by far the most important crop. Over a third of the total crop area and almost 50% of all farms are devoted to cultivation of rough rice (palay). Roughly 20% of the rice is harvested from upland cultivation, with the balance coming mainly from nonirrigated lowland cultivation. The main lowland crop is planted during the rainy season, mostly in June, and harvested in December and January. Although rice is grown throughout the country, the island of Luzon accounts for over half the total crop area; the Central Luzon Valley is the nation's single most important rice producing region.

Between 1965 and 1970, rice production increased rapidly as a result of government efforts to make the country self-sufficient in rice (Figure 4). The government promoted the use of high-yielding seeds, and by 1970 about 35% of the acreage planted to rice in central Luzon was planted to new, high-yielding varieties. The government also increased the supply of funds available to finance irrigation and increased the volume of rural credit to finance purchases of fertilizers and pesticides. More importantly, however, the government raised the price of rice to stimulate production. As a result of these measures, rice output in 1968 rose 11% over that of 1967, and by 1971 output reached an all-time peak of approximately 5.3 million tons, making the Philippines nearly self-sufficient in rice that year. In 1972 production declined to 5.1 million tons due in large part to damage caused by tungro disease; a further decline occurred in 1973 as a result of extensive flooding in major producing areas. Other factors affecting production since 1971 were civil disorders in the country and the decline in application of fertilizers and pesticides, the latter probably due to rising prices of imported materials following the 1970 devaluation. In 1970 the government also adopted a tight fiscal and monetary policy, sharply cutting the funds available to finance purchases of fertilizers and seeds. The decline in production since 1971 has created substantial shortages in the nation's rice supply, and the Philippines again has become one of the major importers of rice.

(2) *Corn*—The second most important food crop is corn, which is planted on about 27% of the total crop area. Production exceeded 2 million tons annually in 1970-72. Corn is the staple food for about 20% of the population and is also used as livestock feed. Production is concentrated in the Visayan Islands and in the lower elevations of Mindanao. Although grown as a rotation crop in many places, corn is commonly

**FIGURE 4. Production, area, and yields of major crops (U/OU)**
***(Production in 1,000 tons; area in 1,000 hectares; yields in tons per hectare)***

| CROP YEAR* | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971** | 1972*** |
|---|---|---|---|---|---|---|---|---|
| Rice: | | | | | | | | |
| Production (rough basis) | 3,992 | 4,073 | 4,094 | 4,561 | 4,445 | 5,233 | 5,343 | 5,168 |
| Area | 3,200 | 3,109 | 3,096 | 3.304 | 3,332 | 3,113 | 3,175 | 3,246 |
| Yield | 1.25 | 1.31 | 1.32 | 1.38 | 1.33 | 1.68 | 1.68 | 1.59 |
| Corn: | | | | | | | | |
| Production | 1,313 | 1,380 | 1,490 | 1,619 | 1,733 | 2,008 | 2,005 | 2,039 |
| Area | 1,923 | 2,016 | 2,158 | 2,248 | 2,256 | 2,420 | 2,437 | 2,432 |
| Yield | 0.68 | 0.68 | 0.69 | 0.72 | 0.77 | 0.83 | 0.82 | 0.84 |
| Sugar: | | | | | | | | |
| Production | 1,557 | 1,402 | 1,560 | 1,595 | 1,596 | 1,927 | 2,058 | 1,997 |
| Area | 351 | 315 | 309 | 318 | 321 | 366 | 400 | 437 |
| Yield | 4.49 | 4.45 | 5.05 | 5.02 | 4.97 | 5.27 | 5.07 | 4.57 |
| Coconut: | | | | | | | | |
| Production | 1,534 | 1,557 | 1,660 | 1,593 | 1,560 | 1,726 | 1,679 | 2,100 |
| Area | 1,605 | 1,611 | 1,820 | 1,800 | 1,846 | 1,884 | 2,049 | *na* |
| Yield | 0.96 | 0.97 | 0.91 | 0.89 | 0.85 | 0.92 | 0.82 | *na* |
| Abaca: | | | | | | | | |
| Production | 134 | 135 | 118 | 103 | 106 | 122 | 105 | 95 |
| Area | 199 | 198 | 186 | 171 | 176 | 178 | 155 | *na* |
| Yield | 0.67 | 0.68 | 0.63 | 0.60 | 0.60 | 0.69 | 0.68 | *na* |
| Tobacco: | | | | | | | | |
| Production | 46 | 58 | 51 | 65 | 57 | 61 | 56 | 45 |
| Area | 76 | 85 | 83 | 94 | 89 | 87 | 76 | *na* |
| Yield | 0.60 | 0.68 | 0.61 | 0.69 | 0.64 | 0.70 | 0.74 | *na* |

*na* Data not available.
*Crop years end 30 June of years shown for all crops, except sugar, which ends 30 September.
**Preliminary.
***Estimate.

double-cropped, and in parts of the Visayans a third crop is planted. The government maintains a price-support program for corn.

The government has tried to raise corn production through a program similar to but less intensive than that applied to rice. Production rose by almost 9% annually between 1965 and 1970, but it leveled off in 1971 and 1972. About half the 1965-70 increase was attributed to expansion of the area devoted to the crop and the rest to greater productivity. Yields remain extremely low by international standards, however, with average yields in Thailand and Taiwan being more than three times greater. Despite production gains, the country still depends on imports to meet more than 5% of its requirements.

(3) *Fruits and vegetables*—Other food crops, including fruits, nuts, roots, tubers, legumes, and other vegetables, are grown throughout the islands, primarily for local consumption. Yields of these secondary food crops generally are low compared to those obtained in other Southeast Asian countries. The chief exceptions are the crops raised in the La Trinidad area of Luzon. This small area produces about 35% of the cabbage, about 40% of the potatoes, and almost all of the cauliflower, celery, and strawberries grown in the Philippines. Labor-intensive cultivation, combined with heavy application of fertilizers, herbicides, and insecticides, results in high yields from the area's truck farms, many of which are operated by families of Japanese or Chinese extraction. Most of the produce from La Trinidad is marketed through nearby Baguio or is trucked to Manila. Pineapple yields on the Bukidnon plantation, which accounts for almost half of the total Philippine production, are about four times higher than the average for other pineapple-producing areas in the country. Exports of canned pineapple products from Bukidnon are an increasingly important source of foreign exchange.

(4) *Sugar*—Sugar is the Philippines' principal export of agricultural origin; exports in 1972 were valued at US$209 million. Virtually all of the sugar crop is processed in the country's sugar mills. Production of centrifugal sugar averaged about 2 million tons annually during 1970-72, about one-third of which was consumed domestically and the remainder

allocated to the export market. Production of sugarcane is highly concentrated, with over 60% of the crop being grown in Negros Occidental Province and most of the remainder on Luzon in Batangas and Tarlac provinces. Most of the production of sugarcane is done on large plantations. Cane yields are generally low and the sugar content of the cane is low; thus, sugar produced in the Philippines is high-cost sugar which cannot compete effectively against sugar from other producing areas in the international market.

Production of sugar is no longer controlled by the government, but sugar marketing is regulated. The government, through the Sugar Quota Administration, determines and allocates the quantity of sugar that can be sold in each crop year in the export market and in the domestic market, the main purpose of the allocations being to insure adequate domestic supplies. Sugar is highly protected in the domestic market, and all sugar exports go to the United States under the U.S. sugar quota at relatively high prices. The Philippines has had a basic quota in the U.S. market slightly in excess of 1.1 million short tons (raw value) of sugar, plus a significant share of the deficit in the U.S. supply arising from the inability of other countries to fill their share of the total quota. The increasing difficulty of the Philippines in meeting its total quota (basic quota plus deficit share) has led in very recent years to a reduction in its deficit share and therefore in its total quota. In part, the difficulty in expanding production to fill its export and domestic market requirements is due to the lack of irrigation facilities in most of the cane growing areas. Poor weather conditions in any growing season also affect output adversely. In spite of the indicated problems, however, the Philippines is still second only to Cuba as a sugar exporter.

(5) *Coconut products*—The Philippines is the world's leading producer and exporter of coconut products. Coconut production in 1972 exceeded 2.1 million tons, an increase of about 20% over the preceding year's output. Most of the output was processed into copra, coconut oil, desiccated coconut, coconut charcoal, and coir. Coconuts are grown throughout the Philippines, but most of the commercial crop comes from southern Luzon, the eastern Visayan Islands, and along the coast of Mindanao. Coconuts, whose cultivation requires less labor than other major Philippine crops, are grown both on plantations and on smallholdings. Over 40% of the area planted to coconuts is in small farms, and the remainder is on large plantations.

Coconut production had generally stagnated from the mid-1960's until 1971, and output actually declined in the latter year because of poor weather conditions and typhoon damage to bearing trees. In 1972, however, the number of bearing trees rose about 7%, as trees planted in the mid-1960's began to come into production. The increase in the number of bearing trees, which are located largely in the Visayas and Mindanao where yields are higher than average, coupled with adequate rainfall, resulted in the sharp increase in the coconut harvest in 1972. Further increases in the number of trees coming into production within the next few years are expected to result in still greater output.

Copra, coconut oil, desiccated coconut, and copra meal are among the Philippines' major exports. Exports of these products reached US$227 million in 1972—almost a quarter of total exports. Their relative importance, however, has declined steadily since 1965, when they accounted for over a third of export earnings. World market prices for coconut products tend to fluctuate widely, largely in response to changes in Philippine supplies, since the country accounts for such a large share of total world exports. Since 1970, when Philippine production and exports reached record levels, world prices had tended to decline, but as of early 1973, coconut product prices had reportedly risen sharply.

(6) *Abaca and other fibers*—Abaca, known commercially as Manila hemp, is the country's most important fiber crop, but it accounts for only about 2% of the total crop area harvested. Although abaca ranks among the top 10 exports of the nation, it accounts for less than 2% of the total annual value of exports; in 1972 exports of abaca and abaca products were valued at US$13 million. Nevertheless, more than 90% of the world's supply of abaca fiber comes from the Philippines. Used in the manufacture of rope and regarded as an excellent fiber for marine cordage, abaca has encountered stiff international competition from lower priced sisal and from synthetics such as nylon. As a result, production has fluctuated widely since the early 1960's, generally remaining above 100,000 tons annually. Domestic usage of abaca, including the manufacture of cordage, cloth, and a variety of other products, accounted for one-fourth of the 1971 output.

The Davao provinces on Mindanao and the Bicol River area of southeastern Luzon together account for over 70% of total abaca production. The leaves of the banana-like abaca plant are stripped to make abaca fiber, which is then shipped to market. Maintenance of the abaca stand and the handstripping process common in southeastern Luzon and in the eastern Visayan Islands require considerable labor. Lack of experience among many of the smallholders who entered abaca farming after the war and neglect of the plantings during the war contributed to the spread of damaging plant diseases and insects.

Other fibers produced include cotton, ramie, kapok, jute, kenaf, and sisal. None of these accounts for a significant share of total agricultural production, however, and cotton and jute must be imported to satisfy the demand of the domestic textile industries. Most of the small annual output of ramie is exported.

(7) *Tobacco*—Production of leaf tobacco has stagnated since the mid-1960's, and it dropped sharply in 1972 due to market uncertainty and to extensive flood damage to the crop. Of the total output of 45,300 tons in 1972, about one-half was Virginia tobacco to be used principally in the domestic production of cigarettes. The remainder was native leaf for use in the manufacture of cigars. The Philippines exported about US$15 million worth of mostly raw tobacco in 1971.

Commercial production of tobacco occurs principally on small Luzon farms. The Cagayan Valley is an important center of production of native leaf, and most Virginia tobacco is grown on the Ilocos coast. Native tobacco is air-cured before marketing; Virginia tobacco is flue-cured. Government support prices have had little effect, since market prices have been above the support prices. The poor quality of domestic cigarette tobacco has meant continued imports of U.S. tobacco—some US$5 million worth in 1971—and has left the government with large stockpiles of low-grade leaf.

### *b. Livestock*

In spite of steady rises in the number of livestock, the Philippines remains dependent on imports to satisfy a small portion of its meat requirements and the majority of its dairy needs. Total livestock population in early 1972 was estimated at over 20 million head. Hogs constituted two-thirds of this total and the largest single source of nonpoultry meat. Major deterrents to greater hog output include a lack of efficient transportation facilities between the principal producing areas and the Manila market and a scarcity of quality feeds. Cattle and carabou, which numbered over 2 million and 4 million, respectively, in early 1972, are used as draft animals as well as a source of meat. The output of animal products has increased in recent years, but not enough to satisfy domestic demand; imports have grown faster.

### *c. Fisheries*

Fish provide a major share of the protein consumed, and fishing is an important economic activity for the rural population. The fish catch increased by more than 8% annually between 1965 and 1970 and exceeded 1 million tons in 1971 (Figure 5). In 1970, subsistence fishing, including fishing from small vessels licensed by municipalities, accounted for 52% of the total catch as opposed to 46% in 1965. Commercial fishing lagged, growing at only 5% annually, and in 1970 accounted for 39% of the total catch. Harvests from fishponds provided just under 10% of the total catch in 1970, little changed since 1965. A small quantity of fish—mainly shrimp—is exported, while imports of fish and fish products—principally canned mackerel—have averaged about US$20 million annually in recent years. Introduction of new fish varieties, improved management, expansion of the inland fishpond area, and motorization of small fishing craft in municipal fisheries are among the measures that have

FIGURE 5. Fish catches, by type (U/OU)
*(Quantity in thousand metric tons and value in millions of U.S. dollars)*

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|
| Commercial fishing: | | | | | | |
| Quantity | 300 | 315 | 331 | 407 | 367 | 382 |
| Value | 76.7 | 93.8 | 107.9 | 139.4 | 143.9 | 95.6 |
| Fishponds: | | | | | | |
| Quantity | 63 | 64 | 64 | 87 | 95 | 96 |
| Value | 16.1 | 33.3 | 34.4 | 46.3 | 48.5 | 39.3 |
| Subsistence fishing: | | | | | | |
| Quantity | 304 | 326 | 351 | 444 | 477 | 51[illegible] |
| Value | 77.7 | 84.6 | 102.3 | 106.8 | 180.2 | 133.4 |
| Total: | | | | | | |
| Quantity | 667 | 705 | 746 | 938 | 940 | 989 |
| Value | 170.5 | 211.7 | 244.6 | 346.5 | 372.6 | 268.3 |



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contributed to the increased catch. Nevertheless, much of the fishing industry still relies on antiquated methods and equipment.

### *d. Forestry*

The Philippines is a major producer and exporter of tropical wood products, but years of wasteful logging practices and recent government conservation measures have resulted in declining production. All but about 3% of the forest area of the Philippines is government owned. Forests are concentrated on Mindanao, Luzon, and Negros. Logging operations are conducted by individuals and corporations under timber licenses that must be renewed periodically and have a maximum tenure of 50 years. Log production grew rapidly through 1969, when output reached nearly 5 billion board feet, but has declined steadily since; 1972 production amounted to only about 3.6 billion board feet (Figure 6).

The Philippine wood industry is basically oriented to the export of unprocessed timber. In 1970, for example, only 22% of the total timber harvested was processed locally, and the balance was exported as logs. About 90% of the lumber produced is consumed locally, while 90% of the veneer and 65% of the plywood are exported. Export earnings have been declining in recent years, but timber and timber products still account for about 20% of total exports. A 9% decline in receipts from log exports in 1971 was attributable chiefly to a 25% decline in the volume of exports to Japan. The bulk of exports consists of hardwood logs.

## 2. Fuels and power

As much as 90% of the commercial energy supply of the Philippines is derived from petroleum, all of which is imported. Domestic supplies of fuelwood and bagasse (sugarcane residue) are used primarily as noncommercial fuels. Domestic coal output is small, and no commercially exploitable oil or gas fields have yet been discovered in the Philippines. Manila, however, is trying to encourage major petroleum companies to undertake more vigorous exploration in offshore areas. (U/OU)

### *a. Petroleum (U/OU)*

The demand for petroleum has increased steadily in recent years, the rate of increase averaging about 9% per year in 1966-71. Petroleum imports increased at about the same rate, and in 1971, petroleum and petroleum products (fuel, lubricants, and related products) accounted for about 12% of total imports. The composition of petroleum imports has changed little, and in 1971 crude oil imports of almost 9 million metric tons comprised about 98% of all petroleum and petroleum products imported, compared to about 91% in 1966.

The Philippines' four oil refineries (Figure 9, below), which are predominantly foreign owned, have a combined capacity of 272,200 barrels per day (b.p.d.). The largest refinery, the Bataan refinery, has a 100,000-b.p.d. capacity and is owned jointly by Esso and Mobil, holding 57% and 43% interest, respectively. The Caltex refinery at Batangas is owned by California Texas Company and has a 74,000-b.p.d. capacity. The Shell refinery at Tabangao, which has a 70,000-b.p.d. capacity, is a joint venture, with Shell owning 75% and Philippine private interests 25%. The smallest refinery is the Filoil refinery at Rosario, Cavite Province, with a 28,200-b.p.d. capacity.

Interest in oil exploration has varied over the years but in spite of past failures it has been revived once again under prodding from President Marcos. The President has outlined tentative plans to set aside 1.5 million hectares offshore and 750,000 hectares onshore for exploration. Foreign participation will be encouraged through incentives. Heretofore, major foreign oil companies have been deterred from investment in oil exploration because of an unfavorable exploration law. A further deterrent to

**FIGURE 6. Production of forest products (U/OU)**
***(Million board feet)***

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971* | 1972** |
|---|---|---|---|---|---|---|---|---|
| Logs | 2,618 | 3,412 | 3,325 | 4,711 | 4,911 | 4,666 | 4,528 | 3,577 |
| Lumber | 531 | 397 | 322 | 433 | 621 | 568 | 370 | 553 |
| Plywood | 597 | 540 | 522 | 695 | 524 | 573 | *na* | *na* |
| Veneer | 742 | 786 | 831 | 1,206 | 627 | 305 | *na* | *na* |

*na* Data not available.
*Preliminary.
**Estimates.

expansion was the government's pricing policy for oil products, which froze prices at unremunerative levels.

### b. Solid fuels (U/OU)

Solid fuels generally are used where they are produced and have little commercial significance. The primary solid fuel is fuelwood, most of which is used for household cooking. Some is used by bakeries and restaurants and by tobacco farmers for flue-curing. Bagasse is used by sugar mills to generate steam for mill machinery. The country's small output of coal is consumed almost exclusively by several cement plants and electric power facilities on Cebu, where practically all coal production is concentrated.

### c. Electric power (C)

The electric wer industry in the Philippines is poorly developed. The distrubution of installed capacity is extremely uneven, being concentrated around a few principal industrial and urban areas (Figure 7). Over four-fifths of the total generating base is on Luzon; most of the remainder is on Mindanao and on several larger islands of the Visayan group. Only about one-fifth of the population has access to electric power.

National installed capacity totaled almost 2.9 million kilowatts (kw.) at the end of 1972, about three-fourths of which was in thermal plants and the remainder in hydroelectric stations. Production of electricity in 1972 amounted to approximately 10 billion kilowatt-hours (kw.-hr.). More than three-fourths of the national capacity is concentrated in two major utility companies, the privately-owned Manila Electric Company (MERALCO) and the state-owned National Power Corporation (NPC). The remainder is in a large number of small private and municipal enterprises and industrial powerplants. MERALCO produces and distributes electricity within its franchise area, comprising Manila and nearby communities. NPC is a predominantly hydroelectric utility with exclusive rights over the development of all national public water resources.

The electric power industry is under strict governmental control, which includes supervision of operations, determination of rates, and approval of plans. The private and public sectors are supervised by the Public Service Commission, which is also responsible for granting operational franchises. The state-owned facilities are controlled by the National Power Board. Rural electrification is largely the responsibility of the National Electrification Administration, created in 1969 to stimulate and accelerate development of rural power supply. In order to provide central coordination, the Power Development Council was established in 1970 to supervise all aspects of power development.

The bulk of electric power capacity is concentrated in seven major plants. Four of these are MERALCO-owned thermal installations in the Manila metropolitan area: the 550,000-kw. Snyder plant, completed in 1972; the adjacent 385,000-kw. Gardner plant; the 315,000-kw. Rockwell plant; and the 220,000-kw. Tegen plant. Together they account for about two-thirds of the total thermal capacity. The remaining three large powerplants are NPC-owned hydroelectric installations: the 212,000-kw. Angat plant and the 100,000-kw. Binga plant, supplying most of their output to the capital city; and the 150,000-kw. Maria Cristina plant, which was expanded to its present capacity in 1971. The Maria Cristina plant is located on Mindanao and is the only large generating facility outside Luzon.

Transmission facilities are poorly developed and are confined to a network serving the Manila metropolitan area and a small local grid on Mindanao. In areas other than those included in the networks, electricity is supplied by numerous small, isolated powerplants.

Scheduled development of the power industry through 1976 calls for expansion of the MERALCO system by 660,000 kw. and the NPC by 380,000 kw. MERALCO's major project will be the construction of the Montelibano thermal powerplant near Manila, which will include two 330,000-kw. units. The NPC development program calls for expanding the Bataan thermal powerplant on Luzon by 150,000 kw. and adding 875 miles of high-tension lines to the Luzon network. Financial assistance for these two projects includes a U.S. US$22 million loan and a $10 million credit from the International Bank for Reconstruction and Development (IBRD). The NPC also plans to expand the Maria Cristina hydroelectric powerplant by 50,000 kw. and the Mindanao transmission network by over 500 miles. The IBRD will provide a $23.4 million loan to help finance these projects. The IBRD is also to provide $21 million in loans to help finance construction of the 180,000-kw. Agus II hydroelectric powerplant on Mindanao.

## 3. Minerals and metals (U/OU)

Mining accounted for only 2.4% of net domestic product in 1972, but it is an important source of foreign exchange. Mineral exports worth US$217 million accounted for almost 20% of total exports in 1971. Although a wide variety of metallic and

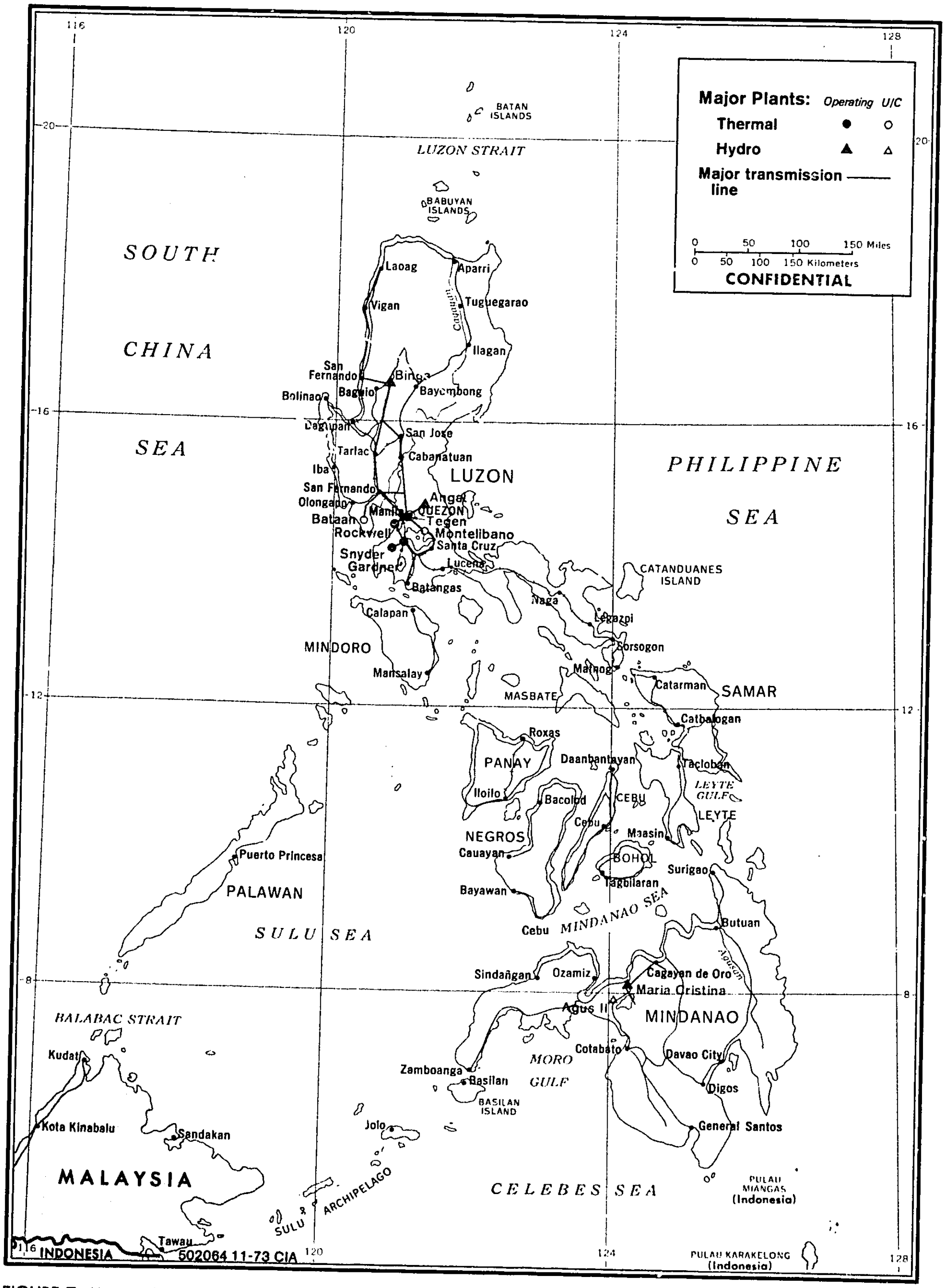


FIGURE 7. Major electric power plants (C)



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nonmetallic minerals are produced (Figure 9 below), copper accounts for two-thirds of the total value of mineral output, and copper concentrates are the principal mineral export. Between 1965 and 1971, mineral output increased by about 15% per year (Figure 8), making mining the fastest growing economic sector; in 1972, however, the rate of growth declined to 1.7%. Most mines now employ modern technology and equipment, and the Philippines mineral reserves are beginning to attract substantial amounts of foreign investment. Furthermore, much of the country remains unexplored, and the government is optimistic about potential mineral resources. The Surigao Mineral Reservation, which comprises part of the northeast coast of Mindanao and the offshore islands, is one mineral-rich area soon to be tapped for nickel Reserves there are estimated at 48.5 million tons of iron, 1.4 million tons of nickel, and 99,000 tons of cobalt.

### *a. Copper*

The volume of copper metal production increased by an average of slightly over 18% annually between 1965 and 1971 and approached 200,000 metric tons in the latter year; in 1972, output rose to 211,000 tons, or by 7.1%. The principal copper mining companies are Atlas Consolidated, Marcopper, Lepanto, and Marinduque Mining. Atlas is controlled by U.S. interests, but in 1972 the firm was in the process of reducing its American equity to 40% to meet legal requirements before termination of the Laurel-Langley Agreement in mid-1974. Copper smelting and refining have been accorded preferred status under the Investment Incentives Act, and the government is studying plans to set up a copper smelter with industrywide participation. Practically all Philippine copper production is exported; in 1971 copper concentrate exports were valued at US$186 million, about 17% of total exports. About 85% of copper exports went to Japan and most of the rest to the United States.

### *b. Gold*

The Philippines' second most important metallic mineral, gold, accounts for about 8% of total mineral output by value. The country remains among the world's top gold producers, with total production of about 637,000 fine ounces in 1971, compared to 437,000 fine ounces in 1965; in 1972 gold production declined about 5.4%. Although some mines produce gold as a primary product, much of the gold output comes as a byproduct of copper mining. Prior to 1971, most of the gold was sold to the Central Bank at the official subsidized price, but in 1972 the producers waived their subsidy rights and sold their gold in the world free market.

### *c. Iron ore*

Iron ore, the third most important metallic mineral, accounts for about 5% of the gross value of mineral production. Output since 1965 has increased by about 6% annually, and in 1971 2.2 million metric tons of ore (55-60% Fe) were mined. The most important producing deposits are located in the Provinces of Camarines Norte, in southern Luzon, and Zamboango del Sur, on Mindanao. Philippine Iron Mines, Inc., based on the Larap Peninsula of Luzon, produces almost 40% of the iron ore, with the remainder being produced by a number of smaller operations. Practically all of the ore produced is exported, most of it to Japan.

FIGURE 8. Production of selected minerals and metals (U/OU)

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972* |
|---|---|---|---|---|---|---|---|---|
| Coal (*thousand metric tons*) | 94 | 90 | 70 | 32 | 53 | 42 | 40 | 22 |
| Iron ore (55%-60%) (*thousand metric tons*) | 1,438 | 1,475 | 1,478 | 1,353 | 1,561 | 1,870 | 2,248 | 1,692 |
| Chromite ore (*thousand metric tons*) | 555 | 560 | 420 | 439 | 469 | 566 | 430 | 286 |
| Copper metal (*thousand metric tons*) | 63 | 74 | 86 | 110 | 131 | 160 | 197 | 163 |
| Manganese ore (*thousand metric tons*) | 52 | 58 | 80 | 66 | 20 | 5 | 5 | 3 |
| Zinc metal (*thousand metric tons*) | 2.1 | 1.6 | 1.5 | 2.2 | 3.3 | 3.2 | 3.9 | 3.1 |
| Gold (*thousand fine ounces*) | 437 | 454 | 498 | 527 | 571 | 603 | 637 | 448 |
| Silver (*thousand fine ounces*) | 934 | 1,163 | 1,384 | 1,575 | 1,561 | 1,702 | 1,940 | 1,360 |
| Mercury (*thousand flasks*) | 2.4 | 2.4 | 2.6 | 3.5 | 3.5 | 4.6 | 5.0 | 3.1 |
| Gravel and sand (*thousand cubic meters*) | 1.3 | 1.3 | 2.7 | 3.3 | 4.3 | 4.6 | 3.7 | *na* |
| Salt (*million cavans*)** | 5.1 | 3.7 | 2.3 | 4.3 | 4.6 | 4.2 | 5.1 | *na* |
| Silica (*thousand metric tons*) | 280 | 235 | 311 | 429 | 638 | 625 | 498 | *na* |

*na* Data not available.
*January–September.
**One cavan equals 2.13 bushels.

*d. Chromite*

The Philippines is a distant fourth in world output of chromite. Most of the Philippine ore is refractory rather than metallurgical grade. Total production of all grades of chromite ore was about 430,000 metric tons in 1971, down almost 15% from the average annual output between 1965 and 1970. In 1972 the index of chromite production declined nearly 21% from 1971. Virtually all chromite output is sold abroad, and the country is a substantial supplier to the U.S. market. In 1971 the Philippines accounted for nearly 10% of total U.S. chromite imports, compared to nearly 20% in 1965.

*e. Nickel*

Nickel is likely to become a major metallic mineral product of the Philippines. In 1968 a contract was awarded to a Philippine-Canadian combine to establish the country's first nickel mine and refinery at the Surigao Mineral Reservation. Financing for the operation was not secured until late 1972, however, when the Philippine Development Bank and two other government financial institutions agreed to take equity positions in the venture. Foreign loans will finance about two-thirds of the US$245 million cost of the project. Nickel production is expected to begin in mid-1974 and to generate net foreign exchange earnings of about $20 million by 1976 and $62 million annually by 1986. Annual output is projected to reach 75 million pounds by 1975. Long-term contracts have been negotiated for the sale to the United States and Japan of a major part of the expected output.

*f. Others*

The Philippines produces a variety of other minerals, but in very small quantities. Silver, extracted mainly in the Baguio region on Luzon, is the most important of these. Silver production has increased steadily since 1965, reaching almost 2 million fine ounces in 1971. Production of mercury and zinc also has been increasing fairly rapidly in recent years, though the Philippines remains an insignificant world producer. Production of manganese ore, on the other hand, dwindled from 52,000 tons in 1965 to only 5,000 tons in 1971. The Philippines also produces salt, silica, and sand and gravel in large quantities for domestic users.

**4. Manufacturing and construction (U/OU)**

Manufacturing (Figure 9) accounted for about 20% of net domestic product in 1972; its share of NDP has changed little in recent years. Manufacturing output expanded at an average rate of about 6% a year during the 1960's; in 1972, the index of output in manufacturing rose 5.8%. The sector is heavily weighted in favor of import substitution industries, reflecting high tariff policies aimed at providing a protected market for local business interests. The net result of these policies, however, has been the formation of many inefficient industries and an industrial sector with considerable overcapacity. In addition to these problems, the manufacturing sector has been adversely affected by the country's past political instability. All but a few firms in the manufacturing sector are privately owned, and direct government involvement in manufacturing is minimal.

Production of nondurable goods is by far the most important part of Philippine manufacturing, accounting for about three-fourths of the value added by manufacturing. Several industries in this group, notably the food and beverage industry (including the export sugar and rice processing industries) and some of the intermediate goods industries utilize domestic raw materials, and their contribution to the value of the finished products is relatively large. The largest manufacturing industry by far is the food and beverage industry, which includes some 6,000 rice mills, 600 corn mills, and 26 sugar mills. The efficiency of these plants varies widely. Most sugar mills are large and relatively modern, while the milling of domestically grown grains is for the most part a small-scale operation performed by crude and inefficient methods. A large percentage of the rice hulling and polishing and corn milling and grinding is done at the farm sites by manual labor, using stone or wooden mortars, wooden pestles, and stone handmills.

The most important categories of durable goods manufactured are metal products, transport equipment, and electrical machinery. Many of the plants in these industries engage in simple assembly operations which add little to the value of the finished products. Typical is motor vehicle manufacturing. In 1967, the motor vehicle industry had 40 assembly plants which produced 80 to 100 different models for a market that absorbed only about 20,000 units a yea Most of the plants utilize some form of assembly line, but because of the widely differing makes and models produced, tools and equipment tend to be general and much handwork is required. The government has been trying to rationalize the industrial sector, and some progress has been made in reducing the number of motor vehicle assembly plants.

Most of the large manufacturing plants are located in metropolitan Manila, reflecting the accessibility

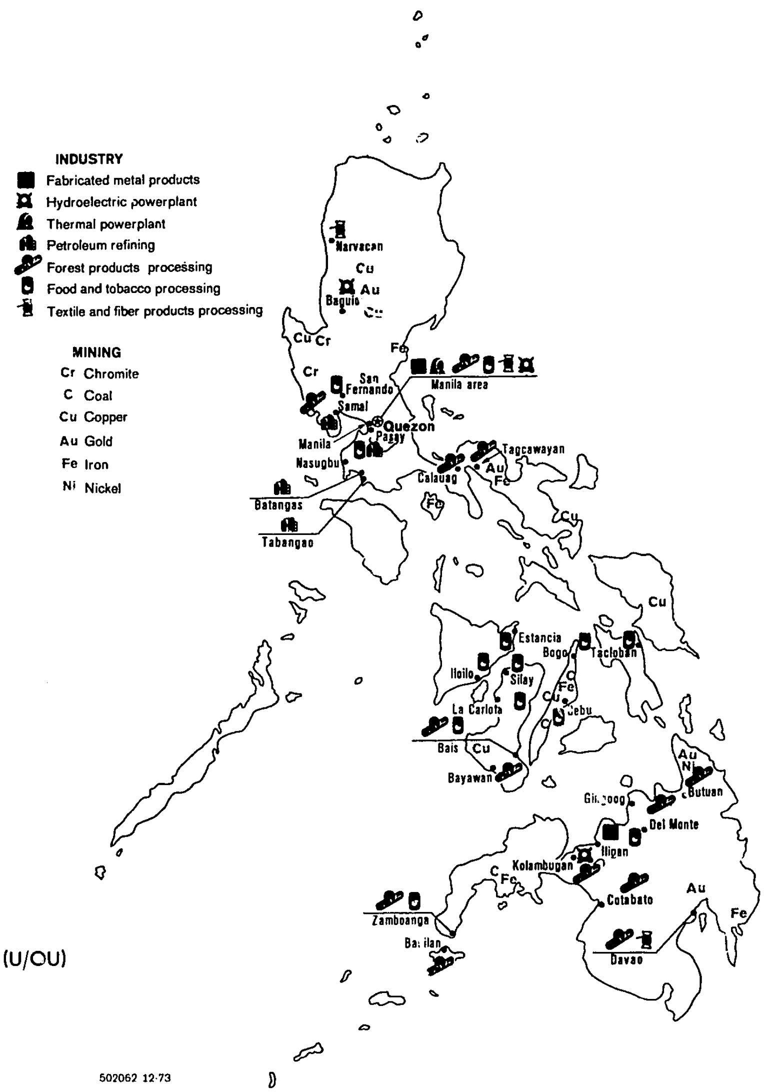


FIGURE 9. Industry and mining (U/OU)

there of electric power, labor, and a large local market, as well as the availability of port facilities. All major lines of manufacturing are represented in that area, but its particular importance is as a location for industries dependent on imported raw materials and semifabricated components rather than on domestic materials.

Outside the Manila area, southern and central Luzon are significant in the manufacture of textile products, apparel, and processed foods. In addition, several cement plants are located in those areas. In 1970 the western Visayan Islands accounted for close to one-fifth of total employment outside metropolitan Manila in manufacturing establishments of more than 20 workers each; in that area, manufacturing has grown around the sugar industry of Negros, in other types of food processing, and in lumbering. Northern Mindanao—particularly around Iligan—is an increasingly important industrial area. The development of hydroelectric power in the area and a good natural harbor in Iligan Bay are attracting a variety of industries. A small steel mill, a fertilizer plant, a carbide plant, a cement plant, and a flour mill already are in operation, and the nation's first integrated steel mill is planned there.

The construction industry is not well developed. Although emphasis shifted from post-World War II reconstruction to implementation of government industrial development programs in the mid-1950's, the Philippines remains woefully deficient in economic infrastructure as well as in housing. The new housing need has been estimated at about 500,000 units per year, and new construction cannot keep up with family formations. Most construction firms are small, and most—including the bulk of the larger firms—are located in Manila. Growth of the industry has been erratic, largely because of sensitivity to fiscal and monetary restraints.

### 5. Domestic trade (U/OU)

Domestic trade, which accounted for 11% to NDP in 1972, revolves mainly around nine of the large islands—Luzon, Mindanao, Samar, Negros, Palawan, Panay, Leyte, Cebu, and Bohol. Because of the presence of large populations and inadequate subsistence bases in their immediately surrounding areas, the urban markets of Manila and Cebu require large quantities of foodstuffs from outlying surplus areas. Manila functions as the chief entrepot for the necessary manufactured supplies, both foreign and domestic. About 90% of imported goods enter the port of Manila, and approximately 90% of all domestic industries are located in the city's suburbs. In interisland trade, however, the port of Cebu is as important as that of Manila. Inbound cargo at Cebu consists of domestically produced food, mainly copra and coconut products from the eastern and central Visayan Islands and from Mindanao, for transshipment overseas. Imported items and some locally manufactured goods which are transshipped from Manila come into Cebu for distribution to the population centers on Cebu Island.

Much of the domestic output of the country does not enter trade channels. Many farmers produce almost entirely for their own subsistence and market little or none of their production. Commercial establishments are predominantly small-scale individual proprietorships. Although the bigger wholesale and retail establishments are concentrated in cities and in provincial and municipal capitals, a large part of the retail trade in urban as well as rural areas operates through household enterprises and self-employed stall operators and vendors.

Wholesale establishments are considerably fewer in number than retail establishments and generally operate on a larger scale. Many wholesalers also carry on retail trade or some aspect of foreign trade. Retail establishments in the Philippines range from large department stores, quality specialty shops, drugstores, and a few supermarkets which cater to the higher income groups in Manila and other large urban centers, to the *sari-sari* stores—small household enterprises which stock delicatessen items and other small items used daily by the average family.

Prior to 1954, most of the retail trade enterprises were owned and operated by aliens, primarily Chinese who also had important interests in wholesale and foreign trade. Since that time the government has promoted the Filipinization of retail trade, but even so, many alien Chinese have stayed in business and still exert a major influence over wholesale and retail trade activity.

## C. Economic policy and finance (U/OU)

### 1. Policy and development

The government exerts considerable influence over the economy through fiscal and monetary policies but its role in the economy otherwise is not very extensive. Although the government engages in formal economic planning, the plans are merely sets of goals and generally are not followed very closely. Manila also has introduced a variety of measures aimed at stimulating private investment activity, but these measures have had only mixed results. Over the years, however, the government has exerted considerable indirect influence over the structure of Philippine industry through a high tariff policy that has encouraged development of an import-substitution industrial sector.

Government development plans continue to stress private investment. In recent years, about 90% of total investment has been in the private sector—an unusually large proportion for a less developed country. There have been occasional attempts to boost the share of public investment, but these have been short-lived. The bulk of government investment outlays have been for improving infrastructure, especially roads, but actual spending usually has fallen short of goals. Actual public investment during the year ending in June 1971, for example, was only about one-half of planned expenditures. The 1973-77 development program calls for an increase over 1968-72 outlays of about 20% a year in real terms.

The government has also sought to achieve a greater diversification of investments. Since 1967, it has offered substantial inducements on the import and domestic purchase of capital goods, on their depreciation, and on taxable income from investment, especially if it is reinvested, for firms investing in "preferred" areas in manufacturing, mining and agro-industries (defined, in large part, as areas in which the market is large enough to accommodate at least one more plant of economic size), and even greater incentives for investments in "pioneer" areas (areas involving new products and/or processes). Preferred areas could have up to 40% foreign equity participation, whereas pioneer areas could be 100% owned by foreign capital. Preferred and pioneer areas are listed in annual Investment Priority Plans. By the end of 1971, projects registered under the program totaled 3.8 billion pesos (about US$591 million), of which about half had actually been implemented. The largest investments by far were in import-substitute intermediate goods and export-oriented primary products and mining industries.

In view of the failure of the incentive program to generate greater investments and to increase sufficiently the diversification of the industrial structure, the government began in 1970 to grant incentives on a more selective basis, and took a more active role in the promotion of the capital and engineering goods industries. The government's approach was to be gradual—starting with the manufacture of components rather than entire machines—and progressively increasing the domestic component of manufactured items. The Progressive Car Manufacturing Program (PCMP) was the first experiment to be undertaken in this area, applicable to the production and assembly of automobiles. The new approach to investments, incorporated in the Export Incentives Act of 1970, is heavily oriented toward the development of export industries. It, like the Investment Incentives Act of 1967, is administered by the Board of Investments.

In its attitude toward foreign capital, the Philippine Government has generally been restrictive, although U.S. capital has generally been granted preferential treatment under the Laurel-Langley Agreement. Plans to terminate the Laurel-Langley Agreement in 1974, coupled with political unrest and threats of insurrection prior to the declaration of martial law in September 1972, deterred new foreign investment. The imposition of martial law restored order in most of the country, and the new constitution adopted in early 1973 is generally favorable to foreign investment. The restoration of order and the definition of conditions under which foreign capital is to be accepted have led to an acceleration of the foreign capital inflow, both public and private.

### *a. National budget*

The Philippine national budget has been in deficit annually since the mid-1960's (Figure 10). In FY71 the deficit was only 3% of total expenditures, compared to about 10% in FY65. The improvement largely reflects the government's efforts to tighten up the budget as part of the 1970 financial reform. Revenues were boosted substantially with the introduction of new taxes, while the growth in government expenditure was slowed sharply. Estimates for FY73 point to another very small budget deficit.

National budget expenditures increased at an average rate of 13.4% per year between FY65 and FY72, with capital outlays expanding from 10% of the total to nearly 20% (Figure 11). Increases in capital expenditures were concentrated on infrastructural improvements. Among current and capital expenditures in FY72, social services accounted for about 32% of the total, including nearly 26% for education alone; about 23% went for general administration.

**FIGURE 10. National government revenue and expenditures, selected years (U/OU)**
***(Million pesos)***

| FISCAL YEAR | 1965 | 1970 | 1971 | 1972* | 1973** |
|---|---|---|---|---|---|
| Revenue (gross) | 2,094 | 3,593 | 4,940 | 5,522 | 6,482 |
| Transfers to local governments | 229 | 502 | 643 | 740 | 866 |
| Net revenue | 1,865 | 3,091 | 4,297 | 4,782 | 5,616 |
| Current expenditures | 1,843 | 3,328 | 3,758 | 4,032 | 4,506 |
| Capital expenditures | 233 | 726 | 671 | 977 | 1,133 |
| Total expenditures | 2,076 | 4,054 | 4,429 | 5,009 | 5,639 |
| Deficit | 211 | 963 | 132 | 227 | 23 |

*Revised estimate.
**Preliminary.

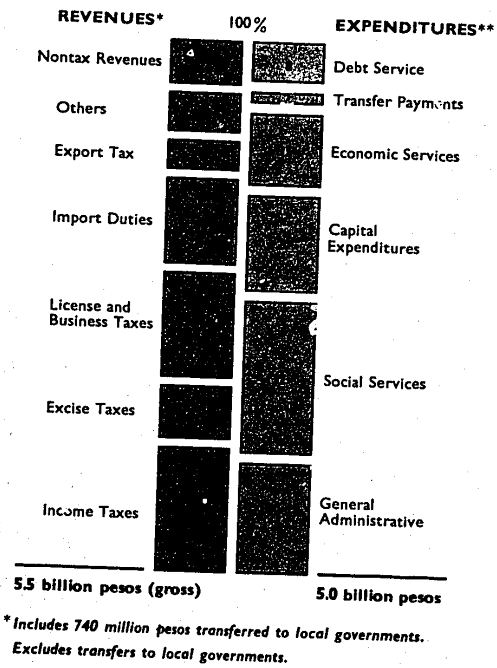


FIGURE 11. Estimated revenue and expenditures, by sources and functions, 1972 (U/OU)

Gross revenues of the national government increased nearly 15% annually between FY65 and FY72. In 1971, government gross revenues were equivalent to about 12% of GNP at current prices, compared to 10% in 1965. Import and export taxes provided about 24% of gross revenues in 1972, personal and corporate income taxes accounted for 26%, and excise taxes, licenses, and miscellaneous business taxes accounted for nearly 33%. Export taxes were instituted only in 1970 and are to be phased out over a 4-year period.

The ratio of government revenue to GNP is among the lowest in Asia, and past attempts to broaden the base of taxation have accomplished little. Prior to the declaration of martial law in September 1972, the Marcos Administration had sponsored a number of tax proposals, but relatively few of them were approved by the Congress. In October 1972, however, Marcos issued a Presidential Decree (No. 34), amending the tariff and customs code of the Philippines. The net effect of the decree was to simplify the tariff structure and to raise revenues therefrom. Further vigorous action was taken under martial law authority to increase tariffs and fees and improve the efficiency of tax collection. As a result of these measures, the government anticipated an increase of more than 17% in budgeted gross revenues in FY73, and some sources expected tax revenues to increase as much as 30% to 35%.

Local governments receive over one-third of their revenue from the national government, and their expenditures are equivalent to about one-fifth of total government spending. Over 30% of local government revenue comes from nontax sources, while property taxes and miscellaneous other taxes account for some 15% each. Local outlays are distributed on the basis of about 85% for current and 15% for capital expenditures.

### *b. Money and banking*

The Central Bank of the Philippines is responsible for the conduct of monetary policy, supervision of the banking system, and regulation of foreign exchange transactions. It is the sole bank of issue, and it adjusts reserve requirements and discount rates and engages in open market operations. The money supply rose fractionally in 1970, in line with the stabilization program of that year, but it was increased more than 10% in 1971 and 22% in 1972. The de facto devaluation in 1970 exerted a strong upward pressure on prices, and coupled with the increasing money supply, consumer and wholesale price indexes rose by about 8% and 10%, respectively, in 1972.

In 1972 there were 39 commercial banks with 703 branches operating in the Philippines. Net assets of the commercial banking system amounted to almost 13 billion pesos in June 1972, and total domestic credit extended by these banks was nearly 14 billion pesos in 1972. The main offices of all domestic commercial banks except the First Insular Bank of Cebu are located in the Manila area. By far the largest domestic commercial bank is the Philippine National Bank. Owned by the government, this bank handles about one-third of the nation's commercial banking business.

Although a number of development banks (32 main offices with 64 branches in 1972) are in operation, the government-owned Development Bank of the Philippines (DBP) dominates the field. In November 1971, total assets of all development banks were nearly 3.8 billion pesos, and outstanding loans totaled 3.1 billion pesos. Besides granting long-term loans for industrial, real estate, and agricultural development, the DBP assists in the establishment of private development banks. The National Investment and

Development Corporation, established in 1963 as a subsidiary of the Philippine National Bank, extends medium- and short-term loans to private undertakings. A private institution established the same year, the Private Development Corporation of the Philippines, also helps to finance industrial expansion. Credit is extended to agriculture through the Philippine National Bank, the DBP, and the Agricultural Credit Administration. In addition, agricultural activities are financed by 591 rural banks, which are partly owned by the government, and by privately owned commercial and development banks.

Savings institutions include a number of private savings banks and the Postal Saving Bank. The former are growing rapidly, whereas the latter appears to be on the decline. Savings and loan associations also are active, and 100 of them were in operation in 1972.

The unit of currency is the Philippine peso, which is divided into 100 centavos. The exchange value of the peso has floated since 1970. In mid-1973 the peso was trading for $0.147, or 6.78 pesos per dollar.

## 2. Manpower

Available statistics on the labor and employment situation in the Philippines are not very satisfactory. It is clear, however, that unemployment is a serious problem. A household survey conducted by the Philippine Bureau of Census and Statistics in May 1969 showed a labor force of about 12 million, or about 34% of the total population. Recorded unemployment, according to this survey, was about 6.3% of the labor force. A May 1970 survey showed that unemployment rate was 7.7%. It seems certain, however, that the data collected in the household surveys significantly understate the incidence of unemployment, especially in the rural areas. In May 1972, the Bureau of Census and Statistics reported an unemployment rate of 6.9% in a labor force of 14.2 million. Unemployment among young people is widespread, since there are few job opportunities in the organized sector for people in the 15-24 age group.

There has been a considerable shift in the employment structure in recent years away from agriculture and toward the service sector. Agriculture's share (including forestry and fishing) of total employment fell from about 61% in 1960 to 51% in 1971 (Figure 12). At the same time the service sector increased its share of total employment from 11.5% in 1960 to 16.2% in 1971. The share of manufacturing stayed around 12% throughout the last decade, but there have been substantial shifts in the pattern of employment within manufacturing. Employment in the organized sector—wage and salary workers—has expanded quite rapidly, while employment in the unorganized sector—consisting largely of female workers in the textile and clothing industries and miscellaneous manufactures—has fallen in absolute terms, indicating the displacement of cottage handicrafts by factory industry.

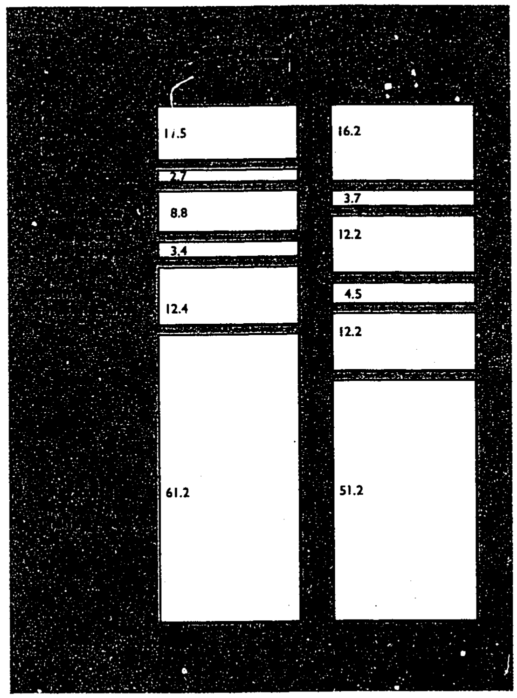

FIGURE 12. Distribution of the labor force (U/OU)

The growth of productivity in the entire labor force has been slow. Productivity gains have been especially poor in the transport, commerce, and service industries. Labor productivity has grown more rapidly in agriculture than in the remainder of the economy, in part because of a movement toward high-value crops such as sugar, fruits, and vegetables and the planting of high-yielding seeds. Productivity improvement in manufacturing has been due almost solely to the structural shifts within the sector toward factory employment, with its higher levels of technology and mechanization.

The number of industrial disputes in the Philippines has remained relatively high in recent years. Although most unionized employees probably have little savings, and union strike-benefit funds are limited or nonexistent, the capacity of Filipinos to remain on strike for extended periods when they feel strongly about grievances has been formidable. Under the martial law of September 1972, however, there have been fundamental changes in the Philippine labor relations systems. The government has banned strikes and picketing and has established a National Labor Relations Commission to mediate and arbitrate all labor disputes.

## D. International economic relations (U/OU)

### 1. Foreign trade

Foreign trade is vital to the well-being of the Philippine economy. Petroleum, capital equipment, many intermediate goods, and many consumer products must be imported. Exports consist mainly of a few primary products. In 1972 imports were valued at US$1,230 million and exports at $1,106 million. The data, however, are for recorded foreign trade only; smuggling in the Philippines is extensive, causing import figures to be significantly understated.

Philippine exports grew at an average annual rate of 6.5% between 1965 and 1971 and were concentrated in a few unsophisticated product lines (Figure 13). Copra and coconut oil, logs and lumber, sugar, and copper concentrates consistently have accounted for approximately 70% to 75% of total exports, although there have been some changes in relative importance among them. The prices of all these products have fluctuated markedly in recent years, and the predominance of primary products in the export mix subjects export receipts to wide variations. In 1970 exports rose by about 24% in value, when volume rose by about 15% and average unit prices rose by another 10%. In 1971, however, exports rose only 5.7% in the face of an average unit price decline of 7%. The prices of copra, coconut oil, and copper concentrates all were down. The government is aware of the dangers inherent in excessive dependence on primary products, and through the Export Incentives Act is seeking to diversify exports. To date, however, both domestic investment and foreign investment in export-oriented manufacturing have been limited.

Imports rose at approximately the same rate as exports between 1965 and 1971, and became more heavily concentrated in producer goods (Figure 14). The relative importance of consumer goods had been declining through 1970, but the resumption of rice imports in 1971 increased their share slightly. The major growth imports occurred between 1965 and 1969 and was largely the result of a marked increase in investment and the high degree of dependence of the

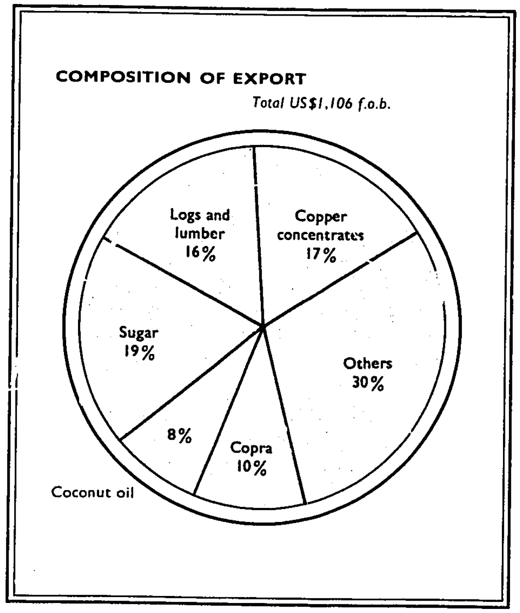


FIGURE 13. Value and composition of exports, 1972 (U/OU)

FIGURE 14. Value and composition of imports (U/OU)
*(Millions of U.S. dollars)*

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|---|---|---|---|---|---|---|---|
| Producer goods | 663 | 742 | 903 | 1,023 | 1,019 | 1,014 | 1,079 |
| Raw materials | 461 | 529 | 638 | 736 | 728 | 753 | 818 |
| Machinery | 162 | 153 | 212 | 230 | 242 | 207 | 202 |
| Intermediate products | 40 | 60 | 53 | 57 | 49 | 54 | 59 |
| Consumer goods | 145 | 111 | 159 | 126 | 113 | 76 | 107 |
| Durable | 8 | 17 | 11 | 11 | 11 | 11 | Negl. |
| Nondurable | 137 | 94 | 148 | 115 | 102 | 65 | 107 |
| Total imports | 808 | 853 | 1,062 | 1,149 | 1,132 | 1,090 | 1,186 |

domestic manufacturing sector on imported capital equipment and intermediate goods. During 1970 the introduction of exchange reform and the adoption of restrictive credit and fiscal policies reduced imports by 4%, with most of the decline occurring in consumer goods. In 1971, however, imports rose by 4% in volume and 9% in value. In that year, most of the increase in import volume was in the producer goods category. In 1972, imports rose 3.7%, compared to a decline in exports of 4.9%.

The geographical pattern of trade underwent significant changes between 1965 and 1971 (Figure 15), when the United States slipped to second place, behind Japan, among the Philippines' trading partners. The share of European countries as a group remained approximately the same. While the United States continues to take all the Philippine sugar exported, its share of coconut and timber sales has declined slightly. Japan, meanwhile, has been the major market for Philippine timber products and has been largely responsible for the rapid growth in exports of copper concentrates. A contributing factor to the decline in relative importance of the U.S. market has been the progressive application of U.S. tariffs under provisions of the Laurel-Langley Agreement of 1955. The United States has taxed Philippine products at 80% of scheduled rates since 1970 and will impose full rates after January 1974. In view of the importance of Japan and West Germany in Philippine trade, the currency revaluations of those two countries under the Smithsonian Agreement had a highly unfavorable effect on Philippine terms of trade.

## 2. Foreign aid

The Philippines' principal sources of foreign economic aid since independence have been the United States, Japan, and the International Bank for Reconstruction and Development (IBRD). U.S. economic aid from FY46 through FY72 totaled about $1.8 billion, of which about $882 million were in the form of postwar rehabilitation grants and war damage claim settlements. In addition, loans and grants extended by U.S. AID and its predecessor agencies have amounted to $349 million. About 77% of AID assistance has been in the form of grants, and most of the total has been allocated for direct economic aid as opposed to technical assistance. By the end of FY72, the Philippines had also received $229 million under the U.S. Food for Peace Program (P.L. 480). Other offical aid, largely credits extended to the Philippines by the U.S. Export-Import Bank, have been growing, and by the end of FY72 had reached a cumulative total of $349 million.

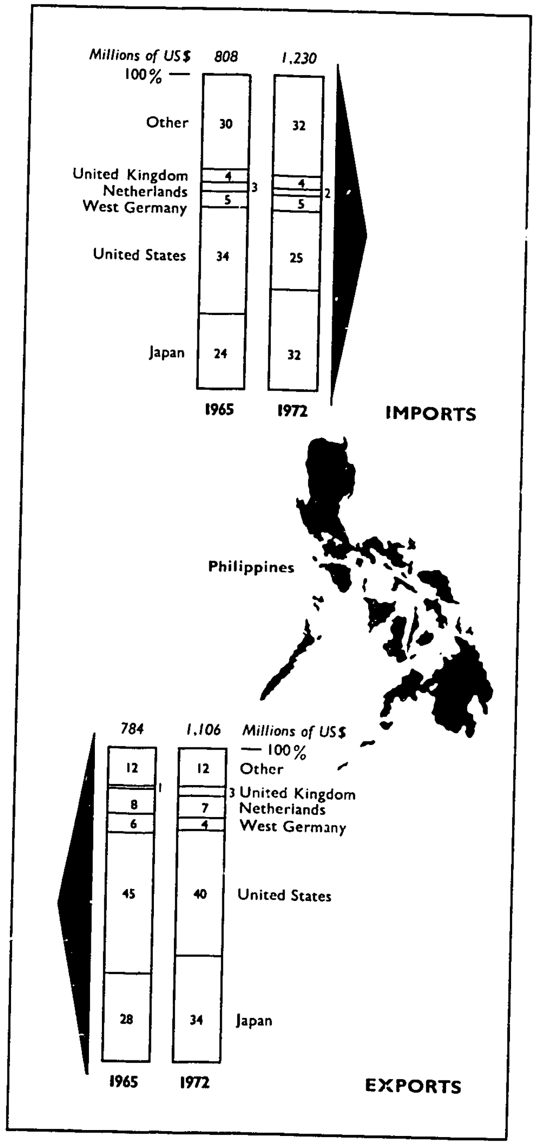


FIGURE 15. Direction of foreign trade (U/OU)

Japanese reparations also have been an important source of assistance. The Philippine-Japanese Reparations Agreement was signed in 1956, and deliveries began in 1957. The agreement provides for US$550 million in cash payments or in grants for capital goods, services, and consumer goods. Furthermore, it contains a loan arrangement whereby Philippine firms and individuals can receive up to



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$250 million in commercial credits from Japanese private sources. Deliveries of reparations through July 1969 were valued at about $337 million.

The Philippines receives aid from a number of international organizations. The cumulative total of Asian Development Bank loans and technical assistance as of the end of 1972 was $105 million in loans and $1.3 million in technical assistance. The bulk of these loans went for the Iligan-Cagayan de Oro-Butuan road and power development on Mindanao, while the largest amount of technical assistance funds went for the Navotas fisheries port and Cotabato port development. IBRD loans as of June 1972 had reached a cumulative total since 1953 of almost $268 million.

### 3. Balance of payments

The overall balance of payments of the Philippines deteriorated sharply between 1965 to 1969, but recovered thereafter (Figure 16). The current account, which generally had been in surplus through 1966, registered large deficits up to 1969. Stagnating exports

**FIGURE 16. Balance of payments* (U/OU)**
*(Millions of U.S. dollars)*

| | 1967 | 1968 | 1969 | 1970 | 1971 |
|---|---|---|---|---|---|
| Current account: | | | | | |
| Goods and services: | | | | | |
| Exports (incl. nonmonetary gold) | 838 | 876 | 874 | 1,083 | 1,139 |
| Imports | 1,062 | 1,150 | 1,132 | 1,090 | 1,186 |
| Merchandise balance | -224 | -274 | -258 | -7 | -47 |
| Services: | | | | | |
| Freight and insurance | -78 | -87 | -78 | -78 | -82 |
| Other transportation | 11 | 7 | -16 | -13 | 5 |
| Travel | 18 | -20 | -10 | 68 | 38 |
| Investment income | -76 | -97 | -78 | -130 | -101 |
| Other government | 93 | 110 | 74 | 52 | 56 |
| Other private | 45 | -24 | -23 | -40 | 21 |
| Net services | 13 | -111 | -131 | -141 | -63 |
| Net goods and services | -211 | -385 | -389 | -148 | -110 |
| Unrequited transfers: | | | | | |
| Private | 114 | 91 | 106 | 93 | 103 |
| Government | 72 | 44 | 49 | 26 | 31 |
| Total | 186 | 135 | 155 | 119 | 134 |
| Balance on current account | -25 | -250 | -234 | -29 | 24 |
| Capital account: | | | | | |
| Nonmonetary capital: | | | | | |
| Direct investments | -9 | -3 | 6 | -29 | -6 |
| Other private long-term | 57 | 188 | 127 | 101 | -32 |
| Other private short-term | 12 | 178 | 67 | 76 | 5 |
| Central government | -39 | 37 | 24 | 40 | 69 |
| Total | 21 | 400 | 224 | 188 | 36 |
| Monetary sector capital: | | | | | |
| Deposit money banks | -55 | 8 | 29 | 36 | 94 |
| Central bank | 67 | -50 | 63 | 30 | 2 |
| Total | 12 | -42 | 92 | 66 | 96 |
| Allocation of SDR's | ... | ... | ... | 18 | 17 |
| Reserves and related items | +64 | +91 | +45 | -87 | -102 |
| Net errors and omissions | -72 | -199 | -127 | -156 | -71 |

... Not pertinent.
*A minus sign in nonmerchandise accounts designates a credit entry.

and a rapid rise in imports resulted in trade deficits averaging $250 million annually in the late 1960's. The net services account also worsened in those years, largely because of growing outflows of investment income and heavy debt-service payments. The basic balance was kept from deteriorating further by large inflows of long-term capital mainly on private account. Short-term private capital also flowed into the country in relatively large amounts during the period, reflecting large net receipts of trade (supplier) credit.

In an attempt to cope with its rapidly deteriorating balance of payments situation, and under th· prodding and guidance of the International Monetary Fund, the Philippines in February 1970 initiated a number of corrective measures, including restrictive monetary and fiscal policies and a floating exhange rate. The exchange rate initially went from 3.90 pesos to the U.S. dollar to 5.80, and in March 1970 it settled at 6.43. Following the Smithsonian realignment in December 1971, the peso's par value was reduced to $0.1475 (6.78 per dollar), and it was still at that level as of mid-1973.

The reform brought quick improvment, although it was temporary. The trade deficit shrank in 1970 as imports declined and exports registered a healthy gain, but in 1971 it widened again to $42 million, and in 1972 it reached $122 million. The deterioration in the trade account in 1972 was attributed to depressed prices of some Philippine exports in world markets, reduced shipments of others resulting from weather damage to major crops, and a probable deterioration in Philippine terms of trade following the currency realignments of December 1971. Nonmerchandise (invisible) trade transactions, however, with net positive balance of $107 million, offset a large part of the 1972 trade deficit. Other net inflows included $81 million in private transfers, $170 million in official grants and long-term capital movement, and $56 million in private short-term capital movements, all of which more than compensated for the deficit on the combined trade and services account. With the IMF's allocation of $16.4 million of SDR's in 1972 and the net inflow of capital on other balance of payments transactions, Philippine international reserves rose to $281.9 million in December 1972, from $244.2 million at the end of 1971.

The Philippine external debt rose about 370% between 1965 and 1972, reaching a level slightly over $2.2 billion in the latter year (Figure 17). Although the magnitude of the debt has imposed a serious burden on the country (servicing the debt in 1972 required

**FIGURE 17. Structure of the Philippine external debt* (U/OU)**
***(Millions of U.S. dollars)***

| | 1965 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| Short-term:** | | | | | |
| Public sector | 73.3 | 196.4 | 62.8 | 38.5 | 31.5 |
| Private | 51.2 | 276.4 | 286.9 | 301.1 | 308.3 |
| Total | 124.5 | 472.8 | 349.7 | 339.6 | 339.8 |
| Medium-term:*** | | | | | |
| Public sector | 135.9 | 224.1 | 248.4 | 239.8 | 254.2 |
| Private | 100.4 | 399.4 | 368.9 | 259.9 | 214.7 |
| Total | 236.3 | 623.5 | 617.3 | 499.7 | 468.9 |
| Long-term:† | | | | | |
| Public sector | 149.6 | 255.6 | 490.0 | 528.4 | 653.0 |
| Private | 89.1 | 559.8 | 680.2 | 719.8 | 768.5 |
| Total | 238.7 | 815.4 | 1,170.2 | 1,248.2 | 1,421.5 |
| Total: | | | | | |
| Public sector | 358.8 | 676.1 | 801.2 | 806.7 | 938.7 |
| Private sector | 240.7 | 1,235.6 | 1,336.0 | 1,280.8 | 1,291.5 |
| Grand total | 599.5 | 1,911.7 | 2,137.2 | 2,087.5 | 2,230.2 |

*All data are on a disbursements basis as of year-ends.
**Less than 1 year to maturity.
***1 to 5 years maturity.
†Over 5 years maturity.

34% of exchange earnings from trade and services), the structure of the debt has probably been more troublesome. The high proportion of the debt represented by short-term obligations (25% of the total in 1969) left little leeway for debt managers to service the maturing obligations. Efforts to modify the structure of the debt were part of the economic reforms initiated in 1970. New foreign borrowings were subjected to Central Bank approval, and emphasis was placed on credits of more than 5 years' maturity. The effects of the reforms are shown in a decline in short-term external obligations to 15% of total external obligations and a rise in the proportion of long-term obligations to nearly 64% of the total in 1972.

## Glossary

| ABBREVIATION | ENGLISH |
|---|---|
| ACA | Agricultural Credit Administration |
| DBP | Development Bank of the Philippines |
| IBRD | International Bank for Reconstruction and Development |
| IMF | International Monetary Fund |
| MERALCO | Manila Electric Company |
| NEDA | National Economic Development Authority |
| NPC | National Power Corporation |
| PNB | Philippine National Bank |