CHAPTER I

AN OVERVIEW: POSTWAR ECONOMIC DEVELOPMENT EXPERIENCE IN THE PHILIPPINES: THRUST, ZEAL AND ACHIEVEMENT

by
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1. INTRODUCTION

There seems to exist a consensus among contemporary development economists and experts from various organizations that modern economic growth is characterized by a state of industrial proliferation, of manufacturing in particular.

The newly-industrialized economies (NIEs) of Taiwan, Korea, Hong Kong, and Singapore provide a model on the achievement of modern economic growth, through their industrialization strategies during the past three decades.

One importance of industrialization is often stressed in the arguments of development economics that a country specializing in primary commodities' productions would be relatively impoverished vis-a-vis industrialized countries. This is due to the long-term tendency of the terms of trade to be unfavorable to the producers of primary commodities. Actual record on the terms of trade of certain countries, the Philippines in particular, can confirm this point. Theoretically, the unfavorable terms of trade of primary commodities is based on the price inelasticity of both their demand and supply.

The more important reason for industrialization is the decreasing cultivable acreage, brought about by the increasing population density in the local areas. The part of the labor force which is not fully absorbed by the agricultural sector due to the meager cultivable acreage left will need to find job opportunities in other sectors of the economy, such as the service sector and/or the manufacturing sector.

Regarding the industrialization strategies, there are mainly two contrapositions: the import-substitution versus export-orientation strategies and the inward-looking versus outward-looking strategies. The latter which is a broader concept actually includes the former. Since the former avails of a narrow analysis based on the theory of general equilibrium, most of the literature on industrialization seem to be concerned with the former in many attempts to examine development policy issues.

Thus, consider a small country which takes as given the terms of trade determined internationally at world markets for its importable and exportable goods.

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I would like to acknowledge Alice Martha Atienza and Ma. Angelita Quimpo who assisted me in this research work, particularly Ms. Atienza, a graduate student of UPSE who gave of her precious time to correct my first draft.

Provided that there exist no externalities in both consumptions and productions, and no economies of scale in the production technologies of both import and export goods, with an assumption of flexible price adjustment, the optimization behavior allows us to surmise that the economy reaches a state of equilibrium at a point such that the terms of trade exogenously given to the country is tangent to the well-behaved production possibility frontier of its import and export goods.

If an import tariff is imposed on this economy, the domestic relative price of import goods increases. As a result of this change in the domestic relative price, the econmy will be adjusted as follows:

(a) Input factor resources are transferred from export goods productions to import goods productions. And the curtailment of export goods prductions follows.

(b) There is a lowering of the real income due to the curtailment of export goods productions, and this amounts to a social welfare loss.

(c) Due to the dampening effect of real income, both import demand and export supply shrink so that the economy is led to a less preferred state of equilibrium than the initial state, when it was free from tariff.

These logical deductions from general equilibrium approach, as such, appeal greatly to most economists at the academe, technocrats in economic planning agencies, and development experts from multinational development assistance organizations, such as the World Bank and the International Monetary Fund. It is, however, worthwhile to remind ourselves that the deductions stated above are only true if the simplistic assumptions which follow hold true: factors causing market failure and price stickiness do not exist, that there are no externalities and no economies of scale in production technologies, and that market isolation due to extremely high transaction costs incurred by the private sector due to the lack of infrastructure does not exist. However, contrary to these assumptions, these elements are the basic traits detected in developing countries.

A closer look into the policies enacted and enforced as government decrees in Taiwan, Korea and Japan, during the postwar period until the mid-1960s, is apt to provide us with different conjectures from the success stories of their industrialization strategies from the pervasive stylized allegation referring only to export-orientation. It was not only until the late 1970s, that Taiwan and Korea started lifting restrictions on import quantum. Even then, these restrictions were lifted in very small degrees. Thus, until today, the import substituting manufacturers in the two countries remain heavily protected by means of tariff barriers (Sakai, 1988). In Japan, the coexistence of protectionist and export-oriented industrialization has been observed during a transition period from a phase of labor-intensive and light industries to a phase of capital-intensive and heavy industries (Komiya, 1984).

There is, however, no doubt that these countries opted for an outward-looking attitude in an attempt to accomplish modern economic growth through industrialization. This implies that an outward-looking industrialization is based on a broader concept of industrializing strategies which include import-substitution and export-orientation as policy targets. Outward-looking strategies put more emphasis on the dynamic comparative advantage rather than on the static comparative advantage often discussed in a conventional theory of international trade. There are so many unknown and contentious issues to be solved in the dynamic comparative advantage approach. Among others, the most relevant issue in the protection of infant industry is the presence of technological, pecuniary, and Marshallian's externalities and the nurturing of promising entrepreneurs to induce a keen competition at various domestic markets (Ito, 1988). The success of industrialization in Taiwan, Korea and Japan is a manifestation of a strong competition achieved with an external economy, which generated the industrial proliferation through a relatively free entrance to profitable industries.

Keeping in mind the view of industrialization strategies discussed above, the second part of this chapter provides an overview of the postwar economic development plans made by the Philippine government. The third section follows with the summary and conclusion of this overview.

2. POSTWAR PHILIPPINE DEVELOPMENT PLANS

2-1. The Philippine Economic Plans: 1962-1967

According to the findings of the Economic Mission of the International Bank for Reconstruction and Development (IBRD) which visited the Philippines in the summer of 1961, the economy was stabilized in 1950 and 1951. This was after the first balance of payments (BOP) crisis in the postwar period which occurred in 1949. The prewar per capita income level was restored around 1953-1954. For the period 1950 to 1959, gross domestic product (GDP) was reported to increase at a compound rate of 5 to 6 percent per annum and per capita output grew in excess of 2.5 percent. Contributing to this fairly high rate of GDP growth was the growth of domestic manufacturing at the rate of 11 percent per annum. This has brought about a substantial change in the industrial structure of the Philippines. However, according to the IBRD report, "the industrial base was . . . still narrow and it consisted essentially of a range of consumer goods' industries heavily dependent on imported raw materials."

Based on the recommendations of the IBRD mission, the Five-Year Integrated Socioeconomic Program for the Philippines (1963-1967) was enunciated by then President Diosdado Macapagal. He acknowledged the economic difficulties facing the Philippines in 1962 which were as follows:

Firstly, the country had fully exhausted the potential for growth offered by the complement of policies that were in effect over the decade of the 1950s. Over the last three years from 1958 to 1960, the growth rate of real gross national product had declined.

Secondly, it had become obvious that the impetus to investments which exchange controls and various tax incentives provided had worked itself out.

Thirdly, the country already enjoyed to the fullest extent the export potential feasible under the existing exchange and trade policies. The weakening of world copra prices had caused the country's export earnings to level off from the rather steep growth of the 1950s. Even the stability of the earnings from sugar exports was threatened by the move in the US congress to have the United States purchase sugar on the basis of a global quota and at world free market prices.

Fourthly, the weakening of the export potentials in the light of an immediate balance of payments problem aggravated the situation. Philippine international reserves had dropped to a precarious low level – lower than the previous levels which caused great concern in the past.

Finally, the country was faced with a serious population problem. Philippine population growth was one of the highest in the world. Thus, the country's requirements for consumer and capital goods had to grow with it.

In 1962, the Philippines encountered a foreign exchange difficulty with the second BOP crisis. Manuel F. Montes (1987) claims that the 1962 BOP crisis was a typical manifestation of the unsustainability of the import-substitution strategy undertaken during the 1950s.

Thus, it was imperative that the Macapagal regime from its IMF consultations, had to opt for a program of exchange rate adjustment and unification, and a procedure for an orderly decontrol to transfer the allocation of foreign exchange to a genuinely free market.

In order to show the nature of the proposed decontrol program, we quote a few statements from the address of President Macapagal to the Congress of the Republic of the Philippines, 22 January 1962:

> As the exchange control machinery is dismantled, the alternative means of achieving the legitimate ends of controls shall be instituted. To this end, I have availed of the power granted us by law to increase the rates of import duty on nearly 700 articles already being produced by domestic industries in order to provide them a means to meet the loss of the protection they have enjoyed under the exchange control

On top of this protectionist approach, it is interesting to see how the IBRD mission, at the time, suggested to the Macapagal administration a structural adjustment of the industrial sector to remedy the BOP failure of the Philippines.

A basic cognizance of the IBRD mission on the factors adversely affecting the BOP position is evident in their statements. They estimated that the direct import content of industrial output was at the rate of around 30 percent in 1960. They pointed out the three factors to explain such a high import coefficient in the Philippines.

First, the Philippine industrialization started as an off-shoot of the import-substitution of consumer goods with imported input materials. Second, the industries which developed very fast in the postwar period such as flour milling, cotton textiles, and refining were those whose raw materials were lacking in the Philippines. The third factor was related to the misguided policy issue on the prevailing foreign exchange system. Raw materials and intermediate products were imported at the official rate of exchange of ₱2 per $1 through the import and exchange control mechanism, and were also exempt from all import duties under the industrial incentive act. By contrast, the domestic prices of locally finished goods, heavily protected by controls and tariffs, were fairly costly in comparison with the world market prices of these commodities. This is tantamount to having an overvaluation of the official exchange rate in terms of domestic commodities. Thus, cheap imported inputs prevented domestic entrepreneurs from developing import substitutes in intermediate products.

In 1960, the demand for unprocessed raw material amounted to $60 million. Imports of semi-processed products were valued at $250 million and supplies were valued at $55 million. These products were supposed to be the main targets for import substitution in the future. And the mission was rather optimistic about the feasibility of structural adjustment in the industries through import substitution in these fields recognizing that the Philippines had nurtured and acquired a sizeable congregate of managerial experience which can work with more complicated manufacturing operations.

Complying with the IBRD mission's recommendation stated above, the Philippine government had set the average growth rate of GDP at 6 per cent per annum from 1962 to 1967. This was the overall target of the program.

The premises for the feasibility in attaining the overall target of a GDP growth rate on which the plan was based are given below:

(a) During the five-fiscal year period, the ratio of gross domestic investment to GDP should stay at 16 percent.

(b) Gross domestic savings should reach 13 percent of GDP in FY 1963, 13.8 percent in 1964, 14.6 percent in 1965, 15.4 percent in 1966, and 16 percent in 1967.

(c) There is a total net inflow of foreign capital into the country of roughly U.S. $60 million during the five-year period.

(d) The export earnings of the country total US$ 3.7 billion during the period.

The program required that the gross domestic investment be allocated to the production of import-substitutes such as integrated iron and steel, basic chemicals, pulping plants, expansion of agricultural food production and processing, and the deelopment of the cattle and dairy industries.

2-2. Philippine Economic Program, FY 1967-1970

On 14 September 1966, Executive Secretary Rafael M. Salas enunciated, under the new executives headed by the then President Ferdinand E. Marcos, the consecutive development program, the Four-Year Economic Program for the Philippines for fiscal years 1967-1970.

The basic problems discerned by the Planning Agency in the Government at that time were as follows:

(a) The economy inherited a dualistic structure composed of a primitive agricultural sector and an urban industrial sector, with two-thirds of the population supported by the former.

(b) Population growth was one of the fastest in the world at its rate of 3.2 percent per annum.

(c) About 12 percent of the labor force was unemployed with unemployment and underemployment substantially growing.

(d) The country's terms of trade was adversely affected by the tendency of prices of primary products in the world market to decline, while the prices of imported goods such as machinery and input materials tended to rise.

(e) Investments in public works facilities such as irrigation and roads should meet the growing needs for them.

Taking into account all these basic problems facing the Philippines, the strategy of economic development was to integrate the dualistic structure with a policy of import substitution and the promotion of more diversified exports. To solve the unemployment problem, enough employment opportunities were expected to be generated through an increasing tempo of investment made through domestic efforts and the partnership of domestic and foreign venture capital. And the strategy had put emphasis on the framework of the free enterprises wherein the private sector continued to play the dominant role in the process of economic development.

With the population growth rate at 3.2 percent annually, the Program aimed at increasing the annual growth rate of per capita real income from its level of 0.9 percent in FY 1961 - FY 1965 to 2.4 percent in FY 1967 - FY 1970. To this end, real national income was expected to grow at an average annual rate of 6.2 percent. The planned targets are shown in Table 1 (Annex I).

To attain these targets, the Program projected that the ratio of investment to Gross National Product had to increase from 14.6 percent in FY 1962 - FY 1966 to 21.3 percent within the four-year period.

Regarding the employment target, the Program's projection for the plan period is given in Table 2 (Annex I).

As seen in Tables 1 and 2, the most important role to propel the country's economic development was assigned to mining and manufacturing. The following statements from the Plan give us a clue on the background of the industrial development program.

> Manufacturing in the Philippines began with and is still heavily dominated by light finishing operations. This was partly because in the decade of the 1950s, from which time serious government support of industry may be dated, the domestic market was too small to absorb, and local capital too scarce to sustain, heavy manufacturing operations. A more important reason was the type of support given by government, which was characterized by preference in the allocation of cheap foreign exchange, substantial tax exemption and heavy tariff protection.
>
> The growth of manufacturing slowed in 1958-1961, partly as a result of the fact that some of the markets created by restrictions on imports had become saturated.

With the recognition of the problems concomitant with industry in the Philippines, the three main objectives of the industrial program were given priority and these were: (a) to hasten the change in the composition of manufacturing output toward basic and intermediate products, by providing long-term financial support to projects in the desired industry lines; (b) to alleviate the temporary credit shortages of industries which are essentially viable; and (c) to create further employment opportunies through the cottage industries program.

The criteria used to choose priority industries were fourfold: (a) their support to the agriculture and public works programs such as the manufacture of cement for roads and irrigation projects; (b) their provision of producer goods for further domestic processing; (c) further processing of export products traditionally sold in primary form; and (d) their generation of employment opportunities.

According to these criteria, the following industries were chosen as the priority industries: (1) integrated wood processing, (2) integrated pulp and paper, (3) industrial salt, (4) soda ash, (5) fertilizer, (6) polyethylene, (7) antibiotics, (8) cement, (9) refractories, (10) coke plant, (11) Surigao laterite, (12) copper, (13) ferroalloys, (14) agricultural machinery, and (15) shipbuilding.

2-3. Philippine Development Plan, FY 1971-1974

Under the Marcos regime, the second phase of the development program was launched in 1970 and was released as the four-year development plan for FY 1971-FY 1974 as approved by President Ferdinand E. Marcos on 24 June 1970. This program which formulated development plans and projects was the product of the Inter-Departmental Committee, headed by the National Economic Council Director-General, Placido Mapa, Jr.

The basic problems which the Program was directed to solve were:

(a) *The low standard of living.* As a result of this, two-thirds of the population engaged in traditional agriculture did not provide an adequate market to support an expansion in manufacturing activities.

(b) *Substantial unemployment and underemployment.* With the population growing at the rate of about 3.5 percent a year, the unemployment problem worsened and could not be solved during the plan period.

(c) *The overall balance of payments (BOP) deficit.* Both the BOP deficit and the structure of the external debt restricted the country's economic growth seriously.

(d) *Inflation.* Due to the de facto devaluation under the floating exchange rate system, consumer prices rose rapidly.

After the Philippines decontrolled the foreign exchange restrictions and devalued the exchange rate in 1962, the country's trade deficits turned into surpluses for four years from FY 1963 to FY 1966. However, this could not last long, since while exports stagnated with the decline in the shipments of sugar and coconut products during the first plan period under the Marcos regime since FY 1967, imports continuously grew at a declining rate from the rate of 20 percent in FY 1967 to that of 6.8 percent in FY 1969. During the period of FY 1962 - FY 1966, with surpluses in the current accounts, the country reduced its external indebtedness instead of building up its international reserves. When the current account surpluses turned into deficits from FY 1967 to FY 1970, deficit financing was resorted to mainly through short-term borrowings from U.S. and European commercial banks.

As of 30 June 1969, the total outstanding external debt of the Philippines was reported to amount to about US$1.48 billion, of which 44.9 percent was public debt. The current account deficits for FY 1967, FY 1968 and FY 1969 were $60 million, $309.6 million and $421.3 million respectively. These deficits were financed largely by short- and medium-term credits, including large borrowings of the Central Bank from U.S. and from European commercial banks. The debt service requirements began bloating rapidly from FY 1967. The gross capital inflow leaped to a historical level of $646.8 million in FY 1967 from the 1966 level of $206.5 million. The debt structure from FY 1963 to FY 1969 is shown in Table A. It is clearly brought out in Table A that the short-term borrowings had dominated the composition of total borrowings since FY 1966. This debt structure generated a serious problem in financing the Philippine balance of payment deficits because short-term borrowings were to be repaid and renewed within short periods of time.

Thus, in 1970, it was imperative that the government had to take an initiative to cope with the external debt problem. The Central Bank dealt with the immediate liquidity problem by reinstituting regulations not only in import transactions but also in newly incurred external debts. Regarding other measures, the floating rate was introduced in February 1970 and the Government required that commercial banks and the Philippine National Bank surrender their foreign exchange earnings to the Central Bank.

A year after the removal of the import quota system at preferential exchange rates, the consumer price index rose by 8 percent. Previously, consumer prices had been rising by only 4.3 percent per annum. The Inter-Departmental Committee for the Plan for FY 1971-FY 1974 estimated the consumer price hike to be at a rate of 15 percent in FY 1970 due to a 50 percent de facto devaluation of the peso.

Given the balance of payments constraint described above and the fear of a runaway inflation due to currency devaluation, the annual average GNP growth rate was targetted to be 5.6 percent during the plan period FY 1971-FY 1974. The features of the Plan which make it distinct from the previous plans are two-fold: first, the Plan explicitly stated the need for a family planning program and projected a decline in the population growth rate from 3.7 percent to 3.4 percent rate by FY 1974. Secondly, industries which were basically export-oriented and minimally import-dependent were to be given priority, as they were expected to be mainly responsible for the growth of the economy during the plan period. Thus, the Plan FY 1971-FY 1974 stated that:

> Consequently, mining output in value-added terms will expand rapidly at an average annual rate of 17.7 percent during the plan period. This growth will be realized on top of a significant increase registered in FY 1970 in response to high world prices, particularly of copper and nickel. Growth in manufacturing activities, being heavily import dependent, will be decreased during the period of adjustment (in the exchange rate) but will pick up rapidly towards the late years of the Plan. An average 6.2 percent rate of increase is anticipated, rising from 1.9 percent in FY 1971 to 9.3 percent in FY 1974.

The overall feature of the Plan appears in Tables 3, 4 and 5 (Annex I).

Regarding the industrial program, its specific objectives were stated in the Plan as follows:

(a) To help alleviate the balance of trade problem by encouraging industries which are *export-oriented* and those heavily utilizing *indigenous raw materials;*

(b) To promote the development of intermediate and capital goods industries;

(c) To encourage industries which have the greatest potential for *backward and forward* linkages;

(d) To encourage industries which will subject traditional exports to further processing; and

(e) To generate greater employment opportunities.

Table A

The Philippine Borrowings From Abroad
(in Million US$)

	FY 1963	FY 1964	FY 1965	FY 1966	FY 1967	FY 1968	FY 1969
Short-time							
Private	18.1 (41.0)	29.3 (26.3)	28.6 (14.0)	12.7 (4.3)	326.4 (59.7)	185.4 (36.6)	343.4 (40.4)
Public	0.8 (2.0)	25.0 (22.4)	42.0 (20.4)	175.3 (58.7)	170.5 (31.2)	239.6 (47.3)	241.5 (28.4)
Medium- & long-term							
Private	8.9 (20.0)	24.6 (22.0)	55.4 (26.9)	21.0 (7.0)	16.7 (3.1)	50.1 (9.9)	157.6 (18.5)
Public	16.2 (37.0)	32.7 (29.3)	79.7 (38.7)	89.8 (30.0)	32.8 (6.0)	31.0 (6.1)	107.5 (12.6)
Total	44.0 (100.)	111.6(100.0)	205.7(100.0)	298.8(100.0)	546.4(100.0)	506.1(100.0)	850.0(100.0)

What was novel in the 1971-1977 Plan was the introduction of new industrialization strategies. These emphasized the necessity of foreign exchange earnings through export-orientation and the achievement of production efficiency through the high linkage effect of interindustries.

In order to see how strong an emphasis was placed on the strategy of export-oriented industrialization, we will probe into the policy measures which the industrial program proposed. The report recommended that during the first phase of the four-year development program enunciated in FY 1967, there should be an accelerated shift from the final stages of production to the intermediate and basic industries and this was also planned to be done with the implementation of the prevailing industrial incentive policies. The Plan Committee admitted that the restructuring of the industrial sector through the development of industries which were based on domestic raw materials as well as those with high export potentials was underway.

The Board of Investments (BOI) had drawn up three Investment Priorities Plans (IPP) since its establishment. The first Plan was approved on 1 June 1968 and remained in force until the end of April 1969 when it was superseded by the second Plan. The third Plan was approved on 28 March 1970 and became operative on 1 May 1970.

The second IPP was composed of three schedules, from Schedule A to Schedule C as follows:

Schedule A: investment areas in export development based on the processing of indigenous raw materials such as agro-forestry and fishing.

Schedule B: mineral processing activities with linkages with the mining operations and the subsequent processing operations.

Schedule C: the manufacturing of intermediate products which are substituted for the imported.

For the industries not specified in the IPP, the following two schedules were added:

Schedule D: The industries were entitled to export incentives provided that they meet the following criteria: (1) they export finished products that are completely processed and manufactured locally, with at least 70 percent of the peso value of their total content being of Philippine raw materials; (2) they export more than 50 percent of their total production; and (3) they do not enjoy any preferential treatment arising from any agreement or arrangement between the Philippines and the importing countries.

Schedule E: This provision encouraged existing firms with excess capacity to export if they were granted export incentives, provided that they were in an industry whose exports did not exceed ₱60 million in 1967 and were not qualified in the other schedules.

The third IPP is a sequel to the second IPP and incorporates the five schedules elucidated above. Under the third IPP, substantial investments were expected to be channeled to industries such as primary steel, nickel and aluminum smelting. In the manufacturing sector, the most substantial investments were to be allocated to the capital-intensive and import-substituting industries such as cold-rolled strips and coals, industrial chemicals, lubricating oil, newsprint, fiberboard, sanitary wares, grinding balls, jute or polypropylene bags, and glazed tiles.[1]

The industrial activities listed under the IPP will be eligible to receive investment incentives. The incentives made available (under R.A. 5186) to preferred pioneer enterprises, irrespective of nationality, were the following:

(a) Deduction of organizational and preoperating expenses;
(b) Accelerated depreciation;
(c) Net operating loss carryover;
(d) Tax exemption on imported capital equipment;
(e) Tax credit on domestic capital equipment to user and manufacturer;
(f) Tax credit for withholding tax on interest;
(g) Employment of foreign nationals;
(h) Deductions for expansion of reinvestment;
(i) Anti-dumping protection;
(j) Protection from government competition;
(k) Exemption from all taxes under the Internal Revenue Code, except from income taxes;
(l) Post-operative tariff protection; and
(m) For export-oriented industries: double deduction of promotional expenses; double deduction of shipping costs on Philippine vessels and/or 150 percent deduction of shipping cost on foreign vessels; special tax credit on raw materials.

All the incentives mentioned above, except (k) and (l), were also available to preferred Filipino non-pioneer enterprises.

Additional incentives which were granted to Filipino investors in preferred pioneer enterprises were the following:

(a) Protection of patents and other proprietary rights against infringement;
(b) Capital gains tax exemption;
(c) Tax allowance to the extent of actual investment but not exceeding 10 percent of taxable income;
(d) Tax exemption on sale of stock dividends received from a pioneer enterprise, provided the sale occurs within 7 years from the date of registration; and
(e) Salary loans to GSIS (Government Service Insurance System) and SSS (Social Security System) members for the purchase of shares of stock in any registered enterprise.

The Board of Investment was responsible for the formulation of an annual IPP and the evaluation of applicants for registration as a preferred enterprise.

2-4. Philippine Development Plan, FY 1972-1975

A year after the Development Plan FY 1971-1974 was launched, it was suddenly superseded by the Four-Year Development Plan for FY 1972-1975 which was adopted by the National Economic Council newly chaired by Gerardo P. Sicat on 23 July 1971. Sicat said that the Four-Year Development Plan for FY 1972-1975

[1] For details about industries listed under the third IPP, please see Annex II.

must not be construed as a new and different plan from 1971-74 plan. He construed this plan as a rolling plan which provided the significant advantage of being able to adjust to more recent developments not only in the domestic but also in the international economy.

This rolling plan was again superseded by the Four-Year Development Plan for FY 1974-1977 which was adopted by the newly established government planning agency named National Economic and Development Authority (NEDA) on 3 July 1973.

Gerardo P. Sicat, director-general of NEDA, explained the revision of the Plan for FY 1972-1975 as follows: "In order to take into account more recent developments in the economy, particularly the social and economic changes which have been instituted since 21 September 1972, when the country was put under martial law. These changes have drastically altered the framework of development, necessitating a restructuring and restatement of objectives and priorities."

Regarding the Development Plan for FY 1972-1975 as a rolling plan, it can be observed that there had been an interesting change in the philosophy of industrialization from the Plan of 1971-74 to that of 1972-1975. The following statements from the latter Plan will clarify this point:

> The Philippine economy has displayed essential properties of resiliency and stability throughout her postwar years, yet two especially big problems have always struck out during that time – balance of payments deficits and unemployment.
>
> The anwer to these two problems resides in the strategy of export-orientation and labor-intensity particulary through a program of strengthening industrial linkages. . . They constitute a full departure from the inward looking import-substitution scheme adopted in previous decades.
>
> This is not to imply total abandonment of import substitution. The ultimate strategy as far as imports are concerned lies in import-competition which is not far removed from export promotion. It is believed that a more rational use of scarce economic resources will derive from the strategy, allowing for orderly import substitution which the nature of economic growth demands.

The Plan claimed a need to introduce an economic policy reform, "drawing in part from the experience of countries like Taiwan and South Korea which recently have been experiencing growth rates in real output exceeding 10 percent annually."

The Plan suggested the following policy reforms:

(a) *Wage Policy.* A high minimum wage policy leads to a substitution of capital for labor where feasible. Thus, the policy not to widen the gap between the minimum wage rate and the market rate was imperative. Industry-wide wage differentials were to be permitted to reflect the different industries' labor productivity and employment conditions.

(b) *Interest Rate Policy.* The Usury Law, enacted in 1916, provided interest ceilings for secured loans and unsecured loans. The artificial lowering of the cost of capital dictated by the Usury Law resulted in an excess demand for capital funds which brought about capital rationing. And under capital rationing, the lending criterion gave greater weight to collateral than to the economic feasibility and returns of the project. Thus, it was possible to deflect the actual use of the funds from the project for which it was originally intended. The recent experience in South Korea, Taiwan and Indonesia supports the contention that freeing the rate of interest from a fixed ceiling or simply raising the maximum legal rates leads to desirable economic changes. Thus, it became necessary to reform the interest policy.

(c) *Tariff Policy.* The previous tariff policy featured a very complicated and protection-heavy structure. The tariff structure led to an industrial structure which produces nonessential goods (such as finished consumer goods), and imports the essentials (such as raw materials and intermediate products).

The export market became less attractive as the domestic market for highly priced nonessentials increased. Thus, the development of the export sector was stunted as a result of the tariff structure.

Artificially high returns favored investment in ineffective dollar-earning industries. This contributed to the difficulty in matching foreign exchange inflows to its outflow. And considering that the comparative advantage of the export industries lies in their being labor intensive industries, employment opportunities were not being maximized when the growth of export industries were restricted.

Thus, a gradual approach towards a uniform tariff on most imported goods, plus no more than the supplementary rate for the protection of infant industries, would be desirable.

(d) *Foreign Investment Policy.* Companies wanting to avail of export incentives had to limit foreign equity participation to at most 40 percent. There was no justifiable reason for the implementation of a ceiling on the foreign equity participation of companies engaged in exports.

However, companies whose export-sales accounted for about 90 or even 80 percent of total sales, were able to enjoy all the benefits derived from export-orientation; and companies within the foreign trade zone were permitted to have a 100 percent foreign equity.

(e) *Export Policy.* The most significant decision affecting exports which was made under the last Plan was the adoption of the floating exchange rate. In the same year, the Export Incentives Act was enacted wherein preferential interest rates and tax privileges were granted by the BOI as incentives. The previous year, the Mariveles Foreign Trade Zone was created. Since the establishment of a Foreign Trade Zone would take time, it would not be operational until years after its creation.

The financial assistance granted so far relates only to the long-term capital requirement of export producers. A necessary complement would be to provide easier access to short-term credit required to finance working capital associated with the production process.

(f) *Import Policy.* A complete ban on imports of luxury goods resulted in the bidding up of the prices of luxury goods produced domestically. Domestic producers were encouraged to expand their production activities in high-priced luxury goods. Thus, an industrial structure biased towards the production of luxury goods could result from a policy banning luxury imports.

To discourage luxury consumption, instead of imposing a ban on the import of luxury goods, the imposition of high excise/sales taxes on both imported and domestically produced luxury items is recommended.

Other policy reforms were related to tax, expenditure, and rice price policies.

The objectives of the Plan FY 1972-1975 were: (1) higher per capita income, (2) greater employment, (3) more equitable income distribution, (4) internal stability, and (5) regional industrialization and development.

Lifting the balance of payments constraint in formulating the Plan, the targets of the Plan FY 1972-1975 became more ambitious than those of the Plan FY 1971-1974 as shown in Table 6 (Annex I).

2-5. Philippine Development Plan, FY 1974-1977

On 21 September 1972, a state of martial law was declared thoughout the country. And the Four-Year Development Plan FY 1974-1977 was the first development program to be proposed by the National Economic and Development Authority.

The decision was made to stop the rollover of plan targets and instead have a fixed-term plan which would be reviewed and revised according to the needs of the economy.

The basic problems which the Plan identified as the major objectives to be grappled with were seven-fold:

(a) *The high population growth* at a rate of 3 percent annually in the last decade was a threat to the country's development efforts. It magnified the unemployment problem and accelerated the depletion of development resources.

(b) *Unemployment and underemployment* were chronic problems of the country which were often aggravated by massive new entrants into the labor force.

(c) *Income inequality* brought up the issue of social stability and justice. And inequality could be reduced through the creation of more employment opportunities and with the provision of essential social services.

(d) *The low standard of living had* not improved significantly in the rural areas in spite of an increase in real capita income experienced in the preceding years. Farm incomes needed to be raised not only for reasons of equity but also to provide a broad market base which could support the expansion of industrial productions.

(e) *Inadequate infrastructure* remained to be a problem in meeting actual demand which had expanded due to the growth of the population and of commercial and industrial activities.

(f) *The tight balance of payments situation* continued to impose a major constraint on development efforts. The need to expand exports was critical and required efforts to diversify not only export commodities but commodity outlets in the world market as well.

(g) *Rising prices* were generated in an effort to solve the balance of payments difficulties in the past.

To tackle these problems, the following objectives were set down:

(a) Maximum utilization of the labor force.
(b) Maximum economic growth feasible.
(c) More equitable distribution of income and wealth.
(d) Regional development and industrialization.
(e) Promotion of social development.
(f) Maintenance of an acceptable level of prices and the balance of payments stability.

In order to achieve the development objectives, a series of policy reforms were instituted under the strong leadership of the martial law government. Among the many reforms implemented under the so-called New Society, we are only concerned with those related to the economic development policy issues which were as follows:

(1) *Tax and Tariff Reforms:* One-third of the Presidential Decrees was concerned with either tax reforms or tax provisions which were bound to raise tax revenues and were to provide investment incentives. The tariff structure was also improved to allocate available resources from investment in nonessentials to investment in essential and export goods.

(2) *Monetary and Financial Reforms:* The primary objective of the Central Bank was to maintain internal and external monetary stability which would be conducive to a balanced and sustained economic growth.

Presidential Decree No. 116 amended the "Usury Law" to ensure a rational interest rate policy. Realistic ceilings on interest rates reflecting the prevailing economic and social conditions were established. Thus, the capital market was expected to function more efficiently in supplying savings and allocating available capital funds. Through the expansion of the organized capital market to replace the unorganized sector, hoarding and the holding of jewelry, idle land, and other traditional forms of assets were expected to be discouraged.

The rational interest rate policy was also expected to help not only in correcting the capital intensive bids fomented by the low interest policy in the past, but also in directing the pattern of industrialization towards the labor intensive industries.

Before martial law, the Foreign Borrowing Act (R.A. 6142) set down a 20 percent ceiling on the debt service ratio as a capacity to borrow external funds. The amendment of this act contained in Presidential Decree No. 81 was to lift the debt service ceiling so that the government was allowed more leeway in borrowing foreign capital. Other amendments to the Foreign Borrowing Act involved the range of potential credit sources and the number of projects and entities qualified to utilize foreign credit. Presidential Decree No. 150 allowed the President to enter into and conclude bilateral agreements involving other forms of official assistance.

(3) *Promotion of Investments:* Presidential Decree No. 92 amended the Investment Incentives Act, Export Incentives Act and R.A. 5455.

Major amendments to the Investment Incentives Act (R.A. 5186) included:

(a) a deduction from taxable income of one-half of the expenses incurred for labor training to upgrade the productivity and efficiency of unskilled labor;

(b) the specification of the percentages of expansion reinvestment that may be deducted from taxable income;

(c) a change in the period when the graduated exemption from internal revenue taxes shall be applied;

(d) a broadening of the power of the Board of Investments in terms of:

(i) requiring the refund of incentives enjoyed by the registered enterprises including interests and monetary penalties;

(ii) recommending to the National Economic and Development Authority (NEDA) guidelines for the rationalization of certain industries:

(iii) suspending the nationality requirement provided for in this Act in appropriate cases and upon approval of the NEDA.

(4) *Trade and Commerce:* The Export Processing Zone Authority was created under Presidential Decree No. 66 to manage the export-processing zone in Mariveles, Bataan. Special incentives to attract manufacturing firms into the zone included the following:

(a) Admission of completely foreign-owned or foreign controlled enterprises;

(b) Tax-free and duty-free importation of capital equipment, spare parts, raw materials and supplies;

(c) Net operating loss carry-over;

(d) Accelerated depreciation;

(e) Exemption from export and import taxes, or fees;

(f) Foreign exchange assistance from the Central Bank and from any of its authorized agent banks;

(g) Assistance in securing financing;

(h) Exemption from local taxes and licenses;

(i) Application of compulsory arbitration in the settlement of any labor dispute affecting any industry or business located inside the zone;

(j) Low-cost land, power, water and other service utility rates;

(k) Availability of standard factory buildings;

(l) Low-cost housing for Zone workers and employees;

(m) EPZA assistance in manpower training and development of skills required by Zone enterprises;

(n) Simplified import-export documentation;

(o) Simplified billing procedures for all services; and

(p) EPZA assistance in foreign market development.

The Export Incentives Act of 1970 provided for an export priorities plan which was a list of export products that were to be given priority with respect to incentives based on: (a) the comparative advantage; (b) the potential for earning foreign exchange, and (c) their profitability to the country. This act was, however, amended in September 1972 to minimize the bias against labor use. Direct labor costs and labor training expenses for upgrading the productivity and efficiency of unskilled labor were made income tax deductible.

The objectives of the Plan's industrial program were closely related to the overall development objectives of the Plan and were as follows: (1) promoting employment and minimizing underemployment; (2) alleviating the trade imbalance via export-oriented industries that utilize indigenous raw materials heavily and the further processing of traditional exports; (3) promoting the development of intermediate and capital goods industries, particularly those which have the greatest potential for forward and backward linkages; and (4) dispersing industries to different regions to promote regional development.

Industrial policies conducive to industrialization, in consonance with the objectives mentioned above consisted of the following:

(a) the maintenance of a flexible foreign exchange rate determined by market forces;

(b) tax incentives that allow preferred industries to deduct direct labor costs and labor training expenses as described;

(c) Presidential Decree No. 34 (27 October 1972) which created the Tariff and Customs Code provided the guidelines on simplifying the tariff structure to improve customs administration, on providing tariff protection to desirable and deserving industries, and on allocating the resources from the nonessentials to the essentials;

(d) reexamination of the minimum wage structure to maintain the competitiveness of the domestic costs of production so as to expand exports and attract foreign investments; and

(e) a more realistic interest rate policy to mobilize savings and allocate investible funds to the most productive uses.

The macroeconomic targets of the Plan are indicated in Tables 7 and 8.

2-6. Philippine Development Plan, FY 1978-1982

Presidential Decree No. 1200 approved the Five-Year Development Plan for 1978-1982 and also promulgated a Ten-Year Development Plan for 1978-1987 and a Long-Term Development Plan up to the year 2000. The Five-Year Development Plan for 1978-1982 was mapped out within the context of the Ten-Year Development Plan for 1978-1987 as a Medium-Term Development Plan. Since those medium- and long-term plans were far-reaching in nature, the five-year plan would be much more relevant to the actual development deployed in the country. Thus, we are only concerned with the Five-Year Development Plan.

The Five-Year Development Plan for the period 1978-1982, was enunciated in September 1977. This was proposed by NEDA, which was then headed by G.P. Sicat, also the Secretary of Economic Planning.

The period 1974-1977 saw drastic economic disturbances to the Philippine economy as well as to the world economic system. The oil price hike which occurred in 1974 had a potent influence to change drastically the prices of other goods relative to the price of energy. Since then, the world economy had suffered from a deepening recession with undercurrent inflationary pressures.

These new developments in the world economic environment had generated another stringent constraint on the energy supply. This aggravated the basic problems facing the Philippines which the successive development plans would continuously address.

Thus, the challenge of development was to solve: (1) the inadequacy of basic needs, (2) income inequality, (3) unemployment and underemployment, (4) the heavy pressure of a rapid population growth, (5) the balance of payments difficulties and price instability, (6) the energy constraint, (7) the environmental problems such as drying lakes and rivers, soil erosion, floods and other pollution problems which resulted from the rapid expansion of human settlements and accelerated development activities, and (8) regional growth disparities.

Development efforts directed towards the solution of the above-mentioned problems were composed of the following strategies: (1) balanced growth strategy, (2) agricultural development, (3) industrial development, (4) trade diversification and rationalization of imports, (5) energy strategy, (6) application of science and technology, (7) environmental management, and (8) human resource development.

In pursuit of the foregoing objectives and strategies, the following policies were observed:

(a) The *public sector* may engage in activities which were capital-intensive, pioneering, high-risk and vital to national interest.

(b) The country was to maintain *population growth* levels most conducive to national welfare.

(c) Economic activities which directly or indirectly promote the *higher utilization of manpower* were encouraged to minimize underemployment and unemployment.

The export of manpower, allowed as a temporary measure to ease underemployment, was to be restrained as productive domestic employment opportunities were to be created.

(d) Taking into account the need to maintain a *balance in the growth of incomes, wages, productivity and prices,* workers were accorded compensation to ensure the maintenance of a minimum standard of living.

(e) *Price stability* was promoted to ensure social stability in the provision of goods and services. The coverage of socialized pricing was limited to the most essential goods and services.

(f) In order to encourage and mobilize *domestic savings,* the interest rate structure was aligned with market forces to provide incentives to holders of idle funds to use these funds for investments. The tax system was also used as a supplementary tool to promote savings mobilization.

(g) Efficient, productive, outward-looking and pioneering *investments* were accorded investment incentives. Foreign investments were encouraged particularly in pioneering, high-technology and export-oriented industries. The government also guaranteed foreign investors freedom from expropriation and free repatriation of earnings and investments.

(h) *Selective credit policy* was pursued to stimulate investments in the productive sectors. Domestic credit resources were allocated to priority development activities.

(i) *Tariff rates* were further modified to induce local processing and to enhance the efficiency and competitiveness of domestic industries.

(j) Government subsidies were granted to a few selected priority industries of the government. Subsidies in the form of tax holidays including tax incentives and credit were also minimized. *Government borrowings* from the banking system were minimized to reduce inflationary pressures and to avoid competition with the private sector for development funds.

(k) Other policies were related to agrarian reform, social welfare, international relations, resource use such as land and natural resource, energy, science and technology, human settlement, and regional development.

Regarding the industrial development program and the foreign trade policies of the five-year-plan, the growth of the industrial sector was geared towards the following objectives: (1) employment generation, (2) increase in foreign exchange earnings, and (3) greater self-reliance in the supply of important commodities, including energy sources. To pursue these objectives, the following strategies were adopted:

(a) The establishment of cottage, small- and medium-scale industries outside Metropolitan Manila; the setting up of a number of large industries to produce key commodities such as processed domestic raw materials; and the enhancement of technological capabilities;

(b) The utilization of mineral resources in the domestic production of semi-finished and finished products for both internal and external markets;

(c) A decreased dependence on imported petroleum oil, selected raw materials and intermediate goods;

(d) Increased efficiency to reduce the cost of manufactured products and maintain construction services at internationally competitive levels; and

(e) The domestic production of presently imported intermediate goods or the *second-stage import substitution.*

For the implementation of these strategies, the government was expected to provide its assistance in terms of institutional finance, intermediate technology and market schemes for establishing cottage, small- and medium-scale industries in the countryside and the setting up of an industrial policy package for large-scale industries. This policy package included the following: (a) the adjustment of the tariff structure and other protection measures, (b) improvement of support activities such as fiscal and credit incentives for the expansion of exports of manufactured goods, and construction services, (c) requirement for domestic market-oriented firms in mature industries to generate export earnings for their own foreign exchange availments for imported materials, (d) direct participation in the establishment of key industries such as intermediate goods, mineral resources, geothermal fields, and hydro resources, (e) attraction of foreign investments, (f) development of adaptive technology, (g) minimization of ecological imbalance, and (h) establishment of key industries with direct government participation, which will serve as industrialization growth poles and could become the nuclei for industrial complexes.

The foreign trade strategies were set up to improve structural imbalances in the external transactions. The complementary strategy to the export strategy was an import strategy geared towards achieving: (a) domestic production of import substitutes such as foodstuffs and essential raw materials, (b) reduction of crude oil consumption, (c) minimizing the importation of consumer items, and (d) diversification of sources of imports.

In the implementation of the foreign trade objectives and strategies, the policy package adopted was composed of fiscal, financial and institutional policies and were as follows:

(a) Fiscal policies:

(i) *Export taxation* was to promote the export of processed and nontraditional goods which have a more elastic demand.

(ii) *Import taxation and tariffs* were used to influence the consumption patterns of imported commodities. Import duties were still based on essentiality. Tariffs were used to protect agribusiness activities as well as the export-oriented and small and medium-scale industries.

(iii) *Tax incentives of priority export activities* were provided to exports which have undergone a significant degree of processing resulting in an increased share of manufactures to total export. Direct domestic and foreign investments were to be channeled into preferred industrial activities which promote small- and medium-scale industries, encourage labor-intensive projects, disperse industries into different regions of the country, and encourage export of manufacture goods.

(b) Financial policies:

(i) The *flexible foreign exchange rate* system introduced in 1970 was allowed to reflect market forces. *Foreign exchange utilization* was economized by setting up import priorities on the basis of essentiality, such as giving top priority to producer goods.

(ii) *Liberalization of export financing* was to be pursued for the benefit of export-oriented, nontraditional, small- and medium-scale industries. Monetary tools such as rediscounting facilities for exports, export guarantee schemes, and export credit insurance system were established and improved to assist exporters of nontraditional exports and capital goods to meet their credit requirements.

(c) Institutional policies:

(i) The national export strategy was designed and implemented with the *active participation of private firms.*

(ii) *Export processing zones (EPZs)* were expanded to spread more industrial benefits in the region and to establish linkages with existing potential industries in those areas.

(iii) Through the *creation of an export industrial authority,* a system of centralized industry management was supposed to be set up to resolve the pervading problems of particular export industries such as the inability to utilize fully the production capacities resulting in high production costs and uncompetitive prices, the inability to effectively assess market potential and the inability of individual firms to supply huge export orders.

(iv) Philippine International Trading Corporation, the government trading corporation, continued to be active in tapping the potentials of nontraditional markets such as the socialist countries.

(v) Other policies included the expansion of the Philippine fleet to give Philippine flag vessels institutional support to trade promotion, and the simplification of export procedures.

The targets set by the Plan are in Tables 9 to 14 (Annex I).

2-7. Philippine Development Plan, FY 1983-1987

The Philippine Development Plan for 1983-1987 succeeded the Development Plan for 1978-1982 and was approved by the Batasang Pambansa on 19 January 1982. The major objectives were: (1) sustainable economic growth, (2) equitable distribution of the fruits of development, and (3) total human development. The plan recognized the problems of development facing the Philippines as of 1982 which consisted of (1) unemployment and underemployment, (2) low agricultural and industrial productivity, (3) rural and regional development disparities, (4) a high dependence on imported oil, (5) inadequate infrastructure, (6) inadequate domestic resource mobilization, (7) growing needs of the population and (8) institutional bottlenecks which have to be improved through more government involvement in economic activities.

The strategies and policies pursued in the objective of a sustained economic growth were the following: (1) a balanced growth among the sectors and regions, (2) food self-sufficiency and the development of natural resources, (3) industrial restructuring and export development, the promotion of small and labor-intensive industries alongside planned implementation of major industrial projects to encourage desirable linkages, (4) greater self-reliance in energy and infrastructure support, (5) private sector orientation, (6) supportive public sector, (7) resource mobilization and usage, (8) tourism development, (9) promotion and development of science and technology and (10) international economic cooperation.

The remarkable programs newly introduced to promote regional development were the *Kilusang Kabuhayan at Kaunlaran* (KKK)[2] and the Eleven Major Industrial Projects (MIPs). The KKK is a national livelihood movement designed to generate employment and income, and reduce regional development disparities. It aims to spur economic and social development by transforming towns and cities into self-reliant productive units through the establishment of livelihood projects to be owned and managed by the community residents themselves. Government assistance was provided in the areas of (1) management and organizational expertise, (2) production technology, (3) infrastructure support, and (4) social services and facilities.

The MIPs were scheduled to be established between 1980 and 1985 to serve as industrial bases around which smaller manufacturing and service projects may be established. The eleven MIPs were programmed to be financed primarily by foreign equity, external loans and suppliers' credits. The eleven industries were: (1) Copper smelter, (2) Phosphatic fertilizer, (3) Aluminum smelter, (4) Integrated steel mill,

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[2]National Livelihood Program.

(5) Alcogas program, (6) Heavy Engineering Industries, (7) Integrated pulp and paper, (8) Petrochemical complex, (9) Diesel engine manufacturing, (10) Cement Industry expansion and (11) Coconut industry rationalization (fatty alcohol).

2-8. Updated Philippine Development Plan, FY 1984-1987

However, the aforementioned plan only had a short life of one year when the updated Philippine Development Plan for 1984-1987 superseded it in September 1984.

The need for updating the earlier plan was stated as follows:

> The updating of the Development Plan for 1984-87 has been dicated by the need to speed up economic recovery in order to improve the living conditions of our people and sustain past economic and social gains.

In order to see the reason behind the need for the plan updating, the macro-economic performance of the Philippines from the late 1970s to 1984 should be observed.

The following two tables (Table B: Growth Rate of GDP and its Components, and Table C: Growth Rate of Value-added by Sector) visualize an apparent tendency of the Philippine economy towards deterioration after the second oil shock in 1979-1980.

In 1980, the United States experienced a temporary upsurge in the business sector at a record high rate whereas the rest of the world experienced a sluggish expansion of markets and high levels of unemployment. In the Philippines, exports grew by 16 percent in 1980. However, this casual export bonanza did not bolster investments enough to reach the high levels of investment which the Philippines achieved during the 1970s. The growth rate of fixed capital formation plunged into a dismal rate of only 2.8 percent, which caused the overall GDP growth rate to be pulled down to the rate of 4.9 percent in 1980 from that of 6.7 percent of the previous year.

Trade balance deficit rose drastically from a deficit level of ₱9.8 billion in 1978 to ₱12.1 billion and ₱14.7 billion in 1979 and in 1980 respectively.

The aggravation of the balance of payments problem of the Philippines due to the increased trade balance deficit and worldwide inclinations toward high interest rates compelled the Central Bank to impose a tight financial bind on its economy.

Under these dismal economic conditions, a financial crisis was triggered by the so-called Dewey Dee scandal wherein a Chinese-Filipino businessman exiled himself from the Philippine soil without repaying his personal debt amounting to ₱640 million, which was borrowed from the short-term capital market. This amount was equivalent to 1.3 percent of the 1981 total government budget.

There pervaded a threat of financial disintermediation as an aftermath of the scandal. Thus, the real growth rate of value-added generated from the financial sector shows a large plunge with a negative 39.1 percent in 1982 as observed in Table C.

To restore stability in the financial market, the Government attempted to moderate the impact of the tight financial situation and adopted a countercyclical

Table B

Growth Rate of GDP and its Components
(1972 = 100)

(Percent)	1976	1977	1978	1979	1980	1981	1982	1983	1984
GDP	6.7	6.9	6.2	6.7	4.9	3.8	2.9	0.9	-6.0
CP	3.7	7.4	5.2	4.5	4.8	4.0	3.1	2.9	1.0
G	7.7	–1.5	4.4	2.6	3.5	4.0	6.4	–5.0	-5.0
IF	8.5	4.5	11.9	15.6	2.8	3.5	0.6	–2.8	-32.2
E	19.9	18.7	-1.3	11.9	16.0	–1.1	–1.5	9.0	8.2
M	1.3	3.1	16.0	14.7	3.7	-3.1	3.5	11.5	-16.4
Trade Balance (billion pesos)	–8.6	–5.4	–9.8	–12.1	–14.7	–16.6	–23.2	–25.9	–0.7

GDP : Gross Domestic Product
CP : Personal Consumption Expenditure
G : Government Consumption Expenditure
IF : Fixed Capital Formation
E : Export
M : Import

Table C

Growth Rate of Value-Added by Sector

(Percent)	1976	1977	1978	1979	1980	1981	1982	1983	1984
AFF	8.0	5.0	4.7	4.5	5.0	3.7	3.1	–2.1	2.3
MFT	5.7	11.7	8.1	5.4	4.2	3.3	2.4	2.3	-7.1
CNT	28.1	6.0	6.2	20.4	0.2	9.7	3.2	-4.8	-23.7
FNE	4.3	2.1	5.1	4.8	5.7	5.0	–39.1	4.5	-32.3

AFF : Agriculture, Fishery, and Forestry
MFT : Manufacturing
CNT : Construction
FNE : Finance and Housing

fiscal policy which required a large government budget deficit, an expanding portion of which was borrowed from abroad. As a result, the Philippine debt structure became more biased in favor of short-term debt while interest rates in lending countries became higher.

The balance of payments deficit had reached US$562 million by June 1983. There was the devaluation of the peso from nine pesos to a dollar to eleven pesos in June 1983. On 21 August 1983, an exiled senator, Benigno Aquino, Jr., was assassinated at the Manila International Airport, which became the actual onset of the fall of the Marcos regime.

The business world was perceptible enough to surmise that an economic malaise brought about by the political turmoil was expected. There followed a tortential capital flight and the commercial credit lines to the Philippines were closed down. In October 1983, the government was compelled to declare a moratorium on the repayment of the principal on its debt and go into negotiation for its rescheduling with the IMF. The peso value was again devalued from eleven pesos to fourteen pesos to a dollar. According to M.F. Montes (1987), the capital flight had reached US$9.3 billion, which was about 37.5 percent of the external debt, and which was also equal to the total short-term debt as of December 1983.

In order to cope with these political and economic vulnerabilities, the Prime Minister issued NEDA Memorandum Order No. 184, dated January 18, 1984, to update the Development Plan. And the updated Philippine Development Plan was approved under Proclamation No. 2369 and was enunciated formally in September 1984.

The goals of the Plan for 1984-1987 were the following: (a) an increased productivity to sustain economic growth, (b) a more equitable distribution of income, and (c) the development of human resources. In pursuit of these goals, the strategy for development was two-fold: (1) a balanced agro-industrial developmand and (2) a five-point recovery program.

In the context of the prevailing financial difficulties at that time, an agro-based industrial structure which was export-oriented was preferred. Being less dependent on imports, the structure would be conducive to the creation of a self-reliant development. Thus, development programs promoting agro-industries were given the highest priority in the Plan.

Regarding the recovery program, the government anchored its hope on productivity programs such as the Kilusang Sariling Sikap (KSS)[3] and the Kilusang Kabuhayan at Kaunlaran (KKK). Stabilization measures which include the mopping up of excess liquidity, and the rescheduling of the external debt were also part of the recovery program. The five-point recovery program focused on (1) loan restructuring, (2) economic stabilization, (3) refocusing of economic priorities, (4) expansion and strengthening of the structural adjustment program, and (5) programs to sustain the achievement of social objectives.

The loan restructuring program was intended to reschedule the repayment of maturing foreign obligations and to reestablish foreign credit lines. While a policy

[3]Program for Self-Relevance.

of import restraint was sustained, the following policies were set up to complete the structural adjustments for the improvement of the external debt position: (1) the development of a more market-oriented pricing mechanism, (2) enchancement of productivity, (3) a flexible exchange rate policy, and (4) the diversification of sources of loans and investments.

The economic stabilization program was set up to bring the balance of payments and budget deficits to manageable levels by promoting exports, improving government revenues and siphoning off excess money supply. Demand management policies were also suggested to restrain consumption and imports. It was to these ends that the following stabilization measures were introduced: (1) the adjustment of the exchange rate, (2) the imposition of an initial 30 percent economic stabilization tax on windfall export earnings, which was to be gradually decreased in increments of 5 percent per quarter until 1985, (3) an increase in the ad valorem duty on merchandise imports from 8 to 10 percent, (4) an increase in budgetary savings through a reduction in the current budget by 5 percent, (5) the rationalization of government corporations operations through the submission of their capital investment programs for the approval of the President, (6) the resumption of the foreign exchange operations of commercial banks through the retention of 20 percent of their foreign exchange earnings, and (7) the imposition of a 10 percent special excise tax on foreign exchange sales by the banks which was to be effective until December 1985.

The structural adjustment program which started in 1981 continued to be implemented with the improvement of resource allocation and efficiency through adjustment measures such as tariff changes and trade liberalization. The reforms already undertaken in trade liberalization, industrial restructuring and investment promotion were suggested to be further strengthened. The thrust of industrial restructuring was on the promotion of small, labor-intensive and quick gestating livelihood industries, particularly in less developed areas and regions. As for export development, special emphasis was given to programs which promote the seven priority exports, namely, garments, furniture, electronics, gifts and housewares, construction services, fresh and processed food, and footwear and leather goods. The eleven major industrial projects were placed under a prudent approach in the face of uncertain economic conditions. Target rates of GNP in the updated Plan are given in Table 15 (Annex I).

2-9. Medium-Term Philippine Development Plan, FY 1987-1992

While the Philippine economy had been deteriorating since 1980, the Aquino assassination precipitated the loss of political credibility extended to the Marcos regime. In a culmination of political instability and social unrest, President Marcos was exiled to Hawaii and the new government under President Corazon C. Aquino came into force in February 1986.

The Aquino administration promulgated Proclamation No. 51 to approve and adopt the Medium-Term Philippine Development Plan for 1987-1992. This Plan was drawn up by NEDA headed by Director-General Solita Collas-Monsod on December 12, 1986.

The national development goals set up in the plan are: (1) alleviation of poverty, (2) generation of employment, (3) promotion of equity and social justice, and (4) the attainment of a sustainable economic growth.

To stimulate economic recovery through a demand-led policy, the government launched a Community Employment and Development Program to generate an additional one million jobs. This program was expected to create more job opportunities in the rural areas through the construction of small-scale, labor-intensive infrastructure projects such as feeder roads, communal irrigation systems, school-buildings and rural water supply. The development of agriculture is given the highest priority to increase employment opportunities and income in rural areas so that the poverty situation could be alleviated.

In pursuit of national development goals, the policy-package consists of the following:

(a) The role and structure of the government are to be guided by the principles of decentralization, checks and balances, and minimal government intervention in economic activities, and its role as a catalyst to stimulate private economic activities.

(b) The private sector continues to be the prime mover of development. Non-government organizations (NGOs) are given special emphasis in their role in the improvement of the relationship between the government and its citizens. NGOs are expected to encourage people to take part in development programs and to direct government support to the most needy, which manifests a restoration of democracy.

(c) Population policy continues to promote the attainment of small family sizes on a voluntary basis.

(d) Small firms and self-employment are to be promoted through credit support. Overseas employment continues to provide interim employment until such time that the domestic economy can generate enough jobs.

The government adopts a policy of non-intervention in wage setting in the private sector. Salary and wage adjustment is to be made through collective bargaining negotiations. To protect the non-unionized workers, the government maintains a minimum wage rate which also serves as a wage-guideline for the negotiations.

(e) Market-determined interest rates and foreign exchange rates are to be maintained to mobilize domestic savings. This is to create an atmosphere conducive to an increase in investments in labor-intensive, rural-based and small- and medium-scale industries, particularly those engaged in agriculture and processing for domestic consumption.

(f) Greater emphasis is given to the maintenance of existing and about-to-be-completed infrastructure facilities to avoid costly rebuilding.

(g) Expenditure policy gives top priority to programs that generate the highest employment impact particularly in rural areas, as well as the provision of basic social services. The structural tax reforms are to be directed at improving the progressivity of the tax structure, raising the share of direct taxes in total revenue collection.

Regarding the development of agriculture, the main goals are the following: (1) to enhance small farmers' income, (2) to sustain the increases in productivity, (3) to attain food self-sufficiency, (4) to create agro-based employment opportunities, (5) to improve the delivery system for agricultural crops, farm inputs, and services, and (6) to institutionalize the expanded participation of farmers through cooperatives and other farmers' organization.

To realize the objectives for 1987-1992, the policy package consists of: (1) the efficient use of lands; (2) crop diversification; (3) improvement of technology and the lowering of input costs; (4) strengthening the market support system for agriculture, such as providing rural market infrastructure, market development, and effecting price stability; and (5) provision of agricultural support services to ensure credit accessibility, promoting rural industries and minimizing agricultural risks.

As for the industry and trade sectors, the major objectives are: (1) to improve linkages between the trade and industry sector and the agricultural and natural resources sectors; (2) to promote rural-based and labor-intensive micro, cottage, small and medium industries; (3) to facilitate a market support system between producers and consumers; and (4) to accelerate the achievement of national self-sufficiency in essential consumer and producer goods.

A package of policies anchored on the principles of comparative advantage and industrial efficiency consists of the following major items:

(a) The approach of the sectoral development program is designed to achieve a more efficient allocation of investment specifically in areas where certain market imperfections exist. Revitalization and rationalization programs are to be implemented for the development of key industry sectors in the medium-term.

(b) The promotion of micro, cottage, small and medium enterprises (MCSMEs) is given the highest priority for achieving greater employment and industry dispersal in the rural areas. The linkage between MCSMEs and large enterprises is to be strengthened through the establishment of a common-facilities service and the promotion of subcontracting arrangements.

(c) To encourage investments, the government continues to grant to deserving firms tax and duty exemptions such as those administered by the BOI and EPZs, and those covered by the National Internal Revenue Code (NIRC), Tariff and Customs Code (TCC), Real Property Tax Code (RPTC), and Local Tax Code. Exemptions are however reviewed to minimize market distortions and to determine the extent to which they are retained or replaced by explicit subsidies or budgetary support.

(d) The elimination of the remaining quantitative restrictions on imports including licensing requirements are undertaken to enhance the development of world-competitive and efficient industries. The tariff system, however, becomes the principal instrument for trade protection.

(e) The initial focus of export promotion is towards major nontraditional exports such as fresh and processed food, garments, electronics, gifts, toys and housewares, fashion accessories, furniture, footwear and leather goods, and cement. Export guarantee schemes are improved to assist exporters to adequately meet their credit requirements. The Trade Training Center (TTC) provides technical assistance such as design and packaging, product quality improvement, raw material sourcing/processing, testing and certification, product development, and export marketing.

Aggregate macroeconomic targets for 1987-1992 are given in Tables 16 and 17 (Annex I).

3. SUMMARY AND CONCLUSION

The plans from the five-year period FY 1962-67 to the period 1978-1982 explicitly manifested the policy measures as seen in Table D, whereas the plans starting from the period FY 1983-1987 identified only the policy items to be directed without specifying any policy tool.

As we discussed in the preceding section, after the second oil shock and the subsequent financial disintermediation occurred, macroeconomic management became more urgent in order to overcome the deterioration of income generating power and foreign financing capability. Thus, the main thrusts of the plans after the second oil shock were addressed to economic stabilization and recovery.

There were numerous attempts to evaluate the past development efforts and examine the effects of trade and commercial policies on the industrial structure embodied in the Philippine economy. Among others, Power and Sicat (1971), Sicat (1974), and the International Labour Office (ILO, 1974) provide well-quoted discussions on the distortion and the failure of industrialization in the 1960s.

The ILO report stated that "The Philippine economy provides a striking example of the inadequacy of conventional aggregate criteria of economic growth both to judge past development performance and to appreciate future prospects. Sectoral labour-force shifts, accompanied by urbanization, have removed workers from agriculture and left them, not in manufacturing, but in commerce and services. . . . Profit shares have apparently increased, real urban wages have been largely stagnant and the distribution of income among families has remained highly unequal or, in rural areas, become even more so."

The trends in real wage and in per capita income growth achieved in the past provide a contentious issue which has long been an intramural dispute in both academe and government. The issue concerns the statistical record indicating the decline in real wages per worker while national income per worker was rising.

In an attempt to solve this seemingly incoherent phenomenon, Oshima (1986) demonstrates that the capital intensity bias embodied in the industries and the unsolved excess supply of labor are the major factors which depress real wages. However, the capital-intensive technology has been playing a dominant role in improving the aggregate productivity in the country. Regarding the capital intensity bias due to import-substitution strategies which started in the 1950s and was extended up to the 1970s, Tidalgo and Esguerra (1982) have shown the disappointing achievement of the manufacturing sector in labor absorption. Bautista and Power (1979) provided a comprehensive evaluation on the tax and tariff policies enacted in the Investment Incentive Acts of 1967. Based on the estimated effective protection rates (EPRs) of the Central Bank's essentiality categories which were obtained by Power (1971) and Baldwin (1975), Bautista and Power concluded by saying the following:

Table D
The Policies under the Development Plan Periods 1962–67 to 1978–82

Plan Year Policies Recommended	1962-67	1967-70	1971-74	1972-74	1972-75	1974-77	1978-82
Wage Policy	Minimum Wage	Standstill	Standstill	Standstill	Adjustment with market rate	Standstill	Standstill
Interest Rate Policy	The Usury Law	Standstill	Standstill	Standstill	Lifting the Usury Law	Lifting the Usury Law	Aligned with market force
Tax & Tariff Structure	Protection of the nonessentials & the essentials	Standstill	Standstill	Protection of the essentials	Standstill	Reform in favor of the essentials	Further reform
Foreign Exchange Policy	Devaluation	Standstill	Standstill	Devaluation	Standstill	Standstill	Standstill
Export Policies	Traditional-export	Standstill *IPP **IIA	Export-orientation, ***BIA New IPP	Standstill —EPZ	Access to Short-term credit	New IPP	Standstill
Import Policies	Import-substitution of the basic and intermediate products lifting import quota ****BIA	Standstill IPP, IIA	New IPP	New IPP	Lifting Complete ban on import of luxury items	Standstill	Second stage import-substitution
Infrastructure	Standstill	Strengthen Public Investment	Standstill	Standstill	Standstill	Standstill	Standstill
Foreign Equity Participation	Restrictive	Standstill	Standstill	Standstill	Standstill	Standstill	Encouraged
Public Sector	Standstill	Standstill	Standstill	Standstill	Standstill	Standstill	Engaged in capital intensive and pioneering

*IPP: Investment Priority Plan
**IIA: Investment Incentive Act, September 1967
***EIA: Export Incentive Act, October 1970
—EPZ: Export Processing Zone
****BIA: Basic Industries Act, 1961

> The structure of economic incentives, biased toward the use of capital, that persisted over the postwar period (1950s-1960s) had been another inhibiting factor in industrial labor absorption. The "essentiality" rule conferred private benefits to the importation of machinery and equipment during the "control" period of the 1950s. With the "decontrol" in the 1960s, the low tariff rates on imported capital equipment had much the same effect. This represented, together with the unrealistically low interest policy on industrial loans, an effective discrimination against labor use in favored industries. . . . such an incentive system had encouraged the growth of capital-intensive industries more than those using the country's abundant labor resource.

Structural changes from the 1970s to the early 1980s in the Philippine trade and industries were discerned in the studies made by Alburo and Shepherd (1985), Alburo (1985, 1988), and Tecson (1986). Tecson observed that "the country's comparative advantages in labor-intensive production has already become evident in her trade with developed countries." She also found some indication that the country's trade structure is evolving according to the pattern suggested by the stages approach wherein there is a shift in the commodity composition of exports from resource-based goods to manufactured goods, nontraditional export goods in particular. Alburo (1985) observes a tendency in structural change similar to Tecson's findings and argues that "there was little by way of generalized structural change in Philippine manufacturing. Notwithstanding, this is important to emphasize that the amount of structural change that occurred was more than what took place in the earlier decade of import substitution." Alburo's recent findings (Alburo, 1988) showed that "the structural change that is now in the Philippines' development strategy implies a different role for direct foreign investments and for transnational companies from the past which had been inward-looking into domestic markets."

These findings imply that the industrialization process in the 1970s was directed towards the one determined in the light of the Philippines' comparative advantage. The question arises as to what factors had been inhibiting further progress, which could have accompanied the appropriate structural changes of the Philippine trade and industries in the seventies.

The factors detrimental to the structural adjustment in the Philippines were both external and internal.

As for the external factors, the worldwide recession preceded by the oil shocks which occurred twice in the 1970s changed drastically the relative prices of primary commodities (except crude oil) and manufactured products in favor of the latter, and thus created a growing protectionism against foreign-made products. On top of these, the tendency towards increasing interest rates in foreign lending countries which stemmed from the huge government budget deficit and trade deficit accumulated in the United States during the 1970s, aggravated the Philippine balance of payments difficulties.

Regarding the internal factors, the failure of macroeconomic management should be laid on the Marcos regime's door. And our studies reported in this volume are basically inquiries on how macro-management stunted the benign changes in both the macroeconomic as well as in the industrial structure of the economy.

In the following chapters of this volume. M. Montes, D. Canlas, and C. Paderanga will provide the macroeconomic analyses while R. V. Fabella and A. M. Balisacan will be responsible for the discussions on trade and industrial policy and agricultural policy issues, respectively.

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ANNEX I

Table 1
Targets for Economic Development
FY 1966-FY 1970
(in Million Pesos at 1965 Prices)

	FY 1965/66	(%)	FY 1969/70	(%)	Annual Growth Rate (%)
Gross National Product	20,500		26,140		6.2
National Income	17,370	(100)	21,720	(100.0)	5.2
Agriculture, forestry & fishing	5,630	(32.4)	6,590	(30.3)	4.0
Mining and manufacturing	3,610	(20.7)	4,980	(22.5)	8.4
Construction	630	(3.6)	870	(4.0)	8.4
Trade	2,130	(12.2)	2,670	(12.3)	5.8
Transport and communications	470	(2.7)	590	(2.7)	5.8
Other Services	4,900	(28.2)	6,020	(27.7)	5.3

Source: Four-Year Economic Program for the Philippines at Fiscal Years 1967-1970, Manila, Sept. 1966.

Table 2
Employment Projections
FY 1967 – FY 1970
(1,000 Persons)

	Actual May 1965	Increase in FY 1967-FY 1970
Agriculture	6,050	695
Mining and manufacturing	1,250	370
Construction	300	120
Trade	1,120	230
Transport and communication	390	95
Other services	1,430	265
Total Employed	10,540	1,775
of which: underemployed	550	
Unemployed	950	-550
Labor Force	11,490	1,225

Source: Four-Year Economic Program for the Philippines, Fiscal Years 1967-1970.

Table 3

Growth Parameters
Actual (FY 1963-69) and Projected (FY 1970-74)

	GNP Growth Rate (%)	Investment Ratio	Capital Output Ratio	Average Savings Rate		Marginal Savings Rate		Consumption Growth		
				National	Domestic	National	Domestic	Total	Private	Public
ACTUAL:										
FY 1963	4.7	16.6	2.4	16.9	17.3					
1964	4.7	18.3	3.5	19.6	19.9	76.1	76.2	1.4	0.6	7.4
1965	4.1	19.5	4.5	20.1	20.5	33.4	35.5	3.4	3.2	4.6
1966	5.9	19.4	3.3	22.1	22.5	55.4	56.2	3.3	3.1	4.7
1967	6.2	20.5	3.1	21.1	21.8	4.5	9.9	7.6	7.9	5.4
1968	6.3	21.3	3.2	16.5	17.6	-54.8	-43.9	12.4	13.2	6.6
1969	6.5	21.2	3.3	16.7	17.6	19.1	18.0	6.3	6.0	8.6
AVERAGE:										
FY1963-1969	5.6	19.6	3.3	19.0	19.6	37.75	39.2[5]	5.7	5.7	6.2
1963-1965	4.4	18.1					2.4	2.4	1.9	6.0
1965-1969	6.2	20.4						7.4	7.6	6.3
PROJECTED:										
FY 1970	5.0	19.5	4.2	17.5	19.0			3.9	3.4	8.0
1971	4.5	19.7	4.2	18.8	20.2			2.8	4.0	– 5.4
1972	5.5	19.7	3.5	18.7	20.1			5.6	6.1	2.1
1973	6.0	19.7	3.2	19.2	20.6			5.4	5.5	4.7
1974	6.5	19.7	3.0	19.5	21.0			6.0	6.3	4.1
AVERAGE:										
FY 1969-1974	5.5	19.7	3.7	18.7	20.2	30.1	32.9	4.7	5.1	3.0

1 Gross fixed capital formation as percent of GNP. Assumed change in stocks is 2% of GNP for FY 1970-1974; actual FY 1969
2 was 1.5%.
3 Gross fixed capital formation over change in GNP, lagged one year. 2
3 National savings as percent of GNP.
4 Domestic savings as percent of GDP.
5 Average marginal savings rates disregard figures for FY 1968 which are negative.

Gross

Table 4

Net Domestic Product by Sectoral Origin
FY 1969 – FY 1974

	1969	1970	1971	1972	1973	1974
A. Values in Million ₱ at 1967 Prices						
Net Domestic Product	23,225	24,526	25,605	27,039	28,688	30,553
Agriculture	7,921	8,466	9,109	9,602	10,161	10,719
Mining	414	592	714	886	947	1,137
Manufacturing	4,020	4,035	4,113	4,301	4,691	5,127
Others	10,870	11,433	11,669	12,250	12,889	13,570
B. Percentage Distribution (%)						
Net Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	54.1	34.5	35.6	35.5	35.4	35.1
Mining	1.8	2.4	2.8	3.3	3.3	3.7
Manufacturing	17.3	16.5	16.0	15.9	16.4	16.8
Others	46.8	46.6	45.6	45.3	44.9	44.4
C. Growth Rates (% p.a.)	Average 1969-74					
Net Domestic Product	5.6	5.6	4.4	5.6	6.1	6.5
Agriculture	6.2	6.9	7.6	5.4	5.8	5.5
Mining	22.5	43.0	20.6	24.1	6.9	20.1
Manufacturing	5.0	0.4	1.9	4.6	9.1	9.3
Others	4.5	5.2	2.1	5.0	5.2	5.3

Table 5

Balance of Payments
FY 68/69-FY 73/74
(in million U.S. dollars)

	FY 1968-69 ACTUAL	FY 1969-70	FY 1970-71	FY 1971-72	FY 1972-73	FY 1973-74
A. Gross Capital Requirements						
Exports (Merchandise & non-monetary gold)	(865.01)	(955)	(1,015)	1,083)	(1,193)	(1,305)
Imports	1,169.01	1,095	1,095	1,157	1,215	1,276
Trade Gap (Surplus)	304	140	80	74	22	(30)
Services						
Freight and Insurance	83.17	61	63	78	83	88
Travel	21.83	(15)	(20)	(22)	(24)	(26)
Others	(67.17)	(63)	(81)	(73)	(62)	(46)
Net Services Deficit (Surplus)	37.83	(17)	(38)	(17)	(3)	16
Net Investment Income Payments						
Direct Investment Income Payment	48.12	43	50	55	60	65
Interest Payment	31.36	85	86	85	94	102
Short Term – Private		4	–	–	–	–
Public		26	29	17	15	14
Med. & Long Term – Private		30	32	36	39	41
Public		25	25	32	40	47
Total	79.48	128	126	140	154	167
Current Account Deficit	421.31	251	178	197	173	153
Amortizations						
Short Term – Private	125.83	100	–	–	–	–
Public	192.92	48	70	65	48	44
Med. & Long Term – Private	80.71	195	133	148	144	150
Public	32.33	68	75	64	45	44
Total Amortization	431.79	411	278	277	237	238
Gross Capital Inflow	843.43[3]	666[4]	456	474	410	391
B. Financing						
Transfers						
Private	35.24	25	25	25	25	25
Public	96.82	126	126	72	73	74
Total Net Transfers	132.06	151	151	97	98	99
Reparations	–	–	–	45	45	45
Foreign Investments	(3.26)	8	9	10	10	11
Borrowings						
Short Term – Private	343.48	84				
Public	241.52	154				
Medium & Long Term – Private	198.10	200	–	–	–	–
Public						
Debt contracted prior to 6-30-69	66.99	50	50	50	21	–
Debt contracted in FY 1969/70	–	80	–	–	–	–
New Debt[5]			326	322	286	236
Total	850.04	568	376	372	307	236
Changes in Gross International Reserves	35.89	(35)	(80)	(50)	(50)	
Errors and Omissions	(171.30)	(26)		–		
Gross Financing	843.43	666	456	474	410	391

[1] Excluded from short-term private capital flow projections are items like bankers' and trade acceptances, cash credits, open account credits and other float items whichamount to approximately $150 to $200 million outstanding at any given time. The omission of this item from the Balance of Payments projections accounts for the drop in gross capital inflow in FY 1969-70 and thereafter.

[2] Included in short-term public capital flows are the short-term accommodations availed of by the Central Bank from foreign commercial banks and the International Monetary Fund, as well as Central Bank external debts which were restructured in June, 1970.

[3] Includes debts of $4.19 million and $5.48 million for Investments Abroad and Other Assets, respectively.

[4] Includes debts of $1.46 million and credits of $5.59 million, for Investments Abroad and Other Assets, respectively.

[5] Composed of gross availments of public and private debt in FY 1970/71 and thereafter, including debt incurred to support the government infrastructure program, commodity and trade credits and privately contracted suppliers' credits.

Table 6

Development Plan, FY 1971-74 Compared to Development Plan, FY 1972–75[1]

ITEM[2]		1971[3]	1972	1973	1974	1975	Annual Average Growth Rate (Percent)
GNP	A	33,042	35,190	37,653	40,290	43,110	6.9
	B	30,485	32,162	34,092	36,308		5.5
NDP	A	27,112	28,739	30,607	32,596	34,715	6.4
	B	25,605	27,039	28,618	30,553		5.7
Agriculture	A	9,058	9,572	10,106	10,106	10,610	5.3
	B	9,109	9,602	10,161	10,719		6.1
Mining	A	582	681	838	1,034	1,276	21.8
	B	714	886	947	1,137		18.0
Manufacturing	A	5,144	5,467	6,000	6,600	7,250	9.0
	B	4,113	4,301	4,691	5,127		6.2
Others	A	12,320	13,019	13,663	14,856	15,579	6.0
	B	11,669	12,250	12,889	13,570		4.4
Investment	A	6,678	7,995	8,680	9,445	10,271	11.4
	B	6,456	6,815	7,228	7,697		4.7
Public	A	455	808	980	1,306	1,711	31.2
	B	938	1,020	1,332	1,348		15.2
(Million U.S. dollars)							
Exports	A	1,118.0	1,335.4	1,462.9	1,610.2	1,777.2	10.1
	B	995	1,065	1,175	1,287		8.5
(Million U.S. dollars)							
Imports	A	1,099.5	1,370	1,520	1,690	1,870	10.8
	B	1,095	1,157	1,215	1,275		4.0

[1] In million pesos at constant 1967 prices.
[2] A: Dev. Plan FY 1972-75.
B: Dev. Plan FY 1971-74.
[3] Estimates, not targets in the case of Dev. Plan FY 1972-75.

Table 7

GNP, Consumption and Investment
(in million pesos at 1967 prices)

	Actual	Projected	Targets				Average Annual Growth Rates
	FY 1972	FY 1973	FY 1974	FY 1975	FY 1976	FY 1977	FY 1974-77
1. GROSS NATIONAL PRODUCT	35167	37277	39700	42479	45452	48861	
Growth Rate		6.0	6.5	7.0	7.0	7.5	7.0
2. Population (in millions)	39.102	40.280	41.493	42.743	44.030	45.356	
Growth Rate	3.0	3.0	3.0	3.0	3.0	3.0	3.0
3. Per Capita GNP (in pesos)	899	926	957	994	1032	1077	
Growth Rate	2.4	3.0	3.3	3.9	3.8	4.4	3.8
4. Personal Consumption Expenditures	25175	26734	28071	29475	30949	32558	
% Share to GNP	71.6	71.7	70.7	69.4	68.1	66.6	5.1
5. General Government Consumption Expenditures	2752	3049	3202	3369	3551	3746	
% Share of GNP	7.8	8.2	8.1	7.9	7.8	7.7	5.3
6. Gross Domestic Capital Formation	6529	7238	8213	8801	9525	10417	
% Share to GNP	18.6	19.4	20.7	20.7	21.0	21.3	9.8
7. A. PRIVATE	5822	6278	6659	7059	7765	8542	
% Share to GDCF	89.2	86.7	81.1	80.2	81.5	82.2	8.0
8. B. GOVERNMENT	707	960	1554	1742	1760	1875	
% Share to GDCF	10.8	13.3	18.9	19.8	18.5	18.0	20.4

Table 8

Net Domestic Product By Industrial Origin, FY 1972-77
(in million pesos at 1967 prices)

	Actual	Projected	Targets				Average Annual Growth Rates
	FY 1972	FY 1973	FY 1974	FY 1975	FY 1976	FY 1977	FY 1974-77
Net Domestic Product	28670	30088	31913	33978	36254	38664	
Growth Rate	5.0	5.0	6.1	6.5	6.7	6.6	6.5
Agriculture	9116	9207	9649	10132	10649	11182	
Growth Rate	1.1	1.0	4.8	5.0	5.1	5.0	5.0
% Share to NDP	31.8	30.6	30.2	29.8	29.4	28.9	
Mining	665	760	897	1059	1250	1475	
Growth Rate	10.8	14.3	18.0	18.0	18.0	18.0	18.0
% Share to NDP	2.3	2.5	2.8	3.1	3.4	3.8	
Manufacturing	5880	6174	6730	7403	8143	8957	
Growth Rate	9.8	5.0	9.0	10.0	10.0	10.0	10.0
% Share to NDP	20.5	20.5	21.1	21.8	22.5	23.2	
Construction	798	1130	1243	1367	1504	1654	
Growth Rate	3.8	41.6	10.0	10.0	10.0	10.0	10.0
% Share to NDP	2.8	3.8	3.9	4.0	4.1	4.3	
Transportation	1102	1152	1204	1264	1328	1396	
Growth Rate	4.8	4.5	4.5	5.0	5.1	5.1	4.9
% Share to NDP	3.8	3.8	3.8	3.7	3.7	3.6	
Commerce	4472	4696	4907	5142	5390	5649	
Growth Rate	6.9	5.0	4.5	4.8	4.8	4.8	4.7
% Share to NDP	15.6	15.6	15.4	15.2	14.9	14.6	
Services	6637	6969	7283	7611	7990	8351	
Growth Rate	5.0	5.0	4.5	4.5	4.6	4.5	4.5
% Share to NDP	23.2	23.2	22.8	22.4	22.0	21.6	

Table 9

Net Domestic Product by Industrial Origin, 1977-82 and 1987
(in millions of pesos at constant 1972 prices)

	1977[e]	1978	1979	1980	1981	1982	1987
Net Domestic Product	63,920	68,446	73,577	79,055	85,311	92,037	135,893
Agriculture, Fishery and Forestry	19,691	20,676	21,721	22,797	24,016	25,279	32,969
Industrial Sector	18,312	19.949	21,841	23,961	26,416	29,252	50,201
Mining and Quarrying	1,071	1,151	1,249	1,355	1,484	1,625	2,553
Manufacturing	12,179	13,161	14,285	15,548	17,000	18,707	31,579
Construction	4,655	5,189	5,812	6,511	7,325	8,243	14,874
Electricity, Gas and Water	407	448	495	547	607	677	1,195
Service Sector	25,917	27,821	30,015	32,297	34,879	37,506	52,723
Transport, Communication and Storage	2,642	2,881	3,153	3,448	3,771	4,124	6,435
Commerce	14,042	15,047	16,210	17,436	18,808	20,275	28,623
Services	9,233	9,893	10,652	11,413	12,300	13,107	17,665

[e]Estimate
Source: EPRS-NEDA

Table 10

Percentage Distribution and Annual Growth Rate of Net Domestic Product
1977-82 and 1987

	Percentage Share							Annual Growth Rate		
	1977[e]	1978	1979	1980	1981	1982	1987	1978-87	1978-82	1982-87
Net Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	7.9	7.7	8.1
Agriculture, Fishery and Forestry	30.8	30.2	29.5	28.8	28.2	27.5	24.3	5.3	5.2	5.5
Industrial Sector	28.7	29.2	29.7	30.3	31.0	31.8	36.9	10.8	10.0	11.4
Mining and Quarrying	1.7	1.7	1.7	1.7	1.7	1.8	1.9	9.3	9.0	9.5
Manufacturing	19.1	19.2	19.4	19.7	19.9	20.3	23.2	10.2	9.2	11.0
Construction	7.3	7.6	7.9	8.2	8.6	9.0	10.9	12.4	12.3	12.5
Electricity, Gas and Water	0.6	0.7	0.7	0.7	0.7	0.7	0.9	11.5	10.9	12.0
Service Sector	40.5	40.6	40.8	40.9	40.8	40.7	38.8	7.4	7.8	7.0
Transport, Communication and Storage	4.1	4.2	4.3	4.4	4.4	4.5	4.7	9.3	9.4	9.3
Commerce	22.0	22.0	22.0	22.1	22.0	22.0	21.1	7.4	7.7	7.1
Services	14.4	14.4	14.5	14.4	14.4	14.2	13.0	6.7	7.3	6.2

[e]Estimate
Source: EPRS-NEDA.

Table 11

Consumption, Investment and External Transactions, 1977-82 and 1987
(in millions of pesos at constant 1972 prices)

	Value in Million Pesos						
	1977[e]	1978	1979	1980	1981	1982	1987
CONSUMPTION							
Personal Consumption Expenditures	50,025	52,476	55,730	59,185	63,328	67,888	95,940
General Government Consumption Expenditures	8,165	9,831	10,617	11,509	12,453	13,486	21,230
GROS DOMESTIC CAPITAL FORMATION	20,835	22,085	23,852	25,784	27,924	30,270	45,516
Fixed Capital Formation	16,842	17,955	19,489	21,357	23,442	25,703	40,321
Government	3,470	3,745	4,142	4,614	5,186	5,923	10,116
Private	13,372	14,210	15,347	16,743	18,256	19,780	30,205
Increase in Stocks	3,993	4,130	4,363	4,427	4,482	4,567	5,195
EXTERNAL TRANSACTIONS							
Exports of goods and services	13,662	15,028	16,381	17,855	19,498	21,311	33,390
Imports of goods and services	14,008	14,568	15,733	16,992	18,368	19,893	29,815

[e]Estimate
Source: EPRS-NEDA

Table 12
Consumption, Investment, and External Transactions
1977-82 and 1987
(In percent)

	Per Cent of GNP							Annual Growth Rates (In Per Cent)		
	1977[e]	1978	1979	1980	1981	1982	1987	1978-87	1978-82	1982-87
Consumption										
Personal Consumption Expenditures	64.3	63.0	62.3	61.5	60.9	60.5	58.2	6.9	6.6	7.2
General Government Consumption Expenditures	10.5	11.8	11.9	12.0	12.0	12.0	12.9	8.9	8.2	9.5
Gross Domestic Capital Formation	26.8	26.5	26.7	26.8	26.9	27.0	27.6	8.4	8.2	8.5
Fixed Capital Formation	21.6	21.6	21.8	22.2	22.6	22.9	24.5	9.4	9.4	9.4
Government	4.5	4.5	4.6	4.8	5.0	5.3	6.1	11.7	12.1	11.3
Private	17.1	17.0	17.3	17.4	17.6	17.6	18.3	8.7	8.6	8.8
Increase in Stocks	5.1	5.0	4.9	4.6	4.3	4.1	3.2	2.6	2.5	2.6
External Transactions										
Exports of Goods and Services	17.6	18.1	18.3	18.6	18.8	19.0	20.3	9.3	9.1	9.4
Imports of Goods and Services	18.0	17.5	17.6	17.7	17.7	17.7	18.1	8.3	8.1	8.4

[e]Estimate
Source: EPRS-NEDA

Table 13

Population, Labor Force, and Employment, 1977-82 and 1987
(In thousands except percentages)

	1977[e]	1978	1979	1980	1981	1982	1987
Total Population							
15 years old and over							
Number	25,854	26,760	27,702	28,684	29,598	30,546	35,660
Annual Growth Rate (In Percent)		3.5	3.5	3.5	3.2	3.2	3.1
Labor Force Participation Rate (In Percent)	61.9	62.0	62.1	62.2	62.4	62.5	63.1
Labor Force							
Number	16,004	16,589	17,209	17,852	18,458	19,085	22,490
Annual Increase		585	619	644	606	627	681
Annual Growth (In Percent)		3.7	3.7	3.7	3.4	3.4	3.3
Open Unemployment							
Number	656	664	688	714	738	755	900
Percent of Labor Force	4.1	4.0	4.0	4.0	4.0	4.0	4.0
Employed Persons							
Number	15,348	15,922	16.521	17,138	17,720	18,330	21,595
Annual Increase		577	599	617	582	610	652
Annual Growth Rate (In Percent)	3.7	3.7	3.7	3.7	3.4	3.4	3.3
Visibly Underemployed Persons							
Number	798	768	740	713	687	662	530
Percent of Employed	5.2	4.8	4.5	4.2	3.9	3.6	2.5

[e]Estimate
Sources: NCSO and EPRS-NEDA.

Table 14

Employment Targets[1] by Major Industry, 1977-82 and 1987
(In thousands and in percent)

	NUMBER IN THOUSANDS							PERCENTAGE DISTRIBUTION						
	1977[e]	1978	1979	1980	1981	1982	1987	1977[e]	1978	1979	1980	1981	1982	1987
Total	15,348	15,922	16,521	17,138	17,720	18,330	21,595	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture, Fishery and Forestry	7,694	7,848	7,989	8,133	8,279	8,428	9,091	50.1	49.3	48.4	47.5	46.7	46.0	42.1
Industry	2,210	2,290	2,389	2,497	2,619	2,771	3,774	14.4	14.4	14.4	14.5	14.8	15.1	17.5
Mining & Quarrying	47	49	52	55	59	66	89	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Manufacturing	1,596	1,656	1,718	1,788	1,860	1,957	2,558	10.4	10.4	10.4	10.4	10.5	10.6	11.8
Construction	521	537	568	598	640	680	1,026	3.4	3.4	3.4	3.5	3.6	3.7	4.8
Electricity, Gas & Water	46	48	51	56	60	68	101	0.3	0.3	0.3	0.3	0.3	0.4	0.5
Service Sector	5,444	5,784	6,143	6,508	6,822	7,131	8,730	35.5	36.3	37.2	38.0	38.5	38.9	40.4
Transport, Communication & Storage	672	717	762	810	861	916	1,211	4.4	4.5	4.6	4.7	4.9	5.0	5.6
Commerce	1,934	2,055	2,178	2,309	2,448	2,587	3,220	12.6	12.9	13.2	13.5	13.8	14.1	14.9
Services	2,838	3,012	3,203	3,389	3,513	3,628	4,299	18.5	18.9	19.4	19.8	19.8	19.8	19.9

[e] Estimate.
[1] Refer to employed persons 15 years old and over.
Source: EPRS-NEDA.

Table 15

Gross National Product (GNP) and Components, 1983, 1984-87
(Percent Change)

	Actual[1]	Estimate[P]		Projections
		First Semester		Annual Average
	1983	1984	1984	1985-1987
1. Real GNP	1.3	–5.4	–5.5	2.8
2. Real GNP by Expenditure Shares				
Personal consumption expenditure	2.9	1.6	1.6	2.5
Government consumption expenditure	–3.9	–11.8	–15.0	1.0
Gross domestic capital formation	–4.7	–34.5	–31.1	0.9
Exports of goods and nonfactor services	5.7	–1.2	–1.0	6.0
Imports of goods and nonfactor services	–1.6	–27.1	–27.0	1.3
3. Real Gross Domestic Product	1.1	–3.7	–4.5	3.0
Agriculture, fishery and forestry	-2.1	2.2	1.5	4.4
Industry	0.7	–9.0	–10.3	2.5
Mining and Quarrying	–2.5	–19.7	–19.0	2.2
Manufacturing	2.3	–6.3	–8.3	2.7
Construction	–4.8	–16.2	–17.0	1.5
Electricity, Gas and Water	10.0	4.7	5.0	5.6
Services	3.7	–2.4	–2.9	2.3

[1] Revised as of 7 September 1984.
[P] Preliminary estimate as of 7 September 1984.
Source: NEDA.

ANNEX II

Table 1

List of Industry Products under the Third Investment Priorities Plan of the Board of Investments

Name of Products		
Pulp and paper	Corn	Antibiotics
Long fiber pulp	Soybeans	Edible salt
Fiberboard	Sorghum	Special & alloy steel
Ramie	Peanuts	High-carbon steel wire
Wood chips	Iron ore	Copper tubes
Plywood	Chromite ore	Pliers & wrenches
Veneer (non-integrated)	Copper ore	Shapers
Tree farming	Mercury	Electric drills
Coated board	Lead-zinc concentrate	Electric grinders
Particle board	Primary steel	Lathes
Palm oil	Ferro-alloys	Drill presses
Lumbang oil	Copper metal	Fishing winches
Activated carbon	Nickel metal & alloys	Band saws
Coconut oil	Coal	Carbide-tipped tools
Fruits & vegetables	Natural gas	Platform scales
Tomato paste	Sulfur	Pumps
Fish	Asbestos	Palay threshers
Dairy products	Rock asphalt	Steam boilers
Agar-agar	Perlite	Diesel engines
Rice bran oil	Metallurgical coke	High-HB diesel engines
Dextrose	Dinnerware	Porcelain insulators
Cattle	Clay	Electric motors
Fish (deep sea)	Refractories	Kilowatt-hour motors
Fish (inland)	Polystyrene resins	Electric controls
Hogs	Polyvinyl alcohol resins	Power transformers
Poultry (a) meat	Polyvinyl chloride resins	Barges & tugboats
(b) eggs	Nylon fibers	Fishing boats
(c) chicks	Rayon fibers	Interisland ships
Shrimps (a) deep sea	Polyacrylic sheets	Ocean-going ships
Processed grain	Benzene hexachloride (6%)	Footwear
Rice		