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Philippine economic nationalism*

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Not seeing that the power of taxation of the state is the true expression of national patrimony in economic matters, the framers of the 1935 Constitution introduced provisions on the use and disposition of land and natural resources vesting exclusive rights of exploitation to citizens. This also meant restricting foreign investments in public utilities. The provisions were not revised but even elaborated in subsequent revisions of the constitution. These provisions set a train of restrictive economic policies that helped to compound the mistakes of early industrialization policies. By tying the hands of future generations of Filipinos to deal with specific economic issues in their own time, the constitutional provisions provided barriers against solving economic problems with realism as called for by changing times and exigency. Judged as the most likely to succeed in the early years after independence among many East Asian economies, the Philippines became the economic laggard among a group of highly performing economies during the second half of the last century. The brand of economic nationalism that was fostered was exploitative and heavily protectionist in character. It built an economic and political framework that discouraged competition, enhanced monopolies and inefficiencies by nationals, inhibited the growth of international trade, and hence postponed by a large margin of time the growth of economic specialization based on comparative advantage. A new kind of nationalism based on principles of competition and comparative advantage is needed. This will be helped greatly by the removal of stringent constitutional provisions that affect foreign investments. An enlarged regional free trade within ASEAN and accession to the World Trade Organization are factors that will help to sustain this new ethos, which will strengthen economic and national aspirations.

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> The reforms that come from above are nullified in the lower spheres owing to the vices of everyone; for example, the avidity to get rich quick and the ignorance of the people that acquiesces in everything.
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> *Noli me tangere*, 1886

> The most commercial and industrious countries have been the freest countries. France, England, and the United States prove this. Hongkong, which is not worth the most insignificant island of the Philippines, has more commercial activity than all of our islands put together, because it is free and is well governed.
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> "The Indolence of the Filipinos,"
> *La Solidaridad*, 31 August 1890
>
> — Jose Rizal

1. Introduction

The version of economic nationalism that has often shaped thinking about economic policy in our country has emphasized the fear of exploitation by foreigners. Our leaders, over a long span of more than half century, have erected a system of laws, beginning with the Constitution, reserving for the state the role of providing cover and protection for the Filipino, and defining his exclusive rights over others. Many of the laws defining economic action have helped constrict the degrees of freedom with which the current generation can solve the main challenges of their times by instruments that they can define. The country's progress has been uneven over decades of development. Today we are gripped by the poverty of a large segment of our people. The severity of the challenge to reduce poverty in the country is a problem that our current leaders have to solve.

My version of economic nationalism is one that rests on the strength and capacity of the Filipino. It is a positive belief. Given circumstances that are fair and openly competitive, the Filipino can achieve as much as other nationals of great nations in building a great and prosperous nation.

I use this occasion to express my views and sometimes frustrations on a topic that has affected the general economic welfare. The audience is not only the immediate economic colleagues but also the wider milieu in which we all participate. My goal is to question old assumptions and some of our deepest convictions, hopefully through a fresh filter. For three-fourths of this paper, I analyse the roots of our malaise. But an optimistic future is possible if, after learning the lessons of the past, we are able to take the corrective steps to set right the country's economic directions.

2. Nationalism debate

In the letter inviting me to this forum to revive the memory of Salvador Araneta, we are brought to the topic of the economic nationalism debate in the country. His writings on various subjects[1]—on national economic development, nationalism, economic reform, and on constitutional issues—were articulated during the 1950s to the 1960s in collections of his speeches, writings, notes, and newspaper columns.

These works remind me that Salvador Araneta participated in three major debates on economic policy during the early decades of Philippine independence. These debates have a bearing on the topic of discussion. First of these was the debate on exchange rate devaluation or controls. Together with Alfredo Montelibano, who was also a high official in those years and who was a vocal advocate of realistic exchange rates for the agricultural export sector, he criticized the Central Bank policies maintained by Governor Miguel Cuaderno. (Controls won the day but initiated a wrong course for the country's future development.) Later he proposed massive deficit spending, thinking that this would promote employment and induce output, not inflation, a subject that the Central Bank governor also disagreed with. (Cuaderno thought he won.) During the 1960s, Araneta and Montelibano would be on opposite sides of a question when the issue was industrial protection. The acerbic words spoken in battle of words during this period described the divide between industries that ate up dollars and those that earned them.

3. Debate on nationalism and economic policy has a history older than the Republic

The outcome of that debate had been guided by earlier decisions on economic issues. In 1934, the nationalism debate was fought on the constitutional fronts

[1]Noteworthy among these works are two books that deal with economic issues for the large part. Salvador Araneta's *Christian democracy for the Philippines: a re-examination of speeches and studies on the subject* (1958; reprinted by Sahara Heritage Foundation, 2002) deals with work and notes covering the period when he served as Secretary of Economic Coordination and Secretary of Agriculture. The second, published in 1965, is entitled *Economic nationalism and capitalism for all in a directed economy.*

when they prepared the political framework of our political independence, the 1935 Constitution. The contents of the policies that produced restrictive industrialization were essentially written in this Constitution. The chairman of the Constitutional Convention was Claro M. Recto. The main leader of the country that made possible the adoption of these provisions was Manuel L. Quezon. Theirs was the mainstream thought that controlled the flow of events in their time. And that was still the same thought written into the 1973 Constitution. And the same idea was even put in stronger and longer language in the 1987 Constitution.

A long line of leaders have since taken their place in the history of our Republic. All of these leaders have sought the help of the brightest people in the land to disentangle our problems to guide us to better economic times. As these officials undertook their work, many of them discovered that the key problems that held back the country's economic advance was partly due to the inability of the country to raise the amount of productive capital that was employed in the economy. For a significant part, this was a failure to attract the flow of badly needed foreign capital into the country. Other countries have done so much better in that sphere.

4. What Economics has to offer to understand the issues

A few well-known economic principles can facilitate understanding of the outcomes of these issues. The first two of these are etched in the experience of anyone who has ever bought any product in the real world of markets. The others are easily understood upon reflection.

Competition is good.

Competition leads to lower price and higher output (compared to a state of affairs in which competition is absent).

Whenever there is competition between participants in an economic process, the price is likely to fall to a level that is reasonable. Producers who face competition often end up accepting lower prices and selling more output.

Monopoly is bad.

Monopoly leads to higher price and lower output (compared to a state of affairs in which competition is possible).

Whenever a group or a firm has some power over demand or supply, the outcome is higher price. The output is also likely to be lower as a consequence. Monopoly output is what economists call inefficient outcome. The price is higher than it should be. The output is lower than it could be. The consumer loses some welfare. The monopolist pockets the difference. And some buyers that are able to buy at a lower price are excluded from the market because that lower price does not materialize.

Thus, the outcome is inefficient, because price could be reduced without the seller losing and output could as a consequence also be raised. Because of the profits that monopoly brings, producers always love to be monopolists, although they will compete with others when challenged.

Trade is good.

Trade when unimpeded enables buyers to obtain goods where they are cheaper.

A country benefits from buying goods from the cheapest suppliers. Consumers benefit from cheaper goods. It stretches their budget. Relatively free trade is the analogue of competition among countries. The availability of more goods also makes us understand where and what the competition is.

When trade is impeded, and goods disappear from the market or are preselected for us by those who have power to exclude them, we lose access to the available goods and our welfare as consumers suffers. Those were the lost years before import liberalization restored the landscape.

Specialization is good.

Production of goods based on the best use of (freely priced) economic resources creates an advantage over other countries in terms of costs.

This is what economists call the principle of comparative cost advantage. Any country will find ways of producing the best possible use of its resources. And if someone tells you that your comparative advantage is only to become a peasant without protection, be sure that your informant has not fully surveyed the alternatives, or he is ignorant of them, or he has a hidden agenda. The evidence that poor countries can make enormous gains from international trade by specializing in goods that they can produce cheaply—whether from agriculture or from industry—is no longer debated, at least in learned discourse.

What used to be doubted was whether this was possible beyond agricultural or mineral resource production. Ample evidence from Asia (especially from our neighboring countries) has dispelled these doubts. The problem was that through many internal measures often adopted to give special favors to powerful economic sectors, these resources are not freely priced at the domestic level.

In an imperfect world, a government can undertake useful interventions that overcome disadvantages that arise from the international trading and industrial system.

First, the industrial countries with the economic power and even political power to impose make most of the rules of trade and payments in this world. They are, however, governed by their own internal politics and by the relations that they eventually must develop with other countries as powerful as they, who represent their own competition.

Second, as a developing country we must make those rules fair to us when formulated in international negotiations. But even as disadvantageous some of those rules might be, there are ways that government policies can alleviate their adverse impact. The point is that our government can overcome those through interventions that restore the competitiveness that might partly be lost by unfair rules.

Philippine government policies arising from the mainstream nationalist line of economic policy worsened rather than improved our efforts at development in the decades following independence. The government often faced ever-deepening economic crises with policies of adjustment that were incomplete. They always had to go halfway because they were almost always forced to pay attention to the restoration of the *old order*. In addition, the shackles of the provisions of the Constitution stand in the way of improved adjustment.

5. The original sin

The "original sin" of Philippine development policy began with the economic provisions of the 1935 Constitution. At the culmination of our nation building, just ten years before promised independence, our constitutional forefathers thought that the control of capital and all natural resources should belong only and fully to our people.

Our constitutional forefathers had a good idea: that the capital and resources exploited in our midst should benefit our people. Influenced by the fear that foreigners—especially Americans—would continue to exploit the nation despite independence, they borrowed from the language of the great socialist constitutions to craft restrictions against foreigners in their participation in the economy. The restrictions prohibited landownership by foreigners and restricted the level of participation of foreign interests in the exploitation of natural resources and the ownership and operation of public utilities to only a minority of 40 percent in the equity of corporate enterprises. To write those provisions in the constitution meant that those provisions would be difficult to change.

These grand principles about the desirability of developing the economy through our own efforts should have been enshrined in the preamble. The constitution framers could rely on the principle that a truly independent country could use its sovereign powers to put the use of all economic resources to serve the interests of the people. The power to tax is the final sovereign weapon. It could be employed to assure that the benefits from all economic resources such as land and mineral and other natural resources would be used for the benefit of the Filipino people when they took charge of their government.

There would have been no problem about these grand principles if they were not made so specific in the constitutional provisions. But, indeed, they became specific on the citizenship provisions and all other details in the supreme law of the land. By doing so, they raised the fear by foreigners in the country that their assets could be confiscated or their values forced down. It became therefore a matter of time that when the right time came, foreigners (mainly Americans at the time) would call on their ultimate protector, their own government, to protect them from the threat of confiscation and deprivation of assets that they had acquired before.

Quezon's well-known dictum, "I prefer a government run like hell by Filipinos than a government like heaven by Americans" might have been said only for rhetorical effect. Deep down, he probably felt that Filipinos could run their own affairs better than Americans. But in pushing for this provision and others that specified details about how Filipinos should govern the future, our constitutional forefathers provided us, the future generations, with large blinders with which to see and define our own world of the future. To put it in another metaphor, *they tied us to their own vision.* Or to put it in another way, they had leashed us to a post with a short rope from which we could only move with limited freedom.

One of the advantages of the US constitution when it was crafted was that a few men of common mind who just wanted their country to be rid of a foreign ruler wrote it. And they were still under threat of conquest and subjugation for they had not yet fully won their independence when they wrote and adopted it. As a result, they only had time to make sure that the guarantees to personal and human rights were clearly written down.

That was also their great advantage.

In contrast, our constitution framers had the leisure to think about all these social and economic visions. And the time—the 1930s—were a time of ferment, socialist ideas, and economic depression all woven into one. The Philippine constitutional fight was essentially a political fight. The fight for independence was nearly won, and what was needed was for them to fashion the future structure of government and to state national aspirations. In so doing, they overdid it, for they put in details what could have been simply enacted as warranted by changing circumstances. (Annex B may be provided upon request from the author.)

The constitution has undergone several changes in provisions, most of them mainly dealing with the political provisions. After two fundamental revisions of the constitution, in 1972 and in 1987, however, the core economic restrictions on foreign capital have remained completely intact. These are the critical provisions that the nation needs to pay great attention to. They are the ones that fundamentally touch on the nature of social and economic progress of the nation. These are the citizenship restrictions that put specific brakes on the employment of foreign capital in public utilities, on the ownership of land, and on the exploitation of natural resources.[2]

6. The original sin sinks into the national psyche

Then came the war and independence in 1946. Americans, fearful of the consequences of the nationalist provisions about capital and land, pressured their government to protect the interests that they had accumulated in the country. These included land and businesses owned, covering all sectors of the economy. Independence would further expose these properties to forced sale if the economic provisions were to take effect.

Moreover, Americans feared that the value of these assets had to be protected against the possibility of devaluation. They already introduced this provision as part of a safeguard provision in the Philippine Trade Act, a provision of national treatment for American citizens and another provision that the peso could not be devalued without the approval of the American president. The American government responded with the only means that it had at the time. Push had come to shove. National treatment for Americans required an amendment of the basic law.

The parity amendment to the constitution which was made in 1946 became the price to be paid for the war damage act and the promised aid for rehabilitation. This amendment gave Americans the same rights reserved to Filipino citizens in the constitution. With the parity amendment, our leaders were made to swallow their pride.

This sank deep into the national consciousness. This reinforced the nationalist rhetoric about the problems of foreign economic domination. The Commonwealth government was new and Manuel Quezon was president when businessmen and politicians were calling for national economic protectionism.

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[2]The only other urgent issue deals with the manner and choice of national officials and the form of government. This is so substantial a constitutional agenda that if given a choice between the most important issues, I would focus on the economic provisions. But my brief for a change of government is to favor a cheaper and more direct form of government, a parliamentary system. To do away with a system of political contests that require a president, vice president, and senators to spend enormous amounts of money just to win elections is likely to have beneficial outcomes by reducing corruption and influence peddling by interests. A parliamentary system will also assure that the contest for leadership will be among the most competent, the most experienced, and the most politically astute leader. A parliamentary system can get rid of corrupt leadership more quickly than a presidential. Former Senator Juan Ponce Enrile [2001], now president of the Philippine Constitution Association (Philconsa), states that the most conservative estimate at present to elect a president requires expenses of Php 2 billion, which is the current equivalent of the salary of that office at present rates for 2,886 years. Another winning senator in the elections of 2001 said, when confronted pointblank by a television interview, and with hesitation, that he spent about Php 35 million for his campaign. Given that this was an admission before a public audience, that might have been an underestimate.

Senator Claro Recto in the 1950s said that it was better to borrow the capital to invest and have Filipinos invest it in their own industries. Carlos Garcia was president when the loud noise within the government said, "Filipino First."

One candidate seeking the presidential nomination had this to say [Araneta 1965:258]:

> How is it that in the face of development, Filipinos have remained poor? … Filipinos, by virtue of their subjugated position in their country, did not benefit from the fruits of colonial development… The evidence will show that the fruits of development were siphoned out of the country … because it is dominated by foreign interest.
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> Any development under this setup will be colonial in character, and, therefore, harmful to the Filipino people; at any rate it cannot do us much good. The other type of development is … a nationalist development of the economy… dominated by nationals and (which) benefits the nationals…
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> …The fundamental objective of economic policy is the Filipinization of the Philippine economy…. Real industrialization cannot be achieved so long as foreigners dominate our economic life. (Italics supplied.)

It was Fernando Lopez, the former vice president to President Elpidio Quirino, who made this statement as he was testing the political waters for a run for nomination of the Nacionalista Party. (But he would lose that nomination, along with Senator Emmanuel Pelaez, to the eventual nominee and later president, Ferdinand Marcos, who would offer the vice presidency of his ticket to Lopez.) *The Manila Chronicle* printed this speech. Eugenio Lopez, the powerful oligarchic owner of the powerful media empire and brother of Fernando, owned the *Chronicle.* He would also buy the controlling shares of Meralco, the public utilities firm distributing electricity to Manila, when the original American investors sold out. But the statement sounded incontestably like that of I.P. Soliongco, Renato Constantino, or Alejandro Lichauco, three writers on this subject who were often sponsored in the pages of the *Chronicle.* In fact, those words could also have come out from the Marxist tract of a Jose Ma. Sison, founder of the New People's Army (NPA).

Men of goodwill and of vested interests, and those who thought ill of the government and who wanted to overthrow the political order and institute their own, have supported these thoughts to ring the warning and to provide restrictions to foreign capital. Coming from their separate perspectives, their analyses and their reasons were often different. But their perceptions and their conclusions were often the same. This was the mainstream thought that described the economic nationalism of the early decades of Philippine independence. Indeed, economic nationalism was used as a ripe issue to wave the flag against the potential for foreign exploitation. It was an issue that could be conveniently taken advantage of by nationalists, ruling oligarchs, politicians, businessmen, and also communist rebels. These were individuals who would not necessarily be on the same political fence but who could conveniently use these arguments for their own short-term ends.

The provisions of the 1935 Constitution on foreign capital restrictions became the educating instruments for the generations of citizens on the negatives and the boundaries of foreign capital in the country's national development. Those ideas emphasized the negatives of foreign capital, swamping many of the good benefits—or the positives—that foreign capital could bring to the nation when properly harnessed: more employment, improved incomes, higher productivity, and access to technological edge. By providing the nation and its future leaders with the restrictions that were placed on foreign capital, it became very difficult to design flexible approaches that would attract the volume and desired direction for foreign capital to the nation that sorely needed it. Indeed, it led the nation toward a series of self-destructive economic policies that further scared off foreign capital.

Many laws and regulations were passed that defined the nationalist framework of our economic policies. Import trading was Filipinized in conjunction with import controls. When the Central Bank and General Banking Acts were passed the subject of foreign banks was left to banking regulation. But there was a strong opposition to the concept of foreign banks participating in the domestic banking system. As a result, no foreign banks could be admitted into the country. The four banks already operating in the country were allowed to continue, but the operations of these banks were restricted to their main head offices. This decision could have severely restrained the growth of bank financing especially in international trade, since the domestic banks created were largely new, undercapitalized, and inexperienced. Later experience with domestic banks with limited capacity to expand credit because of their low capitalization and problems with respect to the prudential aspects of lending made it essential to pursue reforms to raise capitalization of banks and open the banking system to foreign equity.

One of the defining laws in the early years of independence was that on retail trade nationalization. This really meant Filipinization of the activity. The public debate on this law emphasized the need for the small Filipino retailer and the poor *sari-sari* store vendor the opportunity to grow. It was directed mainly against the Chinese control of retail trade, but it had significant impact on large-scale distribution in which American interests were still present. What it did was to reserve to citizens a very profitable segment of trading and marketing, and put the writing on the wall for foreign interests to stay out of retailing. Slowly, the substantial American retailing interests would sell out to Filipino corporations.

This law reduced the opportunities for inducing future export growth. In countries where foreign retail establishments were allowed to function in the economy, these retail establishments opened up export opportunities for many local suppliers. These retail establishments became their seeing eyes for the country's potentials in other goods that could find markets in other countries where these retail establishments were operating. In that way, they contributed to the expansion of their international supply chains. Thus, local producers expanded their opportunities to become international suppliers. But retail trade nationalization made domestic retailing very insular in character. These were partly the reasons for the amendments opening the retail trade to foreign entry. (Annex D may be provided upon request from the author.)

Less dramatic in the public eye were the restrictive laws and regulations that governed many important economic activities—on government procurement of services; public utilities such as public transportation, interisland shipping, production and distribution of electricity; professional practice; and employment. The import and exchange controls were clearly designed to discriminate in favor of domestic enterprises. Tariff protection raised the cost of goods produced by domestic industries. Restrictions reduced the participation of foreign capital in sectors restricted from full participation—and the list became quite wide ranging while creating uncertainty about the potential for restrictions in many other types of economic activities.

In fact, such restrictive ideas became the driving force behind the design of many aspects of industrial economic policy. When a new investment incentives law became the subject of legislation, it was Senator Jose Diokno, the inheritor of the nationalistic leadership of Recto and Tañada in the Senate, who guided the passage of the law and the subsequent export incentives law. The result was that the Board of Investments (BOI) that was created along with this new investment incentives law became even restricted mainly to the promotion of domestic investments to encourage Filipino to own the industries.

Foreign direct investments became relegated to a secondary position. Companies that were fully owned by foreign capital were excluded from many investment incentives that were offered to industrial applicants. Many industries promoted became small scale in nature. They were designed mainly for the domestic market. Large industrial projects became dependent mainly on foreign loans and on credit from government financial institutions. The industries were mostly import substituting in nature, but they continued to be highly dependent on foreign raw materials. This meant that they were import dependent and, in general, high cost, because their markets became dependent on high tariffs and other forms of protection and state support.

During the period when economic reforms would be undertaken to improve the investment climate during the Martial Law period, the government was still hampered by these economic provisions in the constitution. Marcos himself did not deal with these constitutionally proscribed provisions. Rather than confront these provisions directly, he looked for alternative methods of dealing with these problematic provisions. As experience would show, such an effort was not enough to bring in the required volume of foreign capital, although enormous strides were already accomplished along these lines during the 1970s.

Despite the many efforts to introduce remedial measures to ease these restrictions, the stigma of the restrictive features that were written in the constitutional provisions always provided some degree of risk that those provisions would become binding in a court-of-law interpretation. The result was that many specific sectors of the economy continued to be off-limits to the economic participation of foreign capital by choice of the investors. The fact was that even on these alternative measures—such as the adoption of a negative list of prohibitions in the industrial and in the export priorities incentives to permit a wider set of new investment areas for foreign capital—were adopted only toward the early 1980s when the country could have begun with these permitted areas of investments at the dawn of independence.

In the meantime, several countries in the region of East Asia began to establish themselves as investment sites of foreign capital. They began to establish a track record that could easily have been achieved by our country if only our laws had, from the beginning, been more welcoming rather than hostile to foreign capital.

7. Lost opportunities

From independence in 1946 until 1973, the Bell Trade Act that governed US-Philippine trade relations, as amended by the Laurel-Langley Agreement, would dominate our politics and our economic policies involving trade, industry, and investment. During this period, the parity amendment that was introduced in 1947 provided equal rights to American citizens in the matter of citizenship rights because the constitution contained special restrictions to foreigners. Of course, by 1974, special economic relations ended, and so did the parity amendment. But in dominating domestic politics, this issue also helped to fuel some hostility regarding foreign investment because of the inadequacy of domestic saving.

Public utilities formerly owned by American capital gradually shed their control and transferred them to Filipino control. Such change required a sizable amount of Philippine capital to buy into repatriating American capital. The public utilities—those formerly privately owned—suffered long periods of poor service partly because the former foreign owners had no incentive to expand their service and indeed had to sell out at the end of parity. The Philippine Long Distance Telephone Company's (PLDT) bad service up until the 1990s was a legend, so that when the former prime minister of Singapore, Lee Kuan Yew, mentioned in a talk in Manila in the early 1990s how long it took to get telephone service in Manila, some Filipinos took umbrage at the apparent lack of diplomatic finesse.

Capital had become more scarce as the country's development needs increased and the costs of the early mistakes in industrial policy had begun to wreak their toll on the nation. And yet at the same time, American capital was being divested as Laurel-Langley Agreement expired. Today, the costs of these changes in management partly contributed to the energy blackouts of one decade ago and the poor service in public utilities. The need for large investments in public utilities and in public infrastructure in the country has never been more urgent than it is today, and the capital needs to be harnessed. The government now recognizes that focusing on the constitutional restrictions on public utility ownership is a key aspect of the solution.

In the early 1950s, the Philippines was judged to be the most promising country in the Asian region by the knowledgeable international community, next only to Japan. The opportunities available to the new nation were large. The Laurel-Langley agreement assured preferential trade with the largest market of all: the US market. American reconstruction aid had restored many investments. American investments were hugely in place. American aid was significant because of support of the military bases and further fueled by the Korean War and its after-math. And, of course, the bounties of sugar protection from the American quota further assured the country of economic bonanza. The reparations from Japan added further resources for investment.

By the late 1970s, South Korea, Taiwan, Hong Kong and Singapore were being widely called the Asian tigers, the NICs (newly industrializing countries), the Asian miracles. Thailand had caught up with us in our early economic lead and its industries were beginning to show results. And Malaysia was beginning to attract foreign investments in industry. Indonesia was awakening.

The four Asian tiger countries turned their profits in the markets from garments and textiles that relied mainly on the US market and carried these into savings to further widen their thrust in exports in other industries and strengthen their domestic investments in infrastructure. Further success carried them to many other export ventures, and their economies rolled in with further success. The years were favorable for exporting countries, for despite the shocks of oil, exchange rates, and inflation in the world economy, foreign trade was booming and new opportunities were opening up in the newly rich Middle Eastern countries.

But what was happening in our country? From the years after independence we were busy supporting the growth of domestic industry designed to replace imports and to reserve that for domestic industry through a high level of protection. The great advantage of the preferential tariff arrangement with the American economy was largely ignored by policy. Our exports continued to be agricultural exports—coconut and sugar—and we added logs. Moreover, wealthy Filipinos, now in industry and banking and commerce, were anticipating the day when they could acquire control of the public utilities that remained in the hands of American interests as the Laurel-Langley Agreement terminated the provision of parity.

8. Consequences of the protectionist policies

The consequences for the nation of the four decades when protectionist policies dominated industrialization policy were costly. Some of these cannot be quantified because they were opportunities lost for not being taken. Studies of protection and their impact on resource allocation are noted in a short Annex. (Annex C may be provided upon request from the author.)

But the opportunities not taken were precisely the essence of what might have been. New export industries failed to grow as they did in other neighboring countries in Asia. With an enormous supply of labor, the country was not producing exports that employed the country's labor resources unlike the other countries in the region. Most newly approved industrial projects were mainly for the domestic market, and many of them had little employment impact. The fiscal and other incentives for industry were geared mainly for import-substituting industries, even though by the late 1960s an export incentives law was in place. That law placed more incentives for exports to enterprises that were already in production to improve their prospects for exports. The export incentives were not particularly geared toward attracting new projects for exports. In fact, there was a contradiction. By controlling excess capacity in some industrial projects, the government inadvertently put a bar against enterprises that were mainly destined to produce for exports. Segregating these enterprises required a special type of solution that led to the creation of separate industrial export zones. This put the enterprises in a separate category and removed them from the highly protected general domestic economy. (But even these alternative routes to promote exports became possible only much later, toward the end of the 1970s, when the adverse lessons of protection were becoming openly clear.)

Domestic enterprises taking advantage of the investment incentives were mainly interested in filling up the existing demand for import-replacing industries. To acquire machinery and equipment to set up their enterprises, they needed foreign exchange. And they had to borrow a large part of it from either government financial institutions or suppliers' credit (which required amortization installments in foreign exchange). To sustain their raw-material demands, they often had to import. To sell their products, they demanded a high protection rate to guarantee their profit. To import their raw materials, they wanted low tariff rates. It was also likely that, given business practices, there were built-in profits for the investor just to invest in the machinery and equipment. In this way, there were profits to be gained even before the investment pushed through, thereby hampering the cost of the operations as a functioning enterprise later.

Because of the country's energy dependence, the import-substituting industry was already heavily dependent on foreign exchange if only indirectly. The need for imported materials made this more direct. Without any dollar earnings, the import-substitution industries were a recipe for disaster in case of balance-of-payments crises. This was, in fact, what had happened. Moreover, in times of disaster, they could not service the loans that they had incurred. In this way, they adversely affected their creditors that had uncollectible loans.

Many of the industries promoted under import substitution squandered the country's foreign-exchange resources. Their insatiable demand for dollars to buy raw materials contributed to high demand for imports while neglecting comparative advantage in industry selection. And these industries penalized domestic consumers for their high prices. Moreover, they heaped on the government financial institutions nonperforming loans and thereby squandered the country's scarce savings.

In contrast to our development, our Asian neighbors did very well. This they did without having any preferential market through the Laurel-Langley Agreement. Of course, later, there was to be the General System of Preferences (GSP) in trade for developing countries negotiated through the United Nations Conference on Trade and Development (UNCTAD). But this was available to all developing countries, including us. The growth of these countries was propelled by the US market's insatiable taste for cheap consumer goods made from cheap labor.

As a graduate student in the early '60s at M.I.T. in Cambridge, Massachusetts, I remember vividly a TV show. A sidekick showed Bob Hope, the original TV stand-up comedian, a major bargain that he bought in a department store. As reaction, Bob Hope wisecracked with a wry smile, Yes, everything in the US is made in Japan. By the late 1960s and through to the end of the last century, Bob Hope could have said, Yes, everything in the US is made in Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, China, yes, the Nike shoes in Indonesia. He could not have added from our country since Philippine-made goods were not even sold in the stores. And ours was the country that used to be most closely associated historically with the United States.

Geographically, our country is right smack in the middle of these countries! Yet, we got only a tiny portion of that labor-intensive export market. When trade and industrial economic reforms began to take hold and our electronics export industry had become significant, the products that we made were imbedded inside the computers, gadgets, and other things that were marked as products made in the leading manufacturing countries of the region. (Annex F may be provided upon request from the author.)

By tilting major incentives in favor of import-substituting industries through excessively favorable policies, the nation paid a high price. It was not only a cost to Filipino consumers in the marketplace—that is you and me and the working masses with our hard-earned income. Many of these industries—and the power of their lobby—caused the country to dissipate the large resources of foreign exchange that it had accumulated in the early decades of independence. Their never-ending need for foreign exchange with which they were supposed to save the country was not sustainable, because they were not configured to produce foreign exchange. They were thus a recipe for national disaster, because given the costs that they were incurring, and the high prices that they were charging for their prices, they were handicapped from the very beginning to pay their own way in terms of exports.

Others would observe that during the years of import-substitution policy and high protection, many foreign investments did come to the country. And what did they do? These investments were either subsidiaries of foreign corporations or joint ventures with domestic partners. They did exactly what domestic import-substituting industries did. Foreign drug companies, personal-care cosmetics companies, tire companies, and a long list of other industries took advantage of the high protection rates to control the domestic markets for their products. They hardly sold any of their products to any other country.[3]

These industries were precisely the industries that the nationalists were decrying as exploitative foreign investments. This follows on the long criticisms of the role of multinational corporations in developing countries. The criticism centers on many important issues like property rights, patents,

[3]Years ago, during the 1970s, I was in a hotel in Bangkok eating a quick lunch before a scheduled afternoon meeting. I ordered a burger and was served my meal with all the garnishings, including a bottle of Del Monte catsup. The catsup label indicated that it came from the Del Monte subsidiary in Italy, and not from the Philippines where the company sold a Del Monte catsup in the local market. This demonstrates in part the principle of comparative advantage, but the main reason why the Del Monte catsup came from Italy was that there was hardly any incentive for this company to export from the Philippines. The protectionist policies were stacked up against the industry to export their products although they were geared for pineapple exports. Perhaps, given the cost of growing tomatoes at the time, there was no way by which the raw material for catsup could have matched the cost of production from Italy. Then, Del Monte was just making enormous profits from selling repackaged catsup. Until domestic sauces like banana catsup became effective competition to Del Monte, the monopoly profits from catsup must have been comfortable for a firm wanting to make additional product lines to its main line, which was to grow and can pineapple for exports. This incident so flabbergasted me that I mentioned it incidentally in a discussion with newsmen who were tracking me at the National Economic Development Authority (NEDA). Tony Lopez, then a reporter for *Asiaweek*, took the discussion to heart and landed me on the cover of that magazine for a long story on multinationals.

limitations on market agreements, and so on, which corralled developing country industrialists—especially the import-substituting domestic industries including those with joint venture agreements with foreign enterprise—with limited market agreements. They could not export their wares beyond the domestic market. The problem was, however, the framework of the market the policies of the host countries that made it possible. In short, in our case, it was the set of government policies that promoted import substitution to the hilt with high protection rates and willingness to deed the domestic market to inward-looking industrial interests.

The foreign investments in this case were freeloaders of the protectionist system of policies. They exploited the domestic markets as much as the Filipino industrialists who were able to set up their industries under the blessings of protection. They fed on the system that was promoted by the policy of protection.

Even American capital opted for domestic import substitution. They were there only to keep and develop their own market shares. They did not develop new markets in other countries. They developed their Philippine market only. They became freeloaders of the homegrown industrial policy. Our Filipino-owned companies got technological contracts that limited their markets to the home market. And many businessmen became insular in their outlook.

The government was to blame in part because it always yielded to pressures for reversals in attempt at reforms. For years, the Philippine Chamber of Commerce and Industry was a watchdog against government moves to reform aspects of trade and industrial policy. In contrast, in the countries that I mentioned, the chambers were in the forefront of telling the government to expand markets, to create more opportunities outside the country, and to enable conditions at home to make business further reduce their costs.

In the eleven years that I spent in the government, much of what I heard from the Chamber of Commerce and Industry was essentially to hold back on the needed reforms because domestic industry could not compete. They needed more protection, more fiscal incentives, more time, and so on. At the high plane, there was always the exhortation to expand economic growth and exports. But when the chips were down, what they or their industry committees wanted for the government to do was to lower tariffs for their raw materials or to raise the tariffs on competing products if not to hold off a planned tariff reduction.

One of the national dangers that we face today is that now, the agricultural sector is seeking high protection. If we seek a repetition of history, just look at what protection has done to the sugar industry. Our biggest exporter in the past is one of the pleaders for more protection. Today sugar exports have become minimal.

If only the interests of business and industry were more balanced at the time, then the dominant control of economic policy by the domestic industries that were mainly import substituting would have been blunted. For instance, if the industrial interests had a strong export sector that was earning dollars, if the foreign investments in the country were good export earners, as the situation now appears to be, then these demands for high protection would have fallen quickly.

These were the years when the American Chamber of Commerce was already much eclipsed, and during which American investments in the country was mainly piggy-backing freely on the import substitution strategy. The Confederation of Export Industries was still weak. The Chamber of Agriculture and Natural Resources, which was once a dynamic bastion for the traditional exports, was now busy, seriously cutting down our forests and joining in the parade of more import-substituting industries and economic activities restrained by citizenship requirements. In fact, quite a number of its leading lights in the criticism against import substitution—including Alfredo Montelibano—were by then already also engaged in import-substituting industries so that the weight of their economic interests became aligned with the Chamber of Commerce and Industry or in domestic services like banking and trading. The Makati Business Club, finally frustrated also with the import-substitution strategy, had begun to develop a well-rounded voice for business.

Until exporters gained in size to express their problems and to get the attention of the government to deal with them, it was difficult for the government to balance various economic interests. For oftentimes, export industries did not have concerns that coincided with those of industries serving only the domestic market.

9. What is the nationalist issue in economic development?

The industries that are designed for the domestic market or for import substitution have common demands. They insist on high tariff protection for years or a guaranteed domestic market that assure them profits. They want a cascading tariff structure to give them a built-in profit. This means high tariffs on rival, imported products, and low tariffs on the raw materials that they import. They desire long years of protection. When reminded of the need to reduce the tariff, or to have a program of tariff reductions, they do not want to have any "premature" reduction of tariffs.

In addition to this, they wanted the preferential access to credit from the government that, in the past, even took the form of governmental guarantee when the project accessed external loans. The record of credit payments of many of these industries is poor, basically because of their crisis-prone nature. The other part of the equation that explains this behavior was that many of them got arranged as projects because of their political connections. In fact, what I had not discussed here is that the import-substitution industries promoted by the government can be explained from another perspective. Politics and cronyism often get involved in the project-selection process.

Most of us would understand this sufficiently if we but put the EDSA "revolutions" in context. The years 1986 and 2000 are just time demarcations, but the corrupted process began in its rapacious manner during the late 1940s as soon as import and exchange controls were instituted. And they got grafted into our political culture and then into the industrialization process, which heavily depended on political patronage and behest loans.

Just look back and review the bad loans of the Development Bank of the Philippines (DBP) and the Philippine National Bank (PNB) that finally got turned over to the Asset Privatization Trust in 1986. The list of companies that date back to the early 1950s is included in these books, and many of them were designed, according to their proponents, to raise domestic industrial output by replacing imports. These two major financial institutions, in the end, paid the burden of financing many of the import-substituting industries. Quite a good number of enterprises—including steel and other large-scale industrial projects—were on this list. But who in the end paid for these failures? It is not these two financial institutions but all of us.

In the end, all Filipinos paid for these failures. It is not only the additional tax burden that had to be paid for these failures of industrialization. It was a burden of present and future generations. The early cost to past generations of consumers whose welfare were cut enormously by the high-priced products that were imposed by the protected industries is not even factored into these. These were only the financial losses.

In addition, interesting names will be found who own these enterprises, if one but made a little research. I must add that the companies and persons who went into these ventures are not linked to any period of any presidency but to several. The link between import-substitution industries and the corrupted political process is entrenched in practices that allowed projects to proceed, not on economic efficiency, in the sense of world economic efficiency, but on their alleged economic feasibility with the help of high and sustained protection rates.

10. Dependent economic nationalism is an exploitative brand of nationalism

The mainstream economic nationalism is a nationalism dependent on the government to provide protection, unequal rules in favor of citizens in all areas, patronage, and so on. It is a dependent type of nationalism, reliance on giving an edge to countrymen for production at the expense of consumers. It is not fair play.

It is time to use the economic criteria that I enumerated at the beginning. What are the common characteristics of the demands of those who want to promote industrialization based on what I called mainstream nationalism? This is the normal meaning attached to those who want to promote industrialization based on economic nationalism.

Competition is good.

But they want to eliminate competition. If they say this is not so, they want to have an edge over the competition. This is the meaning of their demand for protection.

Monopoly is bad.

But they want monopoly, or some element of it. They want higher prices for their products. In short, they want to make a gain at the expense of consumers. The nation is asked to support them with higher costs. If "consumers" are a bunch of other industries that produce other products for the market, they want to make the costs of these industries higher so they can keep their profits. But these other producers will have to pass on their costs to consumers eventually.

Trade is good.

But they want to impede trade by raising taxes on imports. If they can get a gullible government to ban the import, they will want it.

Comparative advantage is good.

But they do not want comparative advantage. They say that the rules of trade in the world are so stacked up against developing countries that it is better to develop our own domestic industry. So, they say that we will never develop comparative advantage. They do not make calculations that economists would ask: At what costs and at what levels of efficiency?

The government can undertake targeted interventions to correct deviations from the above principles of economics. But they want government intervention to favor their interests. They want rules so that cards are in their favor. Other governments will protect their interests and the Philippine government should protect Philippine interests. But the rules that the government should foster should be based on fair rules to enable Filipino enterprise to thrive in a harsh, not pampered, world. That is reality.

11. Economic nationalism based on a competitive ethos, fair play, and economic efficiency

It is time to find a better definition of economic nationalism. That definition involves the principle of "competition" as a central element. Economic agents—our producers and consumers—when faced with competition always lead to a solution that improves the outcome for all. When Filipinos find themselves in a competitive environment, they do as well as other nationalities. How else do we explain the fact that we have a lot of countrymen who excel in the field of management and in technical work when they are placed in entirely foreign settings? One of the most hostile environments is when a person works abroad in a foreign company without the normal protection of his own government. Competition need not drive out social justice and fairness. There is a big place for that, through the actions of the government. But for the rules of business and daily affairs, competition should be central, or else, we will become, as we have become, a nation propelled by undue coddling—cronyism, favorites, unfair rules, opaque processes, etc. At home, there is a tendency for a lot of producers to seek the shelter and patronage of the government.

Competition implies the acceptance of open trade environments and the rejection of monopolies as a way of organizing the economy. It also means promoting the best use of the country's resources, supplementing those resources that are most lacking so that the resources that are abundant are able to play a useful role in economic life. Other countries try to attract foreign investments by giving them a welcome equal to the opportunities available to citizens. In our country, there is a tendency to make rules convoluted and difficult. Of course, it begins with constitutional provisions that we should revise if we are to attract investments effectively.

Economic nationalism should not promote the welfare of the small minority of rich countrymen at the expense of the poor, large majority. The demand for monopolies, special advantages, and accommodations that tilt the playing field only for citizens create opportunities for monopolistic positions of the few who could take advantage of those opportunities. The result is monopoly position over certain opportunities. Many of the ills of the country can be traced to the measures undertaken by the government—on the backing of nationalistic xenophobia—to require a *citizenship* qualification for many types of economic activities. The current demand to expand opportunities and the role of outside capital has been the result of citizenship requirements that impeded progress in the country.

Perhaps, *the citizenship requirement for the country's highest public offices is the most important and perhaps the only one that truly matters.* Extending that to other areas of life is likely to constrict many opportunities available to our people in realizing the best possible growth of economic opportunities. But aside from that, the rules for business should be made fair for all, with the rules of the game being made equal rather than tilted. That is the way we can promote greater competition and more openness and, above all, improved performance and productivity for the nation.

12. The coming age of competitive policy and comparative advantage

For years, the most frustrating argument that I heard in government and in open discourse was that it would be difficult to have comparative advantage in industry. I was told that we had to shape the domestic market first, get the import-substituting industries do a better job, and then, as they became better and competitive, they would earn exports. There is a germ of truth to that, but it is risky. What if they remained forever infants in the trade?

The opportunities that we missed were caused precisely by waiting too long in trying to shape the domestic market for perennially dependent industries to become competitive. As a result, the country lost by default the industrialization that would have ensued via the economic opportunities offered by garments, textiles, furniture, shoes, and other labor-intensive products of a bygone era of preferential trade agreement with the United States and GSP with the rest of the industrial world. Our garments exports to the United States were measly compared to that of Hong Kong, which used textiles and garments exports to drive growth in the economy. That was only Hong Kong … (Remember the other tigers?) Part of the problem was that the garments and textile board failed to reward the best export producers with large quotas but subdivided them among small producers with inadequate and unproved capacity.

In addition to the failure to incite the garments export sector, the government favored the setting up of small textile industries with high protection rates. These textile factories were made only for the domestic market. Their operations were unduly hampered by highly protectionist rules that prevented the entry of competition and of low-priced raw materials. In the meantime, the textile industries that were established ahead fought tooth and nail to fight smuggled textile imports from entering. The best solution for the problem would have been low tariffs. That would have forced the textile firms to face true competition—from other world-class producers. Moreover, the entry of foreign capital for an industry like textiles was restricted so that the Filipino textile firms could thrive. These measures prevented the textile and garment industry from becoming a major engine of growth in the early postwar period. This was so unlike the early progress of the Asian tiger economies, which initially depended on labor-intensive industries like textiles and garments to propel their economies.

The surge of our exports of electronic goods and other labor-using goods began to rise during the 1980s. These exports were mostly undertaken by foreign enterprises located in export zones. The new export industries began to employ more Filipino labor, used that inexpensive labor to sell electronic industrial parts. And so, suddenly the export receipts were rising very rapidly. This phenomenon is another demonstration of how mistaken were the early efforts to restrict foreign direct investments and to put all our trust in domestic firms that promised to deliver via high protection walls and government support of their operations.

Export industries in the world looking for good sites began to take notice of the Philippines by the 1970s, but in part the political crisis of the early 1980s slowed this to a halt. During a great flow of investments from Japan, Korea, and Taiwan in the late 1980s and 1990s, we further captured a few of the industries, but only a smaller fraction than did our other ASEAN neighbors. Today, the presence of these export companies in the whole industrial scene is more dominant, since they account for a large part of Philippine exports. These export enterprises initially involved pure assembly activities of semiconductors that were then exported to other factories around the world that used these assembled products as part of the final product—computers, telecommunications equipment, other machinery and appliances used in factories and in the home. These export industries came in without any pretense at doing something for the home market. They needed cheap production sites so that they could produce cheaper products.

The electronics industry alone began to account for 60 percent of total exports by 2000. The companies now located in the country export semiconductor devices, electrical machinery apparatus and appliances, telecommunication/ sound and video apparatus, electronic offices and auto data processing machines, and consumer electronics products. The markets for these exports are directed toward manufacturing sites all over the world: the United States, Japan, Taiwan, our ASEAN neighbors with complementary factories using Philippine assembled products as raw materials, and Europe.

The electronics companies affiliated with the Semiconductor and Electronics Industries of the Philippines (SEIPI) by 1999 included twenty-three Philippine companies (29 percent), twenty-one American companies (27 percent), and twenty Japanese companies. The American companies that came to the country in the 1970s include Intel, Texas Instruments, the biggest of them. Japanese companies include Fujitsu, Hitachi, Toshiba, Epson, and Sanyo.

In other countries, too, the invitation is to attract professionals and managers. In fact, one of the inequities of the world immigration system is that rich industrial countries, home to the best minds in science and technology, select the immigrants by creaming off the best professionals in many countries and offering them incentives to immigrate to them. And yet, in our country, we have very xenophobic requirements about employment of foreign professionals. This is another element of policy that should be given full attention. We might have a large outflow of brain through migration and of overseas Filipino workers (OFWs), and yet our work and employment regulations have processes that prevent foreign professionals from working here. At the very least, the procedures are cumbersome and discouraging.

At the same time, Philippine professionals manage well in competitive managerial and labor workplaces. Many Filipino managers and professionals work all around Asia and in other developed countries with great facility. If there is a more liberal professional policy for work in the Philippines among professionals, it may be possible to attract back a lot of Filipino professionals who went abroad to seek better opportunities. As competitive companies at home become strong, they will create a demand for management talent, engineers, scientists, and will moreover demand that our educational institutions do a better job. The net effect of this is to create a homeward pull for the brain drain, whereas it has been pulling out the best and the able from the management pool available in the country. (Annex H may be provided upon request from the author.)

Philippine labor is severely in excess of the available employment opportunities. But capital is so inadequate, for reasons that I have by now made clear. To tilt that balance so that our countrymen can find the jobs that they need in their own country, it is important to augment the supply of capital that is invested in our country. Technology, innovations, and managerial manpower accompany capital wherever capital goes.

13. Role of internationalism

A large part of this essay is on the dismal aspects of wrong roads chosen and opportunities lost. It is time to end with a note of optimism. And this is where the idea that internationalism is compatible with the version of economic nationalism that I have suggested. This is the right way for our country to go.

The swirl of world developments is that countries interact with each other in a constantly shrinking world.

After years of slow progress as a regional organization, the Association of Southeast Asian Nations (ASEAN) began to develop broader areas of cooperation. This was in part affected by large global forces and by regional cooperation in other parts of the world. The key development was the growth of Western Europe as a single commercial entity through the European Common Market and by the North American Free Trade Association (NAFTA). ASEAN economic cooperation grew stronger with the passing of years[4] and as a consequence of the agreements in multilateral negotiations over several decades that culminated in the agreement to found the World Trade Organization (WTO).

[4]For a backgrounder on the acceleration of economic cooperation, see Sicat [1999].

As signatories to these two major treaties, our country really managed to cross the divide between protection and comparative advantage. There is just no turning back, unless our leaders mess up the road that is already mapped for us by the obligations that we agreed to as signatories. Without the increasing trend toward economic cooperation, it would have been difficult to break the yoke of the economic policies and the wrong notions about dependent economic nationalism that had caused our country to lag behind our neighbors' rapid economic growth.

Economic cooperation has reached the conclusion of a prospective ASEAN Free Trade Area (AFTA). That agreement itself brought us to the reality of a larger regional market of more than 250 million people where competition among the member countries will bring down barriers of prices and costs of goods traded. This agreement has led to a major restructuring of many industries located in all the ASEAN countries. The major multinational corporations that have a stake within the region have been rearranging their production lines as regional trade expands. Philippine industries that were nurtured by protection over many years will find it useless to fight the trend. Market adjustment on their part will improve their position in the regional market. It need not be a losing battle if our domestic enterprises are prepared for the competition. My prediction is that in time, not only will AFTA move toward a common market framework, the number of countries that will cover this market will enlarge further.

Prospects for further agreements in trade are moving forward. Propelled by its spectacular success as an open economy, China is moving toward deeper trade relations with ASEAN countries and other neighbors. Indeed, today, other countries like South Korea and Japan are pushing for bilateral trade agreements with their important partners. The Asia Pacific Region itself is under pressure to multilateralize at least within such a region, moves that tend to enlarge free-trade regional arrangements. All of these trends should signal to Philippine industry that the age of dependence on government patronage and on favors at the expense of Philippine consumers is at an end. (Annex G may be provided upon request from the author.)

The AFTA challenge is an important catalyst for a greater opening of Philippine industry and trade in the future. (Annex C may be provided upon request from the author.) But official reforms cannot end there. To partake of the benefits that are in store, the sinews of the Philippine economy need to be strengthened. This requires that a more open approach to foreign capital be developed. Attract foreign capital into Philippine shores rather than have them exploit the opportunities in the other ASEAN member countries. This is why the constitutional restrictions have to be lifted, so that we can strengthen many aspects of foreign participation in the Philippine economy. It is very important to revise the provisions on public utilities especially and to liberalize the transportation sectors, where domestic trade is hampered from developing fully because of restrictive laws on citizenship requirements. The country needs efficient and strong public utilities, and infrastructure investments have to improve immensely. This could be accelerated by a welcoming posture for foreign capital because domestic capital is insufficient.

As for WTO, there is much heat about the controversies of WTO negotiations. This is part of the process to get a better result for the rules of trade. But a proper perspective has to be taken. Agreements will eventually come to closure. The rules of trade that are currently in force are more advantageous to the industrial countries in many areas of trade. But this has to be seen with caution, too. It is not as one-sided as it seems.

A proper perspective in respect to the WTO negotiations that will take place over many issues of trade and industry standards is that even among the big countries, there is a divergence of interests. For instance, most of the cases that have been brought before the tribunal of the WTO to resolve trade issues involve disputes among the major industrial trading powers. A positive side effect of this is that the interests of small economies are likely to be promoted by these disputes. As bystanders, they do not even have to expend time, energy, and funds. This is partly reassuring, but it does not provide room for complacency.

The true interests of the Philippines are on the side of developing countries through the common denominator of ASEAN support. Developing countries need to get a fair shake in the negotiations for improved rules for trade, in all aspects of the many trade rules and standards that are being negotiated with all countries. Recognizing the multilateral character of the negotiations provides assurance that there are many little Davids that can unite on common issues and that there are two to three, not one, Goliaths that are likely to be in contention.

Finally, it needs to be said again. Economic nationalism must shift from policies borne of fear of foreign exploitation to a more positive definition—that of attracting full foreign participation and creatively utilizing it as one (of many) means of promoting economic development in the country. We begin by doing away with xenophobic restrictions that are found in the Constitution.

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Annex A
POVERTY IS OUR MAIN PROBLEM: DON'T BLAME OTHERS FOR IT

Poverty is the main problem of our times. There is a tendency, however, from some sectors of Philippine society to blame foreigners and other institutions for the poverty that has engulfed the country in some areas. But it must be said that part of our poverty has been caused by mistakes committed in our nation building. One of which was industrial policy. In fact, because of these mistakes, the country has failed to generate sufficient employment for our labor force.

The obvious outcome of this failure is the resulting poverty of those who cannot find work. This means that many households have difficulty sustaining their families. Take the case of statistics about the nutritional problems facing our young people—the infants, the under five year olds that by definition of child rearing depends on the nature of the well-being of the parents. (Our country has become a favorite of students of poverty in the world community. Expect to find ourselves in such studies as we continue to fail to solve poverty!)

Table. Rates of under 5-years stunting, underweight, and wasting by quintile equivalent in percent

	Stunting rate			*Underweight*			*Wasting rate*		
	Poorest	*Richest*		*Poorest*	*Richest*		*Poorest*	*Richest*	
Country	20%	20%	Rich	20%	20%	Rich	20%	20%	Rich
Bangladesh	56	43	1.3	59	44	3.0	28	21	1.3
China	38	14	2.7	21	6	3.5	6	2	3.0
Indonesia	54	35	1.5	46	33	1.4	14	11	1.3
Philippines	21	8	2.6	26	13	2.0	29	16	1.6

Source: Wagstaff and Watanabe [2000].

These numbers surprise even Arsenio Balisacan, the foremost Filipino expert on poverty issues. Could they be the illusion of numbers? Recognizing that the data for the Philippines are apparently taken from a limited sample found in depressed areas in Cebu and could not possibly be representative of the Philippine village situation, the information conveyed is nevertheless bothersome. Among the poor, the stunting rate of Filipino children under five years old is severe. That it is still relatively better than in other poorer countries is not a source of comfort. The sample is selective; it involves the poor countries.

Underweight rate among Filipino children is alarming. It has intruded into the children of the richest 20 percent. Remember that the rich in our country are a much smaller percent. And so among this "richest 20 percent" are our upper middle-class income groups. Alarming as these numbers are, wasting—which I interpret to mean the impairment of biological and even neurological attributes—is even more alarming. It is severe among the poor and even among the richest 20 percent.

How do we interpret these numbers? I can only say that we have reached a stage of crisis. Here, in the bastion of our intellectual fount, the UP, we find this problem staring us in the face. Not only have squatter communities continually eroded our passageways and boundary spaces; they have also intruded into the beautiful rolling hills of Diliman on the fringes and even inside the campus. We even find what resembles poor housing for staff and even in some areas occupied by faculty. If our legislators do not see this when they visit the campus or drive by, they ought to see it every day in the areas surrounding the Batasang Pambansa or in the reclaimed areas near the Senate.

The future of our children is our present responsibility. And since our constitutional fathers put obstacles before their children in solving the problems of their time, we have the responsibility today to find the causes of the malaise and help to cure them ourselves.

Annex B
CONSTITUTIONAL PROVISIONS ON THE ECONOMY AND ON SOCIAL JUSTICE

In my view, the most basic and important provisions that should cover a constitution are those dealing with the political framework, the division of the government, and the manner of choice of leaders, and the duties of each principal officers. Every other provision on details of economic, social, and other relations should be matters of specific law. That does not prevent us from making a declaration of the lofty aims of our constitution and our nation.

The gift of those who framed the American Constitution to their people was that it was brief, simple, and it focused mainly on the structure of government and on the rights of the people. Because it was a minimal constitution, it gave the future generations of Americans the wide course of actions that they themselves determined for themselves as the challenges arose.

The British did it even better. They fought their King, their ruler, and forced him to accept certain rules affecting the liberty of the subjects. And the succeeding generations of British people confronted all their social and economic crises with reform legislation applied to those times, without being told that they had to amend first their Constitution. Their constitution is the body of laws that their parliament passes.

Having said all of the above, here are two possible courses of action. If I were president of the country and I had the backing of all good men (a foolish wish perhaps), then I would seek a Constitutional Convention or Committee to rewrite the Philippine Constitution for approval by the nation. That constitution should be simple, and that it be simply made to deal with the principles of government, the structure of the state, and with the preamble to describe the objectives of the nation. And I would add that the bill of rights be included to protect the people from state abuse.

The second course of action is more pragmatic. Focus on the amendment of a few provisions to liberalize ownership and disposition of natural resources, land, and the requirements that limit the participation of foreign investments in public utilities. And I will emphasize in the debate on seeking approval of the changes that the inherent power of taxation of the state and the collateral authority to regulate will assure that our leaders will take care of the nation's interests.

Note: Prior to writing this essay, I reviewed some aspects of the Philippine Constitution. Instead of filing these notes away, it occurred to me that many in our country would find them of interest, if only to challenge their thinking. My own intuition is that our constitution framers have put almost all the imaginable situations that are the subject of detail in law to be passed by Congress. The Constitution, which should be flexible and a guidance to general principles, should not be made into a set of prejudgments that are no different from the actions of parents who think they know what is best for their children for all time.

The Constitution as written (1987) contains virtually a wish list, covering an innumerable list of topics that are in the nature of legal details or an admonition to put in some detail through legislation later. The constitution attempted to cover almost the whole area of attention of the government.

The provision on the national economy and patrimony alone has 22 sections. Many of these are already covered in the body of laws of the country. The provision of the article on social justice and human rights is likewise a long list of provisions. It has 19 sections and detailed subprovisions. There is also an article on education, science and technology, arts, culture, and sports. All of 19 sections.

Article XII – National Economy and Patrimony

Twenty-two sections that contain detailed statements of economic relations, including limitations on the role of foreign capital and citizens in

- Acquiring land
- Protection against unfair trade practices and competition (sec. 1)
- Natural resources – regalian doctrine: all minerals, coal, etc. found either in public lands or in private lands belong to the state. Regalian doctrine is the premise for the recognition of the power of the state to control the exploration, development, and utilization of our natural resources.
- Exploration of natural resources limited to Filipinos – utilities (sec. 11) is limited to proportionate share of capital. Limitation to equity participation

is not necessary since the Constitution expressly provides that the activities shall be under the full control and supervision of the State—

- Why is not the above principle applicable to ownership of land … it seems a provision sufficient for the power of the state to tax land …
- Size of landholdings, or lease of land limited to 1,000 hectares per corporation or association. Private individuals may not acquire more than 12 hectares of private lands … alienable lands subject only to lease … (sec. 3)
- No private lands shall be transferred or conveyed, except to individuals, corporations, associations qualified to hold lands of the public domain, save in cases of hereditary successions … (sec. 7)
    - Only Filipino citizens
    - Corporations with 60 percent Filipino ownership (sec. 2, para. 1)
    - Aliens but only in hereditary successions (sec. 7)
    - Natural born Filipinos who have lost their citizenship except as provided by law (sec. 8)
- Provision on NEDA and economic planning body, sec. 9
- Sec. 10 is worst: Congress shall reserve, upon recommendation of planning agency, when the national interest dictates, reserve to citizens or to corporations at least 60 percent of whose capital is Filipino, or higher percentage (!) as Congress may prescribe, certain areas of investments. The Congress shall enact measures that will encourage the formation and operation of enterprises whose capital is wholly owned by Filipinos.
- Preferential rights to qualified Filipinos of rights, privileges, and concessions covering the national economy and patrimony (sec. 10) – (Leaves no doubt as to constitutionality of the legislation of discrimination … against foreigners …)
- State shall exercise authority over foreign investments within its national jurisdiction in accordance with its national goals and priorities (sec. 10)
- Franchise for public utility reserved to corporations with 60 percent Filipino ownership (sec. 11)
- Foreign participation in board limited to 40 percent or less
- Broadening of equity base in public interest
- Note: Filipinos who travel to Hong Kong are awed by the tunnels that connect Kowloon with Hong Kong island or by the long road from the airport in Lantao island … If they had worried about the intricacies of public utility laws that are in force in the Philippines, I wonder if those things could be built at all; yet, go further—the power plants, the public utilities of Hong Kong, just to name a few. In these utilities, a great amount of foreign equity contribution was involved. There was no need to monitor the changes in the foreign equity contributed to these public utilities. What

matters most is that the utilities are used to ease the transport and electricity services of this economy.

- Foreign investors complain about the lack of infrastructure facilities, yet our resources cannot fully cope with modernizing the facilities that we have. We always have a major bottleneck in some part of the economy which is infrastructure—take note of our transport problems—the traffic gridlock and the limitations of mass transit in Metro Manila, or even the lack of attention to housing for the poor … at market prices. Some of these can be met with more liberal foreign investment policies. We should have no hangover on who owns the capital. What we should be happy about is that they would come to help fill a gap that we cannot fill ourselves …
- State shall promote preferential use of Philippine labor, domestic materials, and locally produced goods, and adopt measures that help make them competitive (sec. 12)
- Anachronism – why protect if you want them to be competitive; you want employees to be competent, with proof being demonstrated in the market, not preferential determination by others outside the corporation or employer …
- TRADE POLICY conducive to equality and reciprocity … (sec. 13) → not needed, a redundancy because this is so;
- Science manpower development … another redundancy (sec. 14)
- Practice of profession – to be regulated by law, another redundancy
- COOPERATIVES DEVELOPMENT → redundancy (sec. 15)
- CORPORATION LAW → redundancy (sec. 16)
- TIMES OF EMERGENCY → redundancy (sec. 17)
- OPERATION OF VITAL INDUSTRIES IN THE INTEREST OF WELFARE, ETC. (18) – a redundancy?
- REGULATION AND PROHIBITION OF MONOPOLIES → redundancy (sec. 19)
- CENTRAL MONETARY AUTHORITY → redundancy (sec. 20)
- FOREIGN LOANS IN ACCORDANCE WITH MONETARY AUTHORITY AND LAW → redundancy (sec. 21)
- PENALTY for violations (sec. 22) → redundancy
- Sections on Social Justice and Human Rights → FULL OF REDUNDANCIES … covering almost all aspects of life; thisese are the subject of specific laws…
- The constitution is full of redundancies – defined as subjects already dealt with in existing laws, and which add little additional substantive provision, except that they get encrusted as provisions of a constitution that are difficult to amend. Yet, some of them are only provisions in name and have no operative meaning in the provision of law, except to mention them …

- A lot were accommodations to special groups that needed to be mentioned … women, cooperatives, fishermen, landless
- Provision on Labor also full of redundancies because substantive provisions are already in the LAW …

Annex C

THE COST OF PROTECTIONISM

The cost of high protection rates for industry could be posed in the following manner. For every amount of value that is created by the industry to the economy, what is the per unit domestic cost of production compared to the alternative world production cost? The answer to such a query provides an understanding whether the country has a comparative advantage or a disadvantage in the production activity.

Calculations of these types were used to study the resource costs of Philippine protection. Two industries that figured in the Montelibano-Araneta debates over import- substitution industries were flour milling and animal feeds. These industries were not enormously protected with very high rates of protection, but they nevertheless imposed a penalty on consumers that were substantial. The penalty originated first on the cost of production.

The domestic unit resource costs calculated for flour milling ranged from 7 percent to 26 percent higher than world unit cost of production for the years 1969 and 1974. The costs of animal feeds stayed in the range from 6 percent to 8 percent in those two years. These were calculations on the cost side.

Protection rates, however, refer to the additional tax on the value of the good when imported. It is the actual cost that consumers have to face if the product were imported and not bought from domestic sources. To give the industries an edge in the market over foreign goods, the rate of protection is very significant. Economists calculate nominal rates of protection—similar to the protection rates given to commodities in the tariff and customs code—and the effective rates of protection. The latter is a better measure of the protection rate, because it takes into account the series of interactions of the product with other users until the overall effect is derived. It is not surprising that the effective rates of tariff are much higher in general than the nominal rates. This is explained by the structure of tariff rates that favored high tariffs for the main producer and low tariff rates on the raw materials in production.

Studies of the rates of protection and domestic resource costs were made during the peak period when Philippine industrialization was practically dominated by import-substitution activity. The nominal rate of protection for animal feeds in 1974 was 33 percent and the effective rate just slightly higher. But for flour milling, the nominal rate was 41 percent and the effective rate more than 1,000 percent. The high effective rate was due to the resulting impact of flour milling on the other industries dependent on flour for their product—the interindusty input-output effect.

Romeo Bautista, John Power, and a host of Filipino economists focused on these issues in the 1970s. They made estimates of effective protection rates and domestic resource costs for the whole range of Philippine industries for which data were available. For instance, in the mid-1960s, of 100 product lines, more than sixteen products had effective tariff rates of 100 percent, some of them even reaching 400 percent. By the 1970s, the government undertook the realignment of these very high rates of tariff. The tariff-reduction program in the country began as part of the structural adjustment program. Efforts were begun in the early 1970s, and the program was accelerated in the 1980s. The country's political crisis intervened, but the program resumed quickly after early 1990s.

Reforming the tariff system: liberalization and ASEAN. The tariff-reduction program is part of a concerted program to align tariff rates and to reduce them to levels that are commensurate with current levels in other ASEAN countries. This is significant in the course of transitioning toward the ASEAN Free Trade Area, to which ASEAN countries are committed. This will be achieved through a scheme called a common effective preferential tariff (CEPT). Within a fifteen-year period beginning in 1993, tariffs among ASEAN countries will be reduced to rates ranging from zero to 5 percent. Today, almost 99 percent of Philippine tariff lines are included in the CEPT.

The tariff liberalization and ASEAN economic integration aspects of government efforts are analysed in two separate papers (see Austria [2001]; Tecson [1999]).

For the studies of the cost of protection, see Power and Sicat [1971] and Bautista, Power, and Associates [1979].

Annex D

PHILIPPINES VS. THAILAND: OR, HARRY STONEHILL VS. JIM THOMPSON

In the 1950s, we were economically ahead of Thailand. Today, despite the effects of the economic crisis that burst the bubble part of the Thai economic achievements in 1997, Thailand has a per capita GDP about twice that of our country. Part of the story is a difference in attitudes and experience regarding foreign enterprise and foreigners.

Over the years, many criticisms have been leveled against foreign investments in the debates on economic issues in our country. Domination by foreign economic interests is a fear that has been planted often enough in the minds of Filipinos.

Perhaps, Philippine experience was highly colored by the Harry Stonehill scandals of the 1950s and 1960s. But the policies that bred his operations were partly to blame. Stonehill was the case of a quick-buck American entrepreneur who was adept at taking advantage of a rent-seeking atmosphere fostered by the interweave of industrialization policy, political corruption, and personal networks. His legacy still is found in the Manila Bay reclamation project and the cigarette-making industry, two activities designed largely to meet domestic market needs.

Imagine what would have happened to Thailand, during the same period, if the government of that country enacted a retail trade nationalization law that would have forced Jim Thompson to close his Thai silk souvenir store in Bangkok. Jim Thompson was the link between the small silkworm cultivators, the village weavers, and the cloth designer. In addition, he was the focal point of interest among tourists from Europe and America who flocked to his store that made him a legend. The growth of the silk industry was one of the major factors that made the Thai tourism industry a major force in the economic development of Thailand. Diligence, botanical knowledge, experimentation, and social relations might have been involved in this success.

The openness to foreigners and to ideas from abroad made the Thais develop the travel industry and, in time, it probably infected many other sectors. It is this openness that made the travel industry push Bangkok into the center of flights between Europe and East Asia. Incidentally, that development started when their domestic airline was insignificant and our Philippine Air Lines was flying across the skies of Asia and the Pacific, secure in the protection of its air routes by the Philippine government.

Live contact with foreign people and ideas helps to give birth to sound and efficient economic activities. When I was traveling in the 1970s to Thailand, one Filipino embassy official told me that Thailand's woodcarving industry was being helped by the importation of a few carvers from Paete who were teaching the locals. I suspect that the orchid industry grew out of this openness, perhaps by borrowing ideas from orchid growing in Singapore, which by then already had a sophisticated orchid-raising industry. The market presence of major department stores owned by foreigners in Bangkok, Singapore, and Hong Kong helped to cement contacts between local suppliers of products and the world markets represented by these foreign enterprises because it facilitated travel among buyers and suppliers.

And while I am on this topic, only a few years back, the government of Fidel Ramos tried very hard to induce General Motors (GM) to come to the Philippines to set up a major automobile manufacturing factory. GM went eventually to Thailand and promised to leave some small activity in our country. We lost to Thailand the chance to become the manufacturing hub for automobiles in Southeast Asia.

Thailand's automobile industry copied a lot from the Philippine progressive car-manufacturing program without the mistakes made in becoming all too demanding. In time, assemblers began expanding their activities, and suppliers were attracted to complement the main automobile assemblers. Finally, the agglomeration of companies supplying the chain of automobile parts in the automobile became the major attraction for other automobile plants to consider benefits of location in that country. GM, in fact, made clear that such agglomeration of suppliers was one reason why they find the prospects lower costs of production in automobile making in Thailand.

Annex E

THE PLIGHT OF OVERSEAS FILIPINO WORKERS (OFWs)

Filipinos dream the good life like everyone. That is to have a good and secure job and a future for the family children.

How else do we explain that from 1990 to 2000, the number of "deployed Filipino workers overseas" as defined by the Migrant Workers and Overseas Filipino Act (RA 8042), increased from 446 thousand to 842 thousand? According to a survey of Overseas Filipinos, conducted annually by the National Statistics Office, an estimated 1.04 million Filipinos left the country to work abroad from April to September 1999 alone.

This survey provides interesting demographic data about our countrymen who have worked abroad. Many of them are employed in countries on both sides of the wide Asian continent—West Asia (what Europe calls the Middle East) and East Asia, where we are. Eighty percent of them are skilled laborers, 40 percent of them are women. But they are scattered all over the continents. John Encarnacion, son of the late Dean of the School of Economics, a Ph.D. geologist by profession, recounted to me his experience a few years ago. He thought he was going to be the first Filipino to visit the Antarctica when he went to work there for summer. But that was until he shortly met the Filipinos who had been serving in the research station commissary.

The average age of these workers is 37 years, with women two years younger. Many of those working in Hong Kong, Taiwan, Singapore, and Malaysia work as chambermaids to make family life more comfortable for the women of these countries. About half of those working in Japan—women with average age of 27 years—on the other hand, are in the entertainment industry. In the other countries, many are factory workers and service workers. There are also professionals and managers who have joined these jobs.

Experience with hardship and tragic cases that have figured in our national consciousness among some overseas workers reveal to us that these workers work in hostile environments unprotected by our laws. They work where the rules of justice and public understanding make them second-rate to the nationals of these countries. Many of them have one thing in common: They escaped to other work environments because our country could not find them decent jobs to earn a living on.

The reach of our labor laws cannot protect them when they work abroad. Many of them have also been victimized by having to pay high transaction costs prior to recruitment for overseas work. Rent-seeking has crept into the labor recruitment industry, both from the side of the local recruiters and their foreign counterparts. In addition, from many stories of separation of breadwinner and wife and children, some families have become dysfunctional and alienated.

In some cases, therefore, some of the overseas contract workers suffer the pain of a triple whammy! Even then, the need to grab the dream of a better life is powerful and keeps on encouraging others to become contract workers abroad.

If economic policies had fostered greater openness and fear of foreign domination had not marked our early policies of industrialization, many of our workers will have been working at home, in the comfort of home and country and assured of prosperous family lives. Our country, as a result, will also become a better place to work in.

Annex F

BOB HOPE'S WISECRACK, OR PHILIPPINE OPPORTUNITIES LOST IN THE US MARKET

In the thirteen years that I lived in the United States while working on international development issues at the World Bank, I would spend weekend hours at least during the critical changes of the seasons in the Washington area shopping malls of Northern Virginia and Maryland doing a little investigation. The time was mainly spent touring the big department stores like Sears, Woodward and Lothrop, Hecht's, Bloomingdale, and Nordstroms. In these places, as well as in other stores where the best products from the world are sold on display for consumers, we have a laboratory of what's wrong with our achievements as nation.

The best time was to do this toward Christmas, but any seasonal change always marked an astounding change of the goods on display. The garment sections were always a good place to do comparative research. And so were also the electronics, housewares, and gift sections. But for the kitchen and household goods, I would go to the specialty stores like Circuit City for consumer electronics and appliances and the hardware stores like Hechinger's. For children's toys there was Toys R Us. All these places are very large stores that source their supplies of goods for sale from all over the world to sell them to American consumers. Periodic visits to the groceries for supplies were always an interesting experience, too. This was more regular, as I accompanied my wife for the shopping. This included the less frequent visits to the Asian grocery store to buy rice and other special products for the longer-haul supplies.

The visits to the department stores became mainly an occasion to do an impressionistic research on prices and origins of consumer goods on display. This helped the shopping later, but that was not the primary reason. This was a habit that I picked up, quaint perhaps, when I was a poor graduate student and my wife and I had to scour the shelves of Woolworth (low-end retail store chain) and the bargain basement at famous Filene's Department Store in Boston to find the best bargains.

These observations were clearly the reasons why Bob Hope's jokes about made in Japan had a salient impression in my experience.

The four Asian tigers dominated the garments in these stores for a long time, and these days they still contain high-end garments. China was all over the place, competing with anything on any kind of department with their inexpensive items. But by the mid-'80s, garments from Thailand and Malaysia, along with a few other countries, began to occupy those shelves. Whenever there were Philippine garments, they represented essentially the low-price end-of-the-lots. More and more, the countries that were ahead in the garments trade began to be selling more and more of the high-price end-of-garments.

When it came to the products found in the kitchen and the house, the predominance of the utensils came from Taiwan, Hong Kong, and lately China, but Thailand had begun to be a serious presence. Philippine products in these areas were hardly there.

But in the hardware stores, the dominant sources of supply appear to be South Korea, Taiwan, and Hong Kong. An amazing amount of tools for the carpenter, house maker, and for the professional are made from Taiwan, the country just north of our main Luzon Island. The worst experience I had was when I encountered wood panels being sold in Hechinger, the hardware store. There were panels made of Philippine mahogany. But they were fabricated in Singapore!

When I went to the electronics sectors, the dominance of products made from our neighbors—Singapore and Malaysia—was as clear as day becoming a threat to the dominant list of producers from South Korea and Taiwan. The last impressions I had was around four years ago. Perhaps more and more, Philippine presence has entered the consumer-market products sold in America, especially since electronic products are finally being assembled at our end. But if not, those consumer products have many parts—the semiconductor chips, the wiring, the boards, etc.—fabricated from Philippine factories.

Even the shelves of grocery chains Safeway and Giant were beginning to fill slowly with products from some Asian neighbors. Sardines, tuna, and other canned-fish goods from Thailand have appeared in these shelves and were beginning to find a more permanent presence. Thai canned pineapple had been giving the similar Philippine products a good price competition, although Dole and Del Monte have name recognition in the United States. But in the Asian grocery store, there were a wider variety of Thai food preparations than Philippine food preparations. It is clear from this that Philippine products were at a tail-end of the competition. Philippine products were more ethnic in appeal—they appeal only to Filipinos—because of their poor packaging and relative high prices compared to the competition. The Thai products kept their ethnic Thai appeal, but are packaged more professionally and better priced, and probably crossed the purely ethnic Thai to Asian boundaries. This meant that they had a more Asian or regional appeal. Of course, the Asian grocery is dominated by Chinese products and a lot of Japanese and Korean specialties.

The Philippine lag behind its neighbors in the simplest exports for consumers is completely evident. Over the years, the government has tried to promote domestic industry that only replaced imports and did not pay attention to international efficiency; the country failed to hone the skills of Filipino business to take advantage of the great boom in consumer products in the developed world. Philippine labor resources could have helped to produce for the world. The comparative advantage that was possible was not developed because of a misguided industrialization policy. Instead, that alternative course of policy sapped us of hard-earned export dollars, our savings, our efforts, and in time created a huge amount of unemployed labor in the country. These import-substituting industries failed to produce good employment opportunities and redirected precious resources away from more efficient use.

Annex G

THOSE BALIKBAYAN BOXES AND CONSUMER WELFARE

The OFWs live and work abroad, and when they come home they stuff the balikbayan box with gifts. Their remittances and their hard work have caused some of our leaders to call them our modern heroes. Most of them voted with their feet and sought better-paying jobs abroad, jobs that they cannot find at home. (See Annex E.)

Each balikbayan box is like two to three big suitcases put together. It is cumbersome. But it is the best thing to ever happen to the Filipino traveler going home. It allows space big enough to stuff into it all kinds of small items. They, of course, cause congestion and queuing wherever homeward-bound flights to Manila in major international airports are filled with countrymen going home.

Those boxes have annoyed me for years for one reason alone. They almost always reminded me of how badly the government has treated Philippine consumers through years of import controls, high tariffs, and import substitution. This continued until we began to liberalize the economy, and along with it opening up the country to trade with the world. For those boxes contain consumer goods that could be bought cheaply abroad but not at home because of protectionist policies that favored producers of high-cost products at home. They were not available either because they were banned from imports or, when available, sold at prohibitive prices.

These days, those boxes are getting fewer. But it will be some time when our balikbayans will find out that most of the goodies that they stuff into those boxes can now be bought at home—the same quality for roughly the same price, sometimes better.

The big balikbayan boxes might become a thing of the past, but not because of the new security rules after the terrorism of September 11. The import liberalization of the last few years has begun filling up the shelves of our stores. When they find that they can do their shopping at home, balikbayans will save themselves the trouble of lugging cumbersome boxes.

Department stores and specialty boutiques in our country now sell a wide variety of imported goods along with domestically made goods. Our producers now see the competition. They will be forced to elevate the quality of what they make to win the vote of the consumer. In fact, foreigners will find the shopping with variety and the prices much better than in many places. (Remember when Hong Kong was the moneyed Filipino shopper's paradise?)

The Filipino consumer is becoming sovereign. Because of her choices in the market, the consumer will force the Filipino producers in the country to do better. For several decades back, this was not the case. The years of import and exchange controls and excessive protection rates for the products produced by domestic import-substituting industries caused the disappearance of competing goods from abroad. Producers were favored at the expense of consumers. Choices were limited to those products produced by high-cost producers.

The skeptic of this phenomenon will ask, what is the use of the appearance of foreign products in the marketplace if people have no purchasing power to buy them? The answer is to give the producer true competition so that we get a fair shake as consumers. It is true that relative poverty in the country has limited the market for goods. Poor people cannot afford many of the goods on display. But, as purchasing power and incomes rise within the country, the consumer gets a better deal with a wide choice of goods available at prices determined by competition. Sustained rising incomes at home result from efficient industries employing labor, not heavily protected industries with little hope of survival once they faced an ounce of competition.

Competition of foreign goods has brought down the prices of domestic consumer items. The goods that are in the consumer basket of lower-income consumers have likely been held at better prices, because of the wider competition that takes place in the marketplace. The import liberalization program has forced producers to face competition more fully, because the support that they used to get from the government from high tariffs has been reduced. For a period of four decades, producers have been highly protected.

The other effect of this is to make producers look for alternative markets, to discontinue lines of production that are not competitive, and to find other activities for which they can find lines of production that have a decided cost advantage over foreign producers. In short, it will cause them to adjust their outlook by examining business ventures that have potentials of survival in the marketplace.

Annex H

EFFICIENCY ETHOS IN THE PHILIPPINE WORK PLACE: TEXAS INSTRUMENTS, INTEL, AND FEDEX IN R.P.

When export-oriented foreign companies began transferring to the Philippines, it was because of the relatively inexpensive domestic labor and the comparative advantage of Philippine resources. These industries arrived late—almost three decades late—in our industrialization. That was because the government in the early years of industrialization focused on protectionist policies. That these new factories began coming in trickles in the late 1970s, later in the 1980s, and much heavier by the 1990s when economic liberalization had become more extensive demonstrates what the country had missed for many years.

I have made a few visits to some of these plants and talked with their executives wherever my travels in the country led me. My impression from these visits and discussions make me optimistic about the future of our country. My regret is that they arrived about two decades later, and we let go the benefits of opportunities lost by default that I have recounted. Nevertheless, development comes piece by piece within a continuum. If we learn our lessons well, we should be able to move forward and overcome the mistakes of the past.

These companies are world class. If they were not, they would lose their markets and die. Their impact on their employees is enormous because they raise their incomes and their productivity. They also have the potential to absorb a large part of the Philippine workforce and induce, through secondary activities, job creation in the economy. They subcontract with other firms located in the country. So, there are major benefits of their agglomerating together in relatively short distances. They provide steady, primary jobs as long as demand for their products does not slacken. Indeed, a few plants were affected by the world-demand downturn due to the recent recession. They train their workers with the requirements of the jobs that are high tech or middle tech. In the process, they create higher productivity for these workers in their jobs. Of course, they are dependent on the business cycle. So, the recession of the present period is affecting their operations.

I had the pleasure recently of talking with the Texas Instruments manager in their Baguio factory. The general manager of the operations is Norberto Viera, a Filipino. As an engineer in the plant, he rose from the ranks. The company has about 2,000 employees, with a stable of 800 engineers, graduates even from UP, San Carlos, Central Philippine University, Tarlac, UST, Mapua.

Only about 10 percent of the knowledge gained by locally trained engineers is directly productive to the company. So, additional training of engineers is needed. Pressed to cite examples, he says the engineering curriculum is outdated. For instance, there is no coverage of "DSP," or digital signal processors; "device physics" is not taught, and all the above are important in understanding how chips power cell phones, for instance.

Since the equipment in the company requires different kinds of skills among engineers, there is a big amount of training investment undertaken by the company. Therefore, new-hire engineers need additional training. Before that new hire, who at point of hiring is only 10 percent usable in his knowledge and skills, becomes 100 percent productive from the company's perspective, the company has to expose him to a four-year cycle of training programs. After the first year, the engineer hire will have become 20 percent productive.

Even so, the engineer hire is taken at a fairly high level of salary, in general, that is competitive in the marketplace. That salary rises by about 16 percent per year. And within four years, he receives more than double the hiring salary. The pure training dollar costs of this in-service educational investment is in the low five-digit levels. The training undertaken is in training facilities in Japan and the United States. At any one time, 20-30 percent of engineering resources are really undergoing training. A consistent flow of newly trained cadres is important for company success.

I was also impressed by the visit to the office of the general manager. It took me a long hike traversing a long and wide corridor that facilitated a flow of workers changing shifts (at the time of my visit). And then, I find a small room with a medium conference room and a solitary employee in charge of the office—a secretary. The general manager's office is a small room that is comfortably connected to the rest of the world by a computer terminal. The other important information as one entered the manager's reception at the entrance is a small picture chart of the company's organization. Out of about a complement of fifteen to twenty officers, only one in the picture—the treasury operations man—is not Filipino or Filipino-looking. This is a company with 2,000 workers working in three shifts, with a payroll equivalent to US$ 20 million a year.

Viera is the first Filipino to head the Philippine Texas Instruments plant. His own impression of his employer is that it is an "equal opportunity employer." Pressed to answer a question as to whether Filipinos are also working in the corporate headquarters in Texas, he said that there are twenty to twenty-five

Filipinos working in different senior capacities, some of them harnessed from the Philippine plant.

The plant of American giant electronics manufacturing company, Intel, located in Cavite, had a Filipino manager long before Texas Instrument had its Filipino manager. That was before, but now it is a foreigner again. Managerial talent is very competitive. The point is that these companies could appoint Filipinos to the top posts in the subsidiary, as indeed there have been many Filipino managers in many foreign companies in the country. Intel is on an expansion program, which is to double its capacity.

I become very optimistic about the future when I encounter good examples like Viera. But the next experience further reinforces my impressions about how and why Filipinos do a good job under competitive and conducive environments. The only thing is that they should not be pampered and protected to do it, but challenged.

What I saw in the Subic Freeport Zone about the capacity of the Filipino worker dazzled me. Tonight I was to see the way an airmail hub center operated, disposing of tons of mail from all over the world and then switching them into new packaging crates for their proper destination. Subic is the only hub in the Asia Pacific region for FedEx. It has another foreign mail hub, located in Paris, France. In the United States, there are four such hubs: Memphis, Anchorage, Oakland, and Indianopolis. United Parcel Service (UPS), the competitor of FedEx, has now committed to set up a hub located in Clark Field so this will become another major operation of the same kind.

At the moment, the Asia Pacific hub is not as large as the other hubs. Yet, it is a massive operation. Normally nineteen airplanes of different sizes would be arriving. Flights of Airbus, McDonnel Douglas jets, and Boeing jets would converge one after another and position their cargo into the mail sort center. At midnight tonight, about twelve airplanes are expected to arrive and exchange mail, a low night compared to other nights in terms of operational intensity. The jets arrive within minutes of each other, immediately off-loading their mail cargo in the tarmac and then moving these to the mail and package sorting equipment where the warehouse is located. They come from America, Europe, China, Bangkok, Hong Kong, Singapore, Korea, Taiwan, Japan, and Australia.

The mail-sorting machines and all the laborers are positioned to work on the sorting of mail and packages. As the cargo is off-loaded, the mail and packages go through a sorting system by conveyor belt. These conveyors have exit channels that electronically respond whenever a correct package or envelope was properly read from its label. That mail makes a turn and it drops into the correct bin. There, a worker is positioned to do the necessary electronic tagging as well as oversee that the channeling by electro-mechanical means was working well. By the time the last of the batch has arrived, much of the earlier mail had gone through the sorting.

Within a period of around three hours all this work would be done; the airplanes will have gotten their new cargoes to fly back to where they came from. That's how modern mail exchange takes place, and there is a state-of-the-art operations. On this particular night, as in other nights, Filipino workers oversaw the entire operations. They had, of course, a manager, an old hand from FedEx with twenty years of operational service experience, but he had come from Asia, too.

FedEx employs around 700 people. The Subic operations employ a fraction of this workforce. When it began in the country, it had 102 employees. So, the nearly sevenfold increase of employment mirrors the increase in the volume of the business. The growth of FedEx operations reflects in part the growth of Asia. But the growth of operations in the Philippines is also captured by this growth.

What impressed me in these visits is that I saw operations at world-class standards right here in the Philippines, done by Filipino workers. It was a job undertaken at precision clockwork. The workers were doing their time like the pieces of a well-coordinated clock. And the workers were our countrymen.