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Foreign Trade Regimes and Economic Development: The Philippines

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who keeps asking if he can be in the "pilm." This story alone brings out a uniquely Filipino-American viewpoint to stand beside the Chinese- and Japanese-American viewpoints set up in the other selections.

So we are left with an interesting collection of Asian-American writing with a unique and new sensibility. But this reviewer is also left with several questions in mind with regard to the Filipino-American selections: why was Bienvenido Santos, who has written well about Filipinos in America, left out? Why are all the Filipinos included first-generation Americans? Why was Peñaranda's purely Filipino story included? And finally, if indeed the editors had no choice – Filipino-Americans are simply not writing – *why* is that the case?

Susan Evangelista

FOREIGN TRADE REGIMES AND ECONOMIC DEVELOPMENT: THE PHILIPPINES. By Robert E. Baldwin. New York: Columbia University Press, 1975.

The foreword states that "this volume is one of a series from the research project on Exchange Control, Liberalization and Economic Development sponsored by the National Bureau of Economic Research." The book does not stand by itself; actually, nine countries besides the Philippines have been studied by senior scholars, all using a similar analytical framework. Empirical generalizations have been drawn from the experience of all ten developing countries and are brought together in a final eleventh volume. Nonetheless, the study of the Philippines is self-contained and most welcome. There is anything but an oversupply of serious analyses and criticism of trade policies and practices in this country. The National Bureau of Economic Research deserves praise for its sponsorship of this project.

Professor Baldwin knows of the studies which present too few facts from which are drawn too many conclusions. The first chapters of his book present a detailed description of Philippine trade and payments policies from 1946 to 1971, covering the exchange crisis of 1970 and its immediate aftermath – the era which closed with the beginning of the New Society. A page of the introduction is given to a useful summary of important dates, starting with the Bell Trade Act of 1946 and ending with the Export Incentives Act of 1970. The period from 1949 to 1971 is one of continuing exchange controls except for a moment of relief begun under President Diosdado Macapagal.

Baldwin states that the main purpose of his study is to examine the effects on growth, resource allocation, and income distribution of the various controls employed, as well as of the fiscal and monetary measures which accompanied them.

A five-phase schema of exchange controls is used in all 10-country studies and introduces order into what is otherwise the confused record of the 25 years under study. The schema is this:

Exchange-Control Phases in the Philippines, 1949–71

Dec. 1949 – Sept. 1955	Phase 1	Introduction and intensification of exchange controls
Sept. 1955 – Apr. 1960	Phase 2	Adoption of ad hoc measures to offset some of the unfavorable aspects of exchange controls
Apr. 1960 – Jan. 1962	Phase 3	Introduction of exchange-control liberalization
Jan. 1962 – Nov. 1965	Phase 4	Continued liberalization of exchange controls
Nov. 1965 – June 1967	Phase 5	Complete liberalization
June 1967 – Feb. 1970	Phase 1	Return to moderate exchange controls
Feb. 1970 – Dec. 1970	Phase 3	Floating of peso and relaxation of some exchange controls
1971	Phase 4	Further relaxation of exchange controls

Controls were used during the 1950s to promote industrialization by means of import substitution. Because the peso was chronically overvalued, importers reaped windfall gains while exporters got less than full value for the dollars they earned. The government made occasional efforts to correct this untoward imbalance, going as far as complete liberalization of exchange transactions – but not for very long. The attention which Professor Baldwin gives to detail brings out how varied have been the interferences of the government with trade and payments for the purpose of achieving sometimes conflicting goals. No one who lived through the period and experienced these twists and turns can fail to be irppressed by the bold and surprisingly successful effort to make sense of it. Reading the book is like a revisit, sometimes nostalgic, to familiar but half-forgotten scenes of yesteryear: salting dollars away, undervaluation of exports, overvaluation of imports, no-dollar imports, Filipino First, the Import Control Board, dummies, peddling import-licenses, a two-percent rate of interest on savings deposits, and the margin fee. External debt first became a sore burden late in 1969.

One persistent criticism of exchange controls is that they offered a strong incentive to use resources for the production of nonessentials rather than for the production of essential items or for export products. Essentials and capital goods were imported rather freely; protection was undesignedly granted to producers of nonessential goods for domestic consumption, whose importation would have been heavily taxed. The nonessential industries singled out, some arbitrarily, are the assembly of motor vehicles, electrical household appliances, radios, phonographs, television sets, as well as the production of toilet preparations and paper stationery.

No study of Philippine foreign trade during these decades would be complete without a consideration of smuggling, both pure smuggling by evading the customs collectors, or so-called technical smuggling by passing through the regular ports but incorrectly valuing, declaring, or classifying the goods. This latter has been the preferred method of smuggling, often with the connivance of the customs people. American cigarettes, textiles, narcotics, and firearms appear to have been the items most frequently smuggled into the country, their value hard to estimate. The substantial overvaluation of the peso created a potent incentive for exporters, too, to undervalue their exports.

> Another important effect of an overvalued exchange rate is to increase the use of imported capital goods by local producers. Since capital goods imports are favored by exchange authorities, importers find that it is easy to make windfall gains by transferring funds abroad through over-invoiced purchases of these items. The highly specialized nature of most of these items makes overinvoicing hard to detect, and the ability to borrow at below-market interest rates makes this activity doubly attractive. In a scenario common in the Philippines, high protection plus subsidized loans and guarantees are provided for a potential import-competing activity; later, it is discovered that the high duty encourages so much smuggling of various sorts that the market left is too small to take advantage of all the economies of scale. Excess capacity develops because the capital goods are purchased in expectation of a larger market than in fact materializes. In addition, some producer-importers apparently have no intention of trying to run a successful business. Instead, they arrange with foreign exporters to overreport the value of their capital goods imports and thereby transfer some of the borrowed funds to accounts abroad. They are unable to repay the funds borrowed from such organizations as the Development Bank of the Philippines, but still end up with the funds transferred abroad as a gain. However, inflated capital-output ratios and excess capacity are the price that the country as a whole pays (p. 111).

In the final chapter, Professor Baldwin submits the trade policies pursued up to 1971 to the three promised tests, namely, their effect on resource allocation, growth, and income distribution. To put it broadly, he judges that the incentives associated with exchange-controls were effective in speeding up the process of industrialization during the 1950s and in introducing new manufactures, but that they hindered the healthy growth and diversification of exports. Without this latter, the pace of development could not be sustained. Exports not only grew slowly but remained raw. Moreover, import-substitution itself hampered export expansion by inflating the prices – and lowering the quality – of some inputs used in the export sector. By 1970, as import demands chronically exceeded export earnings, foreign debt brought on a trauma. Second, growth was encouraged rather of the nonessentials. Third, manufacturing became capital-intensive and heavily dependent upon imports of producer goods; employment in manufacturing did not keep pace with production. Fourth, as is usual with inward-looking import-substitution, growth started fast but soon faltered. The domestic market was not big enough to maintain speedy growth. What is more, the relative cheapness of capital imports induced excess capacity, while protection against competition from within or without tempted the few to introduce monopolistic practices.

Regarding the sharing of incomes, one of the remarkable facts about the postwar development period is that by and large the real wages of the industrial workers have not risen. Another fact: real wages in industry have remained about double those in agriculture. And this: within the urban labor force many have benefitted from the wider employment than ever before of skilled and schooled labor both in government and in private business. Though Professor Baldwin does not mention it, part of a working person's reward is a real but immaterial something termed "producer's surplus," the satisfaction gained from doing agreeable rather than disagreeable work. There is more of this now than ever before.

A brief, overall judgment? Taiwan has done better and, in certain respects, so has the Republic of Korea. The Philippines' record is spotty.

Robert Baldwin has given us a learned book. From the notes at the close of each chapter can be assembled quite a complete bibliography of the relevant books written about the economy in recent years. He did not intend to surprise his readers with new information or startling conclusions. He did intend good organization, as under the headings of the Five Phases; and, notably in the calculation of effective exchange rates as contrasted with nominal ones, he has provided several original tables.

Submitting the economy to three basic tests is both a sound and thought-provoking way of assessing it. Within its stated scope – it is not concerned with directions of commerce or the visibility of the Japanese – it is the best book yet on postwar trade.

The one thing lacking is any appraisal of the economic effects of the pervasive atmosphere of lawlessness, corruption, and cynicism which blighted these years. It was spread by black-market dealings in dollars, peddling import licenses, bribery, extortion, graft-and-corruption, and smuggling. Cynicism was everywhere. Decent businessmen knew that their only practical choice was to transgress or perish; the prevailing morality was for survival in a crooked casino: *"Nemo tenetur ad impossibile."* Precious energies and ingenuity which might have been used in production were squandered in beating the system. That almost no one had a good word to say for government in general or for congress in particular surely contributed to the present autocracy and to the unregretted extinction of the legislature. Professor Baldwin can be excused for this omission; he did not live through it.

Michael McPhelin

THE PHILIPPINES: AN ECONOMIC AND SOCIAL GEOGRAPHY. By T. M. Burley. London: G. Bell and Sons, 1973.

The title of this book is misleading, as it does not truly describe what the volume contains. The book both falls short of being a geography and goes beyond it unto becoming a general commentary on life in the archipelago. In the introduction, Burley writes that the book "is designed for reference purposes, for the student and the educated layman." The educated Filipino will not learn much here.

After the introduction, the book takes up the urban scene, glancing at Manila, the national center, and at five other towns representative of smaller and diverse settlements. Then a chapter is devoted to the rural scene, a consideration of the principal farm crops and of fishing, forestry, and mining. The author acknowledges his use of the work of Wernstedt and Spencer and of Robert Huke. Too bad he did not refer to Ellsworth Huntington.

Chapter 4 gets more geographic and opens with the statement that "the line of demarcation between Oriental and Australasian zoological regions (the so-called Wallace Line) is perhaps the outstanding feature of the country's physical environment." Hardly. The outstanding geographical fact about the Philippines is its being a tropical archipelago adjacent to continental Southeast Asia in the monsoon area. The country is made up of tropical, archipelagic, continental islands affected annually by the big monsoon and antimonsoon. Mr. Burley's indifference to the potent influence of tropical climate on economic activity is a large defect. He says "rainfall is the most important climatic factor" (p. 104). Actually it is the combination of heat and humidity which leaches the soil, multiplies the pests which waste and consume plants, animals, and men, making a good diet harder to get and draining away precious human energies. This is where Huntington would have helped.

No mention is made of petroleum. Coal is named once. Important points are touched upon only incidentally: conservation of natural resources, especially of soil, forests, fresh water and fisheries, inadequate irrigation, the importance of chickens and pigs, interisland shipping, railroad, ports, and the airlines.

Michael McPhelin