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Michael McPhelin

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FACTS ABOUT CURRENT PHILIPPINE TRADE

CERTAIN significant matters of fact about Philippine foreign trade can, be read from the tables appended to this paper.

Total export earnings have tended to rise steadily; they do not oscillate widely from year to year—as in some raw-materials exporting countries—nor leave in question the economy's capacity to import needed producers' and consumers' goods. The earnings of single exports, notably copra and abaca, show some irregularity. But the economy is not so dependent upon a single export-commodity as to have the steady growth in total earnings of foreign exchange reversed by the vagaries of one.

The rate of growth of foreign exchange earnings—almost 100% since 1955—has run comfortably ahead of the rate of growth of the Gross National Product—about 57%.

Though trade rarely balances and imports usually exceed exports, the country's reserves of foreign exchange have held

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steady since the devaluation of the peso and decontrol of foreign exchange in January 1962. As a consequence, the external value of the peso—about ₱3.90 to $1.00—has been hearteningly stable.

Although coconut products accounted for some 36% of the foreign exchange earnings in 1965, and the three leading exports—include logs and sugar—accounted for three quarters of the total exchange earnings, the Philippines cannot be described as a "coconut republic" or a "sugar republic." Coconuts would still account for only 5% of GNP. Total export exchange earnings account for about 15% of GNP.

During the postwar years the Philippines has grown progressively less dependent upon the United States as a market for its exports and as a source of its imports. Currently some 45% of its exports go to the United States as contrasted with 60% in 1955; about 25% now go to Japan. The absolute value of exports to the United States is still rising. Its other notable exchange outlets are Germany and the United Kingdom. Save for Japan, it does not trade extensively with its nearby neighbors. They neither need what it has nor have what it needs.

Since November 1965 all semblance of an export tax has been lifted. This is not an unmixed blessing. Virtually no imports coming legally into the country are untaxed, except by privilege. Even raw fibers for the textile industry are taxed at an effective rate of over 14%, although the apparent customs duty is only 5%. Finished fabric is taxed at an effective rate just short of 200%. There is, consequently, considerable smuggling of an item as basic as textile cloth. Textile-smuggling is made profitable by imprudently high tariffs on legitimate trade, though it also has other roots: the poor quality, the limited variety and the high cost of textiles locally produced. For the greater part, smuggling is "technical"; that is, the goods come through customs but their kind, quality and value are misdeclared.

The published record of export earnings and of expenditures on imports understandably omits allowances for smuggling. The smuggling of goods out of the country was well worth the trouble until November 1965 when the equivalent of about a 10% levy on gross export earnings was lifted. This levy was not in the form of an export tax; it was a regulation requiring exporters to sell to the Central Bank 20% of their export-earnings at the "official" exchange rate of ₱2 to $1. Upon the lifting of this levy export earnings ostensibly soared. It is known that logs continued to be smuggled out of the Philippines to Japan—logs illegally cut.

The country's exports are overwhelmingly materials in a raw state. Sugar, coconut oil and lumber are lightly processed. Canned pineapple is the one finished product among the country's sizeable exports but is not of sufficient value to merit separate listing among the ten leading exports.

The Philippines is not a cereal exporter. Its principal food-export is sugar. Some coconut-oil is used as a food-base. Fruits and vegetables exported earned $35 millions for the country in 1965—not 5% of the total value of exports.

The country's recorded imports are about 85% in the form of capital goods: equipment, fuel, raw materials and semi-processed goods. The last category—semi-processed goods—uses up about 55% of legal expenditures on imports. This indicates that a good part of manufacturing here leans heavily on imported components. Apart from a little ramie, and from abaca which is exported raw or processed—though not much of it—into cordage, the country grows no fibers and very little rubber. Its flour mills depend upon imported wheat, its refineries on imported petroleum. A large fraction of manufacturing establishments further process and assemble semi-finished imports.

The country is regrettably a substantial importer of foods—including rice, corn and fish, meat and dairy products, and fruits. However, only about 15% of total legal imports consist of consumers' goods.

In 1965 about 34% of the country's imports came from the United States as against 65% in 1955. The decline is not only relative but also absolute. These represent about one percent of total United States exports.

In some developing countries the export-sector is described as an island of development surrounded by a sea of economic backwardness and low productivity. That is not true here; the export sector, by and large, is not notably more progressive than the rest of the economy. Though the value of sugar grown per hectare is well above that of other crops widely-planted here, this is due more to the premium price gotten in the United States market than to modernized farming methods; as a matter of fact, when compared with sugar culture in Hawaii, methods employed here are quite old-fashioned, nor is there any activity going on worthy of the name of sugar research. Moreover, although the country is the sixth biggest copper exporter in the world, it still has not set up even a smelter: the metal goes out in a form just once removed from ore: copper-concentrate. The same is true of gold. The other ores are exported raw. The culture of coconuts and the processing of copra—the country's single biggest earner of foreign exchange—are generally primitive. Philippine Packing Corporation's pineapple plantation at Del Monte is the one large-scale agricultural enterprise describable as an "island" of development.

The export of logs has quadrupled over the last decade. 727 million board feet were exported in 1955, and over 3 billions legally in 1965, when logs displaced sugar as the country's second most valuable export. The first four months of 1966 show an additional increase over last year's exports of 50%. What could be a perennial resource—as in Sweden—and a continuing earner of handsome sums of foreign exchange is, as a matter of fact, being mined and exhausted irresponsibly. The rapid denudation of forested areas has other baleful consequences: erosion of soil, flooding, and the silting up of dams and harbors. Though a radical solution is conceivable, since other countries have indeed faced and solved the problem of conserving this precious resource, the only practical solution here appears to be the extreme one of temporarily banning log exports. The thickets which block a reasonable solution—regalian rights and narrow limits to the private purchase of public lands—have been implanted in the very constitution and there is no prospect at all of their being uprooted.

Tourism, in the strict sense, earns almost nothing. The preponderance of "tourists" come here on business, public and private.

A matter of growing concern in a number of developing countries is the financing of external debt. Amortization and interest payments gobble up so much foreign exchange as to leave too little for other pressing needs. This is not yet a source of difficulties here.

RESOURCES FOR TRADE AND DEVELOPMENT

The Philippines is a small tropical archipelago, 115,600 square miles in land area, some 29 million hectares. Japan is about one quarter bigger, Great Britain about one fifth smaller. Being small, its natural resource base is narrow; that means it will always depend on trade for natural resources not found within its own confines. From the standpoint of development this is not normally a disadvantage. About one half the land area is covered with forests, three quarters of which are of commercial value. Cogon covers some five million hectares—tall, coarse grass useful for little but thatching. 600,000 hectares are swampy, a small portion of which is used for fishponds. About 12 million hectares are arable, about 8 millions of which have been cleared for farming.

Among the country's chief minerals are deposits of copper, iron and gold, chromium, manganese, mercury and nickle. Its coal is plentiful but all of it soft, little better than lignite; it lacks coking coal. Traces of petroleum have been found out, despite extensive exploration, no commercial wells of oil.

Being tropical and moist its soils have been severely eroded and leached; they have also been impoverished by inept use. Its grasslands—the crude cogonales—are all but worthless for the support of such economically valuable fauna as cattle and sheep: good for meat, hides, dairy products and wool. Instead it has the hardy carabao and the tough, nimble goat—admirable beasts but not precious.

It is an arresting fact that no economy located within the tropics has yet reached a level of prosperity comparable with that attained in advanced countries outside the tropics. The renowned geographer, Ellsworth Huntington, has concluded that this is not accidental. Tropical climate has effects upon man, both direct and indirect—notably by way of diet and malaise—deleterious to health, stamina and initiative. The tropics seem not to bring out the best in man.

Historically, the circumambient sea has been for the archipelago more a highway than a barrier to transportation and communication. Rugged topography has proved a much tougher obstacle to surmount. The absence of upwelling in the waters encompassing the Philippines leaves them infertile fishing grounds, wanting in the copious mineral nutrients needed to support great multitudes of food-fish.

EARLIER PHILIPPINE TRADE AND DEVELOPMENT

The renowned Galleon Trade between Manila and Acapulco lasted uninterruptedly for two and one half centuries, 1665-1815.[1] Except for the first few years it was the very antithesis of free trade; during most of the period the Spanish authorities permitted only one galleon a year to make the long, exhausting voyage each way.

It was entrepot-trade—that is, the galleons were not laden with goods grown or made in the Philippines but simply transhipped goods which originated in other parts of Asia: China, India, the Moluccas, Java, Ceylon and Persia. "Until the latter half of the eighteenth century, Manila was to be commercially little more than a way station between China and Mexico.[2] This "commercial insanity" helped not at all in developing the resources of the archipelago. To the Bri-

[1] William Lytle Schurz, *the Manila Galleon* (New York: E. P. Dutton, 1939).

[2] *Ibid.*, p. 26.

tish—who occupied Manila briefly in 1762—it was a cause of Churchillian-phrased wonder that "so many islands so excellent in situation should yield so little for foreign exchange."[3]

Towards the close of the first quarter of the nineteenth century the British and Americans chiefly, but also other Europeans, began to take active part in Philippine foreign trade. They enlarged Philippine exports of tobacco and indigo—which later vanished under the consuming competition of the modern chemical industry. They gave a push to the export of goods which still retain their places of importance in Philippines trade: Manila hemp, milled sugar and, later in the century, coconuts. After the opening of the Suez Canal in 1869 the British dominated trade into the Philippines, while the United States remained this country's biggest customer.

Nonetheless, exports were lilliputian at the close of Spanish times. A. V. H. Hartendorp declares simply that "in 1898 the Philippines was a backwater."[4] He goes on to give the following average annual values for exports:[5]

1885—94	$ 20.5 millions
1900—09	30.5
1910—14	47.35
1914—18	88.36
1919—24	117.3
1925—30	149
1936—41	156
(1965	767)

The significant stimulus to Philippine export earnings from 1909 onwards came from the Payne-Aldrich Tariff Act of that year, together with gently liberalizing revisions over the following four years. These laws established free trade between the Philippines and the United States, opening the

[3] *Ibid.*, p. 42.

[4] A. V. H. Hartendorp, *History of Industry and Trade of the Philippines* (Manila, 1959), p. 10.

[5] *Ibid.*, p. 23. I have translated the peso values into dollars and added a statistic for 1965.

big market of that country as fully to Philippine products as to its own. Though a boon to all Philippine exports, this was an especial boon to sugar, since the price in the United States market—dictated by the requirements of the high-cost United States beet-sugar producers—has in all normal times been very much higher than the world price of sugar. Right now, for example, while the world price of sugar hovers about two cents per pound, the United States price is about 6.6 cents per pound. During the 1930s the United States price was on the average 2.25 cents per pound above the world price. Taking the single year, 1935, as an example, the Philippines earned in the United States market $45 millions more for its sugar than it would have earned at the world price.[6] By 1932 the Philippines had reached an export level of 1.125 million short tons of sugar to the United States—a level which is only now being exceeded. Exports in 1966 are expected to go beyond 1.25 million tons for the first time.

Except for quotas introduced at the start of the Philippine Commonwealth, principally on sugar, coconut oil and cordage, free trade between the two countries prevailed until December 1949, when the Philippines introduced exchange and import controls to guard its fast dwindling reserves of foreign exchange.

Trade between the two countries is at present governed by the Laurel-Langley revision in 1955 of the 1946 Trade Agreement. Briefly, the revised agreement gradually raises the percentage of the tariff duties applied by each country against the exports of the other—but more rapidly against U.S. products—until July 4, 1974, when the special trade arrangements including the advantageous sugar quotas are due to expire. The objective envisioned since the inauguration of the Commonwealth has been to lessen little by little the dependence of the Philippines on the United States market and to induce this young nation to broaden the directions of its trade. As a matter of fact, the Philippines continues to sell year by year absolutely more of its exports in the United

[6] *Ibid.*, p. 31.

States market, though the trend of its spending in the United States has been falling.

Since January 1, 1965 Philippine products entering the United States are subject to 40% United States tariff duties, while United States products entering the Philippines pay 90% of Philippine duties. It will be remembered that from 1950 to 1962—the years of exchange licensing in the Philippines—the products of the United States were not allowed uncontrolled entry into this country.

INTERNATIONAL TRADE AND THE MODERNIZATION OF THE PHILIPPINE ECONOMY

To five-sixths of mankind economic development is not indigenous. Whatever they enjoy of it—Japan's advance has been wondrous—has been carried to them from outside, through the manifold influences of foreign trade, foreign investment—especially direct investment—man-power training abroad and the temporary or permanent immigration of skilled technicians—these influences in varied mixes. Japan is now one of the world's most muscular industrial powers, but Japan has yet to make a single noteworthy original contribution to technological innovation or to business organization or to financial and marketing institutions and practices. The same can be said of the Union of Soviet Socialist Republics. Both have borrowed economic modernization from Western Europe and North America.

Foreign trade is but one of the several influences which have contributed to cultural advance in general and economic development in particular. Trade has made its contribution in a wide variety of ways, some of them quite subtle. Obviously, exports have earned the foreign exchange which continues to make possible the importation of such indispensable capital goods—fuel, equipment, raw materials and intermediate products—as remain beyond this economy's puny power to produce. But, first of all, the exports themselves had to be produced. In this country abaca, sugar, coconut products, minerals and forest products have been produced overwhelmingly for export and until this very moment have made use of natural resources and of labor which might otherwise have lain idle and unutilized. That is to say, it is very important to take into account—in understanding the lift given to development by trade—that there has been little domestic demand for these products *or for others into which these resources might have been transformed.* The unemployment both of land—meaning natural resources in general—and of common labor has been and continues to be chronic in this country. The estimate that 10% of common labor in this country is habitually out of work is not excessive. Economists for a century and more have taken notice of circumstances where exports have provided a Vent-for-Surplus—that is, for surplus factors of production, notably land and common labor. It is quite clear that the Philippines is still such a case.

Second, trade spreads business *savoir faire.* Certain of the arts of business management, of transport and shipping, of finance, insurance, accounting and marketing were first introduced here and learned because of the exigencies of foreign trade. Besides sowing the seeds of an entrepreneurial and business class, commerce began to call into being the tertiary sector of the economy and to educate at least some of the members of the labor-force in the skills required for office work.

Third, trade has helped to build up vital parts of the country's economic infrastructure—especially its systems of transportation and communication. Exports have had to be carried over land and sea. Road, harbors, a railroad and an airline were brought into being to make possible this movement of goods and, we may add, of men. Philippine Air Lines started as an airtaxi for businessmen whose interests were chiefly in sugar and mines. These were the people who needed some speedy system of interisland communication.

Fourth, successful traders generated a good part of the funds which have been used for investment in manufacturing.

Fifth, the first ventures into manufacturing have been in lines which provide import-substitutes. Outsiders first created at their cost the markets for goods neither previously consumed nor known: modern textiles, wheat flour, virginia cigarettes, sewing machines, household appliance, canned milk and automobile tires; later on these markets have been entered by domestic producers, native or foreign, of goods which take their place. Once some industrialization is under way, foreign trade continues to apply the salutary spur of competition to local producers, urging them to keep up with their keener rivals abroad. This is most beneficial to consumers and, as the United States and the United Kingdom have discovered, is the way to keep trade from getting badly out of balance. Producers must be alert and efficient lest they lose their markets not only abroad but also at home.

Over a century ago John Stuart Mill wrote that "trade induces those who were satisfied with scanty comforts and little work to work harder" for the purpose of being able to afford the varied, enriching imported goods which their markets never displayed before. Among Filipinos trade has evoked new wants and proferred satisfactions previously undreamed of—books, the musical performances of the world's leading artists, electric appliances, pharmaceuticals to heal the ills of the flesh—thus arousing ambitions and energies that had been asleep for centuries and had led Jose Rizal and others into philosophical reflections on the indolence of the Filipino. He was not so much indolent as dormant.

Trade has had a subtle, immeasurable "educative effect". It has brought a backward people into contact with more advanced civilizations. It has changed their entire environment of life. This kind of commerce and human interchange has been a primary wellspring of progress. Trade has helped to finance, among other things, travel and education overseas. Very few of the elite in this country have not had some taste of this; the leading class here is distinctively cosmopolitan. The very urge for national independence in the nineteenth century was nurtured in the breasts of Filipinos who had gone abroad and discovered a new world where they beheld and shared a way of life not experienced at home. One can state without the least hesitation the firm proposition that trade has contributed greatly to the complicated process of cultural advance—one superficial aspect of which is economic development. This debt has not been generally acknowledged; trade has been depreciated by educated Filipinos insensible to what they owe to it.

On the other hand, it is too much to claim—as some eminent economists seem almost to claim—that trade by itself diffuses development. It can help. But trade—along with the other cooperant influences mentioned—will prove to be an effective engine of economic advance only in so far as a people is culturally ready for development, as the Japanese and others obviously were.

For a long time to come the further gradual modernization of this country will depend upon direct foreign investment—that is, the setting up here of factories by established foreign firms, owned jointly with Filipinos or wholly owned. These are enterprises whose technological, managerial and financial superiority qualifies them to turn out goods which Filipinos unaided simply do not know how to produce. It will depend also upon the hospitality with which skilled foreign technicians are received; upon continued training of Filipinos abroad; and upon inflows of investible funds to supplement domestic savings—all these over and above earnest efforts made here at home to nurture development.

Appreciating how much trade has done to spread the thin gloss of modernization[7] detectable here, it may be surprising to note that from 1909 until today there have been Filipinos who insist that the gains from trade are incompatible with the gains to be harvested from development; that is, that free trade with the developed countries of the world is for a country like this a positive obstacle to industrialization. It is distressingly easy to gain support for the thesis—even among trained economists who ought to know better—that from 1909 onward free trade between the Philippines and the United States has arrested this country's

[7] It is tendentious but not sinfully misleading to assert that all modernization has occurred in Manila and its environs. For example, of total expenditures on private construction in 1965, 78% were for structures in Greater Manila. Manila is the capital of the country in every sense and leaves the rest of the Republic in its backwash.

advance and has left it a "colonial economy"—meaning by that loaded phrase an exporter of raw materials and an importer of finished goods.

The reasoning is simple—indeed, naive. Industrialization is the measure of advance towards economic prosperity. As long as a country remains chiefly a producer of primary goods, it stays poor. Yet, a country coming late into the race to win even its own home markets for light manufactures—textiles, processed foods, books, paper and so forth—is no match for those with a long headstart. Filipino novices in new lines of manufacturing are not yet strong enough—managerially, technically or financially—to be pitted against gigantic, experienced, resourceful rivals abroad. *Q. E. D.* Ergo, free trade is ruinous to them. They need protection. The policy of allowing free trade between the Philippines and the United States from 1909 until 1950 left the Philippines a "colonial economy." Further proof: as soon as import controls were introduced in the 1950s, manufacturing was able to make at least some small start.

Any schoolboy having the slightest intelligence of the economic state of things here in 1909 knows that this little country had literally nothing at all in manufacturing, actual or potential, worth protecting and had been protecting it from time immemorial. That is, Philippine free trade with the United States was the Philippines' very first experience of free trade and of preferential access to a rich market. Thanks to this, the people has grown explosively. The sheer support of the phenomenal increase in the numbers of Filipinos since 1910 onwards has been made possible by incomes—and a way of life—generated by the impetus of free trade with the United States.

As a further consequence of this educative and lucrative trade, the country was gradually prepared to make its own first ventures into manufacturing in the last decade, though not without considerable foreign cooperation.

In 1910 this country had no trace of an entrepreneurial class, a labor-force not one-third the present work-force in size and, in quality, unskilled, unschooled and illiterate. It had a negligible capacity to import anything, let alone costly, technically complicated capital goods. Inadequate as is its present economic infrastructure, especially power and transportation facilities, these were—apart from the Manila Railroad and a handful of primitive interisland craft—all but non-existent then. People were not only few but poor and unsophisticated; they offered no alluring market for domestic producers of manufactured goods. Finally, one can always pose the quiet question: since free trade with the big United States market was something utterly new in 1909, why had not the development been taking place all along which only then began to be thwarted by free trade?[8]

In 1910 this country did what its factors of production allowed it to do. It had unutilized land and common labor aplenty and an immense market had been opened where its sugar, abaca, copra, and coconut products were given preference over rival sources. Be it observed that *extensive* sugar planting and the milling of sugar in modern centrals began in 1910, as well as the widespread culture of coconuts. The value of the land and labor turned to these export crops was incalculably above their marginal productivity for home goods, which might indeed have been zero. One must ask what uses this land and common labor would otherwise have been put to and answer the question to his own satisfaction. Even now, in 1966, there is uncultivated arable land and a

[8] The other objection raised against free trade is a bit too droll for inclusion in the text: Free Trade deprived government coffers of millions and millions in unlevied custom duties. Consult Roberto Y. Garcia, "The Laurel-Langley Agreement—Should It Be Revised or Not?". *The Philippine Economic Journal,* Vol. III, No. 1 (1964), p. 58, Table 8. Mr. Garcia figures that the "deprived duties" amounted to ₱473.35 millions for the years 1956-1963. First, who is bold enough to assert that the commerce would ever have reached its actual levels without free trade? Second, the United States is not the richer nor the Philippines the poorer. Filipinos are the ones who pay to their government taxes levied by their government on imported goods; a Filipino who buys an automobile abroad is excruciatingly aware of this. Since Filipinos had not paid taxes in the form of customs duties, they were the beneficiaries.

socially perilous level of unemployed and under-employed common labor in rural areas: zero productivity. Various efforts over the years to combine these productively have been frustrated by Filipinos themselves.[9] For the first time in its history the country began to earn substantial sums of foreign exchange—the *sine qua non* of economic modernization. A class of businessmen began to emerge trained in the school of foreign commerce and accumulating capital for uses other than trade or export-production. Shipping and overland transport was given a reason for existence and an airline created. Two airlines. The point has been made that consumers' goods brought into the country by traders and paid for out of export earnings made the markets which domestic producers can now enter and take over. These markets simply did not exist before trade and traders created them.

Neither is the simplistic argument valid that the practice of protection—all by itself—induced the burgeoning of manufactures in the early fifties. A confluence of circumstances explains this occurrence, not just the single circumstance of protection. That was a time when the peso was overvalued, when tax exemptions were accorded to businessmen who would start new and necessary industries, when credit on easier terms was granted by government lending agencies to preferred borrowers, when Japanese reparations could be tapped and when direct controls shielded producers not only against competition from abroad but also against potential competition at home: no rival could get into business here without the blessing and support of government. In any case no serious historian can reasonably deny that several decades of free trade with the United States had made this moment possible.

The effectiveness of a policy of protectionism in inducing industrialization tends to be overrated here. Of itself a protective tariff only makes imported goods dearer for consumers; it does not make producers produce them here. Its costs are borne by Filipinos and they can be formidable: in

[9] Firestone in rubber 40 years ago; Hanna in nickle a dozen years ago; United Fruit in bananas and Lone Star in cement for export last year.

the high prices, and in the scanty variety and poor quality of goods. Garment-makers here can be put out of business because a) finished fabrics are taxed at a rate equivalent to almost 200%; b) yet local textile-millers who have lobbied for the protection and will defend it to the last breath admit, when pressed, to their inability to produce the kinds of goods garment-makers need. Who ruins whom?

When excessive, protective tariffs raise a sheltering canopy over smugglers, they not only defeat their own purpose of protecting local producers but also rob the public fisc. When not so high as to abet smuggling, tariffs do nevertheless guard home producers from the wholesome spur of competition from outside. Protection should not be granted lightly. It must be justified; the gains must be worth the costs.

CONCLUSION

The fundamental causes of economic development—or even of its rapid adoption on the part of the people among whom it has not originated—are beyond the competence of the economist to discuss, except descriptively and superficially. The reason for this is that economic development is but one manifestation of cultural development, of overall human advance in the sciences and the useful arts. The degree of economic development attained is simply one aspect of the quality of the people who make up a particular society. Historically, only one stream of cultural advance has led to original economic development: the Semitic—Egyptian—Greek—Roman—European stream. This culture and no other has made stunning advances in higher mathematics, in chemistry, physics and biology; that is, in the sciences which underly medicine, mechanics and manufacturing. Economic development has been of one whole cloth with the total cultural accomplishment of this human stream.

Economic modernization is out of the ordinary; it is not the usual condition even of highly cultivated peoples. It occurred neither in China nor India—neither at present capable of feeding itself, despite their impressive advances along certain other avenues of human achievement. The industrial revolutions all occurred, a whole chain of them, in the West. And the revolutions in transport, which have carried a controlled human vehicle as far as Venus. And the revolutions in agriculture, every bit as spectacular as the others, though as yet they have barely grazed this land where output per hectare in agriculture, especially in rice, corn and coconuts, leaves little room for anyone else to be last.

Other evidences of economic advance are less obvious. Among mankind's very significant modern inventions are commercial banks and the creation of credit; central banking and the management of money and money markets; the gigantic, widely owned, professionally managed corporation and the bourses which make it possible.

The process of modernization is the process of copying these, of borrowing them and making them one's own. In some places on earth this transformation has occurred with breath-taking rapidity—as in Japan, which lived in virtual isolation from the rest of the world until a century ago. You can not expect that Japan's marvel will be promptly repeated in Papua. Economists, for all their superficiality, have found out that the difference is not accounted for by the possession of extensive, rich natural resources. Japan is only a bit bigger than the Philippines and Switzerland—with a pile of picturesque rocks as its prominent natural resource—is only one-seventh its size. The resource that makes all the difference is the human resource. The process of modernization here can be graphically described as that of spreading something of the quality and the culture of this country's elite—the top two percent—over the mass. It is going to take a lot of education, a lot of time and a lot of outside help.

TABLE 1

TEN PRINCIPAL IMPORTS BY COMMODITIES, 1965
(F.O.B. Value in Thousand U. S. Dollars)

Total Imports	808,100
Total Ten Principal Imports	618,818
Paper & Paperboard Manufactures	21,946
Mineral Fuels, Lubricants And Related Materials	76,165
Machinery Other than Electric	141,297
Base Metals	78,043
Transport Equipment	86,944
Dairy Products, Eggs and Honey	25,958
Cereals and Cereal Preparations	94,784
Textile Fibers not Manufactured Into Thread and Yarns	21,738
Explosives and Miscellaneous Chemical Materials and Products	24,426
Electrical Machinery, Apparatus and Appliances	47,520

Source: Central Bank.

TABLE 2

TEN PRINCIPAL EXPORTS BY COMMODITIES, 1965
(F.O.B. Value in Million U.S. Dollars)

Total Exports	767,400
Total Ten Principal Exports	657,641
Copra	170,004
Logs and lumber	160,996
Sugar, centrifugal	132,439
Coconut oil	68,095
Abaca, unmanufactured	24,216
Copper concentrates	42,176
Desiccated coconut	20,447
Plywood	17,495
Copra meal or cake	11,803
Molasses	9,970

Basic source: Bureau of Customs, Bureau of the Census and Statistics; *immediate source*: Central Bank Department of Economic Research, *Economic Indicators* XVII: 2 (December 1965), p. 41.

TABLE 3

TOTAL TRADE AND TRADE WITH U.S.
(MILLION US $)

		Imports			Exports	
	Total	Amount	% to Total	Total	Amount	% to Total
1955	547.7	356	65	400.6	240	60
1956	506.2	300	59	453.2	240	60
1957	613.2	336	55	431.1	226	52
1958	558.7	289	52	492.8	274	56
1959	523.6	232	44	529.5	292	55
1960	603.9	255	42	560.4	284	51
1961	611.3	289	47	499.5	269	54
1962	586.7	253	43	556.0	275	51
1963	618.2	254	41	727.1	331	45
1964	780.3	311	40	742.0	354	48
1965	808.1	273	34	767.4	348	45

Basic source: CB; immediate source: *Survey of the Philippine Economy*: *The Last 10 Years*: (Manila: Program Implementation Agency, 1965).

TABLE 4

PHYSICAL VOLUME OF PRODUCTION INDICES
1955 = 100

	Agriculture	Mining	Manufacturing	Population
1956	106.1	110.8	115.7	103.1
1957	110.2	123.7	125.0	106.2
1958	110.9	122.5	134.6	109.4
1959	117.5	132.4	145.8	112.8
1960	120.8	126.7	150.5	114.9
1961	120.6	120.4	155.5	120.1
1962	129.8	136.6	169.7	124.1
1963	134.8	136.6	180.7	128.3
1964	142.1	140.4	195.5	132.7
1965	138.4	150.0[p]	199.9	137.2

[p] Average of first 3 quarters only.

TABLE 5

GROSS NATIONAL EXPENDITURES, CY 1963—1965
(At current prices in million pesos)

Purchasers	1964	1963	1965	Annual increase (decrease) 1963—1964 Value	Percent	1964—1965 Value	Percent	Percent distribution 1965	1964	1963
Private consumption expenditures	12,803	14,035	15,239	1,232	9.6	1,204	8.6	74.6	74.7	75.2
Government current expenditures	1,693	1,879	2,036	186	11.0	157	8.4	9.9	10.0	10.0
Salaries	1,217	1,374	1,500	157	12.9	126	9.2	7.1	7.3	7.4
Others	476	505	536	29	6.1	31	6.1	2.8	2.7	2.6
Gross domestic investment	2,292	3,002	2,889	710	12.9	(1 113)	(3.8)	13.3	16.0	14.3
Net exports and investment income	382	(129)	110	(511)	(133.8)	239	185.3	2.2	(0.7)	0.5
Exports of goods and services	3,437	3,614	3,997	177	5.1	383	10.6	20.0	19.2	19.7
Les: Imports of goods and services	2,987	3,651	3,734	664	22,2	82	2.3	17.4	19.4	18.4
Plus: Net investment income	(68)	(92)	(153)	(24)	(35.3)	(61)	(66.3)	(0.4)	(0.5)	(0.8)
GROSS NATIONAL EXPENDITURES	17,170	18,787	20,274	1,617	9.4	1,487	7.9	100.0	100.0	100.0

Source of Data: National Economics Council (March 21, 1966)

TABLE 6

PRINCIPAL AGGREGATES AND THEIR INTERRELATIONSHIP
CY 1963—1965

(At Current Prices in Million Pesos)

	r 1963	r 1964	P 1965
GROSS NATIONAL PRODUCT AT Market Prices	17,170	18,787	20,274
Less: Net factor income from abroad	(68)	(92)	(153)
Equals: GROSS DOMESTIC PRODUCT At Market Prices	17,238	18,879	20,427
Less: Indirect taxes net of subsidies	1,384	1,599	1,813
Equals: GROSS DOMESTIC PRODUCT At Factor Cost	15,854	17,280	18,614
Less: Depreciation	994	1,092	1,231
Equals: NET DOMESTIC PRODUCT At Factor Cost	14,860	16,188	17,383
Plus: Net Factor income from abroad	(68)	(92)	(153)
Equals: NATIONAL INCOME OR NET NATIONAL PRODUCT At Factor Cost	14,792	16,096	17,230
Plus: Transfer payments by government	184	176	175
Plus: Net donations (Private) from abroad	151	248	260
Less: Property income of government	78	82	82
Equals: PRIVATE INCOME	15,149	16,438	17,583
Less: Private corporate income (undivided corporate profit) (corporate profit taxes)	806	813	829
Equals: PERSONAL INCOME	14,343	15,625	16,754
Less: Personal direct taxes	325	399	462
Equals: DISPOSABLE PERSONAL INCOME	14,018	15,226	16,292
Less: Private (personal) consumption expenditures	12,803	14,035	15,239
Equals: PERSONAL SAVINGS	1,215	1,191	1,053

[p] Preliminary as of March 21, 1966.

[r] Revised as of March 21, 1966.