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The "Filipino First" Policy

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The "Filipino First" Policy And Economic Growth

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IN his State of the Nation Address President Garcia declared that we will welcome the cooperation of friendly and understanding foreign capital in the development of our natural resources, preferably on a joint-venture basis.

Our need for capital is immense. On the other hand, our unaided capacity to form capital out of our own savings is very limited. Therefore we need large doses of foreign capital. However, we are choosy about it: we prefer loans to direct investment. But we will not get a great deal of loan money, nor would it suffice for our purpose even if we did. We need direct foreign investment. Nonetheless, despite the President's statement of reserved welcome, we are unfriendly in word and deed toward direct foreign investment. Since it does not go where it is not wanted, it has not been coming here—nor is it likely to come. Consequently, our development will be held to a creeping pace unless we make fundamental changes in both our attitudes and our policies. This is the gist of what the following pages attempt to show.

I

The Philippine economy manifests three traits common to underdeveloped lands. First, its output is low; as a result it provides its people with a comparatively low level of material well being. Second, the output of the economy can be raised. We have the resources to give our people the means of a better life. But they have to be developed and exploited. Third, the economy has not yet reached the stage where its development is generated and sustained from within at a speed fast enough to satisfy the aspirations of Filipinos for a better living.

Real income per Filipino can be raised. What stands between the average man and an improved livelihood is chiefly the inadequacy of investment: it is investment which converts the potential of Maria Cristina, for example, into an actual force for producing and moving goods for man.

Capital formation is costly in the strict economic sense. It requires a sacrifice. To form capital the community must not eat up in immediate consumption all that it produces. It must save part of its current output and apply it to widening and deepening its capacity to produce. The more it can afford to save, the quicker it can move ahead. Here we run directly into a familiar vicious circle, not less vicious for being familiar: because we are poor, we cannot afford to save much; because we cannot afford to save much, we are poor. Our capacity to form capital all by ourselves is minuscule. Given only our own resources to work with, development will be so slow that it may do little better than keep pace with the growth of our population. Yet the temper of our times is for speedy development. We want our share in the good things of life which we see others enjoying. It is bad enough that we are late starters in the run toward economic progress. If we continue to fall further behind the people in the more prosperous nations, the peace of the world will be troubled. Has not inequality always been grist for the mills of Communism?

Though our capacity for forming capital is modest, our needs and wants are not. We want a more extensive railway system, more highways, more and deeper ports, and better shipping. In his State of the Nation Message the President repeated his wish to see industry move out of Manila into the provinces, a migration which will remain a day-dream until we have achieved wide power development and cheap transport. We want to develop our mineral ores and process them, as well as our possible petroleum resources. We want more productive farming and fishing, better facilities for education, health and welfare. We want an integrated steel mill and the means to build our own ships. We are very normal: there is no end to our wants. Left to ourselves we will all be dead before these ambitions begin to be realized. We just cannot afford to spare from current consumption the resources they must cost us.

Our prospects would be gloomy, indeed, were it not for the chance of escape from the vicious circle via foreign investment, which removes from us the impossible burden of bearing the cost of saving up all the capital to be applied here. And it does one thing more at no cost to us. Thanks to research into better production for which Americans alone are now laying out about $10 billion a year, there has been formed a pool of improved techniques most readily piped into our economy through foreign investment.

The quickly developing new countries of our day—Canada, Australia, New Zealand, Japan, even Mexico—are making good use of foreign investment. One might have expected that we, too, would recognize that foreign investment is a good thing *for us*, and necessary, and that we would extend it an open-armed welcome. But it happens to clash head on against Filipino First with results that are bewildering.

II

Filipinos have a history which has made them chary of aliens in the economy. The feeling is widespread that the economy is already dominated by foreigners. "Politically we became independent in 1946, but economically we are still semi-colonial."[1] An eminent Filipino has expressed the view that the Philippine Republic, seemingly granted full sovereignty fourteen years ago, actually does not enjoy even the freedom of a dominion in the British Commonwealth of Nations. This country is still the victim of imperialism and the imperialist is

[1] President Carlos P. Garcia, STATE OF THE NATION MESSAGE, 1960.

the United States. In the State of the Nation Message, President Garcia said: "The Filipino First Policy is designed to regain economic independence. It is a national effort to the end that Filipinos *obtain* major and dominant participation in their own national economy." The policy takes for granted rightly or wrongly that they do not already have it. But does it mean that foreign capital is to be excluded? Not exactly. It will be admitted with reservations: "We will welcome friendly and understanding foreign capital willing to collaborate with us in the exploitation of our vast natural resources, preferably on joint-venture basis."

Let us examine this confusing matter to see if we can separate pieces that should not be jumbled together. There is, first, the problem of the Chinese in the Philippines. Second, there is the question of colonialism arising from free trade relations between the Philippines and the United States. Third, there is the fact of the expansion of foreign enterprises already operating in the Philippines and growing by means of the reinvestment of earnings gained here rather than by means of resources newly introduced into this country from abroad. Finally, there is the matter of freshly inflowing foreign investment, the thing under direct discussion in this paper.

The feeling that the economy is alien-dominated seems to arise from the place in it occupied by the Chinese. To cite a typical expression of this feeling, allow me to refer to a speech delivered in Bacolod on 17 January 1959 by Dr. José C. Locsin, Chairman of the National Economic Council.

> It is conservatively estimated that 70% of the Philippines' foreign trade and 80% of its domestic trade is in the hands of aliens... This means that 480,000 aliens dominate the economic life[2] of more than 24 million Filipinos in their own country... All these Chinese commercial and industrial activities are backed up with a huge investment of one

[2] Note that the validity of this facile transition from domination of *trade* to domination of *economic life*—a far more embracing notion than trade—is not at all evident of itself. Yet it is often repeated. A front-page article in the SUNDAY TIMES, 28 February 1960, opens with the astounding statement that "It is an *established fact* that Chinese businessmen in the Philippines control 80% of the country's economy."

and one-half billion pesos... A substantial portion of our agricultural and industrial products as well as imported commodities for domestic consumption passes through the hands of alien traders, mostly Chinese. Their well organized and centrally directed operations enable them to exercise a monopolistic control over prices. As a result they reap the lion's share of the profits of industry.

The fact that many a one of these "big millionaires and owners of vast corporations" is a naturalized Filipino does not alter the case. "He can be suspected of having acquired Filipino citizenship for the sake of personal convenience."

It is not pertinent to my present purpose to dispute Dr. Locsin's statement, though it will not stand up under inquiry. My purpose is to point out, first, that the Chinese problem will require a solution of its own whether new net foreign investment flows into the economy or not. It will not disappear if we simply exclude new foreign investment nor will it be compounded if we admit new non-Chinese foreign investment. In a word, it can only cloud the issue of whether we should freely welcome fresh injections of foreign investment from abroad. It has nothing to do with the case. Second, economic domination of Filipinos by Chinese does not make imperialists of Americans. It is important to be clear about the identity of the foreign group which supposedly keeps Filipinos from being masters in their own house.

The charge of imperialism raised against the Americans is not based on the domination of Americans from within the economy but from without, by means of free trade. The argument runs that this economy has remained semi-colonial—an exporter of raw materials and an importer of finished goods—because free trade with the United States left Filipinos from 1909 onward with no protective wall behind which to build up their own new industries. The Bell Trade Act of 1946, it is said, cut into the full sovereignty of the Philippines in several places—pertinently in leaving it for years powerless to raise effective tariffs against U.S. goods. This charge of economic imperialism carries weight if it can be shown that despite its economic condition in 1909, the Philippines needed only a protective tariff in order to start transforming itself into a bustling little Japan. Not the loudest voice raised in protest against free trade has ever attempted to show this. It would be hard to show, because the country was so lacking in the most obvious requirements of economic development: power, transport on land and sea, surveys of natural resources, capital, foreign exchange, financial institutions, established enterprises, experienced entrepreneurs, technicians, a skilled labor force, a home market prosperous enough to buy the output of local industry —the catalog is unending. After half a century of noteworthy progress, the country is still acutely deficient in these very requirements.

On the other hand, it is easy to rant against imperialism, ignoring the beneficial effects of free trade, especially the unprecedented growth of the country and its people—which must have had some cause—and the impressive rise in Philippine trade levels, not matched before *or since*. It is perfectly plain that, once free trade had been established for decades between the Philippines and the United States, it could not be terminated abruptly either in 1935, when the Commonwealth came into being, or in 1946, at the birth of the Republic. The Bell Trade Act of 1946 and the Laurel-Langley Agreement of 1955 legislated for the *gradual* erection of each country's tariff wall against the goods of the other. It is somewhat otiose, however, to get upset about the injustice of free trade *into* the Philippines in a decade of exchange controls, import controls, exchange taxes and special import taxes.

I have but one point to make: according to present agreements between the Philippines and the United States, full tariffs will be in force by 1974. New foreign investment now will neither retard nor hasten that date. It will in no way aggravate the supposed practice of U. S. economic imperialism. Indeed, that foreign investment coming to the Philippines for the purpose of setting up manufacturing enterprises will make this economy more colonial, that is, more raw-materials producing, is an argument lacking in force. Any charge that new foreign investment *as such* is imperialistic must be made to stand on its own feet. It can gain support neither from the

Chinese question nor from the debate over the consequences of free trade with the United States.

The third piece to be sorted out of the jumble is the growth of the net worth of foreign enterprises already established in the Philippines, whose expansion has been financed by means of ploughed-back profits earned in this economy. In one sense this is correctly counted as foreign investment: its owners are foreign. But the capital is not. It grew up here. It is different from investment which migrates into the economy from abroad in that it must be saved out of the product of this community. It is not a dose of capital added to our own savings. I would judge that practically all Chinese capital is of this kind, made in the Philippines. There is little evidence that capital came into this country with Chinese. Very likely it has been the other way around: before 1949 it was possible for Chinese to make money here and eventually to take it back to the mainland with them.

We can expect foreign capital to go on growing by virtue of internal financing and this is a good thing. It is one manner of capital formation and one means of economic growth. But it is not enough. It is not a net addition to the capital we can afford to form by ourselves; it is part of it. We need resources which come in afresh, bringing new enterprises into the country and modern techniques of production.

III

The kind of foreign investment under discussion has certain traits distinctly advantageous to us here and now. First of all it comes in from outside; it does not impose the rigors of added abstinence on members of this economic community. Next, it comes in the form of foreign exchange or its equivalent in capital goods. What is our attitude toward foreign investment of this kind? Frankly, we would like to be choosy. We have certain declared preferences. For example, we prefer loans to direct investment. Loans take less out of the economy than do successful direct investments because the rate of interest on a loan is much lower than the rate of profit on successful investment. Next, the loan does not bring with it foreign management, as direct investment does. Finally, some loans are repayable in our own "soft" currency. It is possible to borrow dollars and eventually repay the debt with pesos.

Can we get loans? Not from private sources of capital, at least not on long term. There was a day when private investors bought the bonds, say, of the Manila Railroad, but that day is long past. It just is not done any more. Occasionally a foreign parent corporation will make a loan to its affiliate—as in the cases of Caltex, Meralco and Goodrich—but even such loans are made with reluctance and for as short a term as possible. Ever since the thirties portfolio investment has virtually disappeared.

Of late the Philippines has gotten some short-term accommodations chiefly from German suppliers in the form of arrangements for deferred payment on imported machineries. No one on this side is comfortable about these supplier-loans. They do not unbalance our payments this year but can embarrass us the year after next. The International Monetary Fund team which visited this country a short time ago called particular attention to this practice and urged its discontinuance. David Lilienthal also cautioned against it on his visit, citing the case of Turkey. The World Bank broke off relations with Turkey when that country continued to acquire supplier-loans against its advice.

Are there public sources of long-term loans? There are, and two of the funds seem especially eager to make loans to the Philippines right now. I refer to the U. S. Export-Import Bank and the Development Loan Fund. But a survey of the possible supply of loanable funds from public sources and of the potential demand for them will lead us to one significant conclusion: we cannot depend upon loans.

The international lenders are at present three: the International Monetary Fund and the International Bank for Reconstruction and Development, both established in 1946, and the International Finance Corporation, established in 1956. All three are related; all are world banks in the sense that their original assets are the contributions of many nations. The IMF is not a development bank; it concerns itself exclusively with international liquidity and monetary stability. The IBRD—the World Bank *par excellence*—is at present capitalized at $6.3 billions for both the reconstruction of war-damaged economies, not all of them underdeveloped, and for the development of growing nations. It has emphasized large public-service investments in the most basic categories: highway improvement, railroad development, electric power, iron and steel, flood control and irrigation, oil pipe lines, improvement of the Suez Canal, mining and transportation. It requires the government of the receiving country to guarantee its loans. It fully intends that its resources will serve as a revolving fund and therefore refrains from making outright grants in the guise of loans. Because of the soundness of its lending policies, it has had great success in getting private banks in the U.S. and in Europe to participate in its loans without its guarantee. It charges 6% interest. In 1957 the Philippines got a World Bank loan of $21 millions. That is all.

The IFC was brought into being in 1957 to complement the IBRD. It makes loans to private industries without requiring the guarantee of the receiving country. Its capital is still tiny by world-bank standards—$350 millions. It has not made any loan to a Filipino borrower.

In addition to these three international lending agencies, the U.S. supports two of its own: the Eximbank and the DLF, mentioned earlier for their present willingness to lend in the Philippines. $20 millions of Eximbank money was used in the building of Ambuklao. When President Garcia visited the U.S. in 1958 to seek loans, the Eximbank extended to the Philippines a credit line of $75 millions. During the past few months it has been urging Philippine business to make use of its lending facilities and its agents have indicated that it is prepared to extend $60 millions toward the financing of NASSCO's integrated steel plant in Iligan. It requires that its loans be spent for U. S. products, a condition which has retarded the use by

Filipinos of Eximbank credits. In some lines U. S. equipment is dearer than European and Japanese.

The DLF came into existence in mid-1957 and now has an aggregate capital of $850 millions. Its distinctive feature lies in its accepting repayment of its dollar loans in "soft" currencies.[3] Ordinarily it finances specific projects, though it opened a line in favor of the Central Bank of the Philippines for the purpose of financing privately owned small businesses. President Garcia was instrumental in getting a line of credit of $50 millions from the DLF. The loans already granted out of this line are these: for the Sayre Highway, $18.75 millions; Central Bank, $5 millions; Bataan Pulp and Paper Company, $5.3 millions; Bago Pulp and Paper Company, $5.3 millions; and Mindanao Portland Cement Company, $3.7 millions. For the past five months it has been requiring that its loans also be used to purchase U. S. goods.[4]

These are the lending institutions from which to expect advances. They have a combined lending power of about $15 billions, far the greater part of which is already out on long term. It is known that there are more than one billion people in 60 member nations of U.N. and 40 important territories, excluding mainland China, whose level of living, like ours, is far too low. If loans were to be made evenly on a per capita basis, and if the public lending agencies devoted all their funds to underdeveloped areas—as the IBRD and the Eximbank do not—still they could afford only about $15 per capita: that is, about

[3] Because of a continuing disagreement between the Philippines and the U. S. over whether the margin of 25% charged for most uses of foreign exchange is tantamount to a devaluation of the peso, the Philippines at present intends to repay its DLF loans in dollars.

[4] For territories associated with the European Economic Community—that is, the Common Market—there is an EEC development fund of $581.25 millions set up last year. By November 1959 it had made 46 grants totalling $25.7 millions. It is not for us. Also, the United Nations has a special fund which finances pre-investment work: surveys of natural resources, establishment of research institutes to improve the quality of local products and, finally, training institutes to impart the skills necessary for economic development. It is not a lending agency.

$375 millions for the Philippines. This would have to last us for the next 15 or 20 years, except as repayments made the funds available anew. Recalling that an integrated steel plant by itself will require over $100 millions, and remembering the limitlessness of our needs, it is evident that there is just not enough loan money around to do the job of development.

Nor would loans do the job, even if there were enough. We need more than loans to produce and sell tires, to establish a steel mill, to explore for oil, refine it and market it—to do all the new and unfamiliar things involved in economic development. We need also the men who have already learned by experience how to do these things. Competent unattached technicians and managers are not available in large numbers for hire. If they are as good as we need, we can be sure that someone has already engaged them. Indeed, for foreign free-lance steel experts willing to accept temporary employment on the understanding that, once replaceable by Filipinos they would find themselves out of a job, life would be quite an adventure. From the viewpoint of what this country needs, loans are neither adequate nor sufficient.

IV

The one possibility that remains is direct foreign investment—that is, capital backed up by an established enterprise (think of Goodrich)—which brings its men, its name, its prestige, and some degree of control and supervision by its management, and assumes the responsibility for making and selling goods of proven quality. This kind of capital is not in oversupply anywhere in the world right now. Money is tight and interest rates are high all over. Yet there are signs that it may become more abundant in the near future. For one thing, Europe's impressive recovery from the devastation of the war and its continued prosperity have put its people in a position to save more as their incomes go on rising. For another, the United States seems to come close to satisfying its capital requirements out of corporate allowances for depreciation. It is apparent that the stream of investment funds among countries has risen greatly in the past four years. Private U. S. investment abroad is now at the rate of about $3 billions a year; total U. S. foreign investment amounts to about $40 billions; in 1959 U. S. firms abroad produced goods worth about $30 billions, nearly twice the value of U. S. exported goods. In fact U. S. producers abroad compete with U. S. exports, and even compete within the U. S. market with domestically produced goods.

Hopeful as is this expectation of an increased foreign potential to save, foreign investment still shows little inclination to flow abundantly into underdeveloped areas, except in quest of petroleum. It was ever thus. In the past, extractive industries have drawn some capital from abroad — mining, rubber, copra, abaca, coffee, and sugar. Some also went into trade and into public utilities, such as gas, electricity, transportation and communication. Of late some little has gone into manufacturing, prompted by the desire to avoid tariffs on imported goods, to be close to the source of raw materials and the local market, and to take advantage of lower labor costs. We have our own examples of all these. As a rule—let me write this as loudly as I can—such direct investment on the part of non-resident aliens has been associated with a very high degree of foreign ownership and management. It has rarely taken the form of joint enterprise. Mining in the Philippines, which was marked by enterprises formed jointly by Filipinos and foreigners right from the start, is only a seeming exception. The foreigners were chiefly residents of this country. They had had ample opportunity to get to know and to be known by their fellow businessmen. It is not extraordinary that they should have joined forces in ventures of mutual interest.

After four decades of U. S. rule in the Philippines, despite the free hand the Americans had here and despite the fears of U. S. imperialism expressed repeatedly by Filipinos, U. S. direct investment in 1941 amounted to less than $270 millions—perhaps 2.7% of total U. S. foreign investment. Since the war the net movement of fresh U. S. capital into the Philippines has been negligible. Some new capital did come in, to be sure, but it has been just about offset by U. S. capital moving out.[5] It appears that the net worth of U.S. investments in the Philippines is at present considerably short of $500 millions. Allowing for the inflation of values since 1941, the rest of this increase is explainable in terms of reinvested earnings. At the moment U. S. investment in this country is just above one percent of total U. S. foreign investment. Yet the U. S. is far and away our biggest source of non-resident foreign investment.

From this one can conclude that the Philippines has no urgent need of legislation designed to keep foreign investment out of this country. It does not tend to come here, though it flows around the world as never before. Obviously, it does not have to come here.

V

We have great need of foreign capital and we have the capacity to absorb it and use it fruitfully. But foreign capital has been avoiding the Philippines noticeably. If we are to get our share of private foreign capital, we must lure it here. We are in no position to hedge our invitation with restrictions—as when we say that we welcome friendly and understanding foreign capital, preferably on a joint-venture basis. Foreign capital has been behaving as if it does not find this country friendly and understanding toward it — and it will continue to stay away from here until we make necessary and fundamental changes in our attitude.

The words of polite foreigners passing through this country are sometimes to the effect that the climate for foreign investment here is salubrious. The State of the Nation Message asserts: "The Republic gained in credit and confidence abroad and this is evidenced by many offers to us of credit lines and

[5] Balance of payments data, 1950-56, reveal that during this period the inflow of new foreign direct investment amounted to $20 millions, while the outflow amounted to $19. In addition, Caltex (Philippines) got a loan of $35 millions from its parent corporation. This is not direct investment; the parent will seek repayment as promptly as possible.

loans by governments and great banking and financial institutions all over the world. We have succeeded in establishing a climate for bigger investment of domestic and friendly foreign capital and know-how needed to utilize and exploit our national resources."

But these words are not confirmed by the deeds of foreign investors. We deceive ourselves if we go on believing the pleasant words and blinking the unpleasant fact that, far from finding our investment climate attractive, foreign investment acts as if it finds it repellent.

The fact is, we are unfriendly. We don't like foreign investment for a number of reasons repeated day after day in private and public talk and in writing. We make no secret of our unfriendliness:

1. Foreigners have a stranglehold on the economy and Filipino First means to break it. Our national economy needs to be liberated from foreign control.

2. The greatest problem and obstacle to the basic industrialization of the Philippines by Filipinos is the sustained, organized opposition by foreign vested interests operating in this country, who have a stranglehold on our economy through control of certain vital industries as well as domestic trade and the channels of distribution.

3. Aliens block all our efforts and utilize their *unlimited* funds and the credits provided by foreign banks for this purpose.

4. The Filipino is not master in his own house. He is in danger of being reduced to the condition of a hewer of wood and a drawer of water.

5. Foreigners are privileged beyond Filipinos in the granting of exchange allocations.

6. They have made millions out of this economy—the spoils of imperialism.

7. They have beaten Filipinos to far too many good business opportunities.

8. Too many of them hold down the best and most lucrative jobs.

9. They are better paid than Filipinos who do comparable work.

10. They live better here than at home.

11. The repatriation of profits is a heavy drain on our reserves of foreign exchange.

12. Meralco, for one, is a dangerous monopoly. Power is too basic to be in alien hands.

13. Foreign banks favor their foreign clients.

14. U. S. investment — or aid, for that matter — has not financed one single new industry here.

Foreign businessmen do not hear or read much that is good about themselves, but plenty that is bad. Because our attitude is unfriendly, we have done a number of unfriendly things, and plan to do more. Exchange controls have armed us with a very powerful weapon to use against foreigners. They cannot survive in business without allocations. We can decide, for example, that foreign petroleum companies will be given no share in the growth of this market. For purposes of summary let me single out a booklet entitled *Doing Business in the Philippines*, published by the Industrial Development Center "as a handy guide for foreign investors and as an aid to local industrialists who wish to plan or adjust their operations in keeping with current laws and regulations." Along the way the booklet points out prohibitions and restrictions on foreign business activity: in exploiting natural resources, in owning land, in opening a bank, in engaging in retail trade, in remitting net profits, in unblocking blocked pesos. It omits mention of the Flag Law. By unintended contrast the booklet also points out measures taken by the U. S. government to encourage new private investments in friendly foreign countries—as if more concern were being shown there to persuade capital to emigrate than is shown here to induce it to immigrate.

Moreover, feelings of Filipino First have inspired a spate of proposed laws intended not only to keep new foreign investment away but also to prompt existing foreign firms to sell out and to take their capital away.

VI

This last tendency leads us to a consideration of the oft-mentioned joint venture. A joint enterprise is a firm in which ownership and management are shared by Filipinos and foreigners in varying proportions. Goodrich is 53% Filipino-owned, Filoil 70% Filipino-owned, Manila Gas Company 60% Filipino-owned. Joint enterprises are of two kinds. They can be joint enterprises from the very beginning, as in the case of Filoil. Or established foreign firms can be transformed into joint enterprises by selling shares in ownership to Filipinos, who thus gain a voice in management. Two old firms have lately become joint enterprises—Smith Bell and Erlanger & Gallinger. For several years past Meralco has had a plan providing for 40% participation by Filipinos. Also, some local capitalists are now considering buying up part of Tabacalera. In the single case of Meralco, Filipino participation is intended to be an *addition* to the capital of the firm; in the other cases it would replace foreign capital, some arrangement having been made to allow the foreigner to take his capital out of this country in the form of foreign exchange.

I wish to make one comment on the kind of joint enterprise in which Filipino capital simply replaces foreign capital. The little bit of capital formed within this country by Filipinos can be used in one of two ways: to buy out a going business firm or to set up a new firm. In the first case the economic growth or development of the country is not served. Yet this is highly consistent with the explicit aims of Filipino First: it reduces foreign domination, it increases Filipino management, it displaces foreigners from desirable jobs and exalts the native citizen. But it is not an outstanding example of love of country. It does the National Product, the Level of Income and the Level of Employment no good. Filipinos who have courageously pioneered in new lines can attest that it is incomparably harder and riskier to set up a new firm than to buy out or buy into a going one. This latter investment does not merit well of the Republic and deserves no encouragement. Yet it is receiving a great deal of attention and laws will be proposed to make it easier for foreigners to go away, taking their capital with them.

The kind of joint enterprise welcomed by President Garcia, which is from the start a union of Filipinos and non-resident foreign capital and management, is much easier to talk about than to bring about in practice. One does not enter a permanent union—whether it be marriage or business—with just any partner. The prudent choice of a partner presupposes previous and rather intimate acquaintance. But non-resident foreigners and Filipinos are strangers to each other. Yet such unions with Filipino partners have been entered into by established and internationally known foreign corporations: Westinghouse with Soriano, Tokyo Tsushin Kogyo K.K. with Elizalde, Gulf Oil with the Del Rosario group, Philips with Araneta, Dutch Baby Milk with the Delgados, Goodrich with the Tuasons, Island Gas with the Philippine Government and Shell Oil with Ayala-Zóbel. You will notice that the Filipino partner is not just anyone; he is also of eminent business stature. How many such firms can a little country offer, firms which are themselves inclined to team up with foreign partners? Let us not pretend to ourselves that we say anything of practical meaning when we aver that we welcome friendly and understanding foreign capital on a joint-venture basis. It is not an accident that historically non-resident foreign investment has been accompanied by a high degree of ownership and control.

VII

It is said that Westerners have much to learn about countries like the Philippines, especially about nationalism and the firm determination to "take off" into industrialization. There is some evidence that Westerners have begun to learn. Aid and loans have by no means been confined merely to agriculture and the extraction of raw materials. More has been written in the past fifteen years about developing poorer areas than in all previous history. The North-South problem, as it is being called, is of deep and growing concern to the industrialized North. The World Bank, the DLF, the proposed International Development Association and the EEC Overseas Development Fund all attest to the sense of duty felt on the part of the North to ease the heavy cost of development on the underdeveloped South. It would be ironic if the requirements of Philippine economic development were of more serious concern abroad than at home.

We also have something to learn. We must learn that foreign investors look for friendliness and understanding, too, because they look for fair treatment. The friendly German Economic Mission, which visited here in January 1960 and was hospitably received, supplied in advance of its coming a memorandum containing the terms on which Germans will invest in the Philippines. The opening paragraph runs as follows:

> The Federal Republic of Germany considers it one of her most important concerns to cultivate and develop her relations with the newly developing countries. She endeavors to intensify those relations in particular by encouraging *private investments* which appear to her pre-eminently suited to favour economic development in the newly developing countries by providing capital in money and in kind in conjunction with scientific knowledge, technological inventions, and procedures by which capital can be most effectively invested. To expedite the realization of these aims, the Federal Republic of Germany, by assuming under her 1959 Budget Law the non-commercial risks attached to investments, has provided the possibility of *encouraging German business* which is prepared and able *to invest capital abroad* to do so, particularly in newly developing countries. The Federal Government can give guarantees for this and certain other purposes up to a maximum of DM 2,000 million. Under the Budget law, the giving of such guarantees is, however, tied to the condition that the investment concerned must be protected and, apart from a transition period, such protection can only be effected by a treaty binding in international law. In the opinion of the Federal Government, such a treaty on the promotion and reciprocal protection of investments should be based on the principle of *equality of rights.*

There follow thirteen explicit and comprehensive conditions for the protection of direct private investment which must be covered in a treaty binding in international law. Several of them are instructive.

1. "Capital invested should not be treated less favorably . . . than capital invested there by that State's own nationals or companies." This does not seem to harmonize with Filipino First.

2. "The transfer of the returns from invested capital as well as the possibility of the latter's retransfer in the event of liquidation should on principle be guaranteed." Germans are not eager to earn blocked pesos.

8. "The protection of investments should be supplemented by the protection of business and professional activities. The contracting States should therefore undertake on principle not to impair such activities as are connected with investments or their appropriate management or utilization. Such impairment is mainly understood to mean discriminatory economic measures, e.g., *restrictions as regards the purchase of raw materials and auxiliary materials, impeding the marketing of products*, etc." They would object to having exchange controls used discriminatorily against them.

12. ". . . Assurance that, as far as investments are concerned, entry, residence and business or professional activities are permitted to nationals of the country supplying the capital." They expect to hold good jobs.[7]

[7] Our present law requires that any business firm, whether Filipino or foreign, applying to bring in a technician from abroad, must receive the authorization of the Commissioner of Immigration. "Such authorization shall be given only on petition filed with the Commissioner establishing that no person can be found in the Philippines willing and competent to perform the labor or services for which he is to be engaged, the wages and compensation to be received, the reasons why a person in the Philippines cannot be engaged to perform such labor or services. Substantiation of all the allegations contained in the petition shall be established beyond doubt by convincing and satisfactory evidence." It's not enough to be unable to find the needle in the haystack; you've got to prove there's no needle there.

The Memorandum illustrates two points worthy of note. First, some foreign investors show an active willingness to come here, but they state the conditions without which they will not come. Second, the Germans—who ran no risk of being mistaken here for imperialists — have done us the service of expressing very candidly the usual terms sought by foreign investment.

VIII

Let us now draw some conclusions. We are determined to develop industrially, come what may. Our own resources are pitiably insufficient. Foreign loans are not enough. Direct foreign investment is needed. There is no danger of our getting too much of it; we never did. We can look for it to come mainly from Great Britain, Japan, Germany and the United States. But it will not come where it is not wanted, simply because it can afford to be choosy: it is the thing that is scarce. It will come on its own terms. Some of our neighbors have taken measures to meet such terms and are drawing foreign investment to themselves: India, Thailand, Taiwan. If we are to compete for our share — we have been losing our relative share even of U.S. investment — we must do likewise. This will require a rather deep change on our part.

Many of us do not appreciate the need for making a change. We have allowed ourselves to be dazzled by the Manila illusion —that this is already a fast-moving, up-to-date country, making giant strides forward. We tend to forget that by every per capita index our provincial people remain among the most backward on earth—in productivity, in income, in power consumption. Hobbes' terse dictum describes too well their kind of life, "poor, nasty, brutish and short." How long are they to stay in that condition? Until plentiful investment opens the way out for them, foreign investment included.

Having made the effort of mind to persuade ourselves that we cannot afford to be choosy, let us persuade ourselves of a second and comforting truth. There is plenty of room here for all—for Filipinos and for the handful of foreigners who will heed an invitation to come and invest. We have focussed too much on what foreign investment gets out of the Philippines—profit — and too little on what it brings into the country—growth and the impetus to further growth. We have blunted our sense of proportion. There lurks a danger in Filipino First: It makes us quick to blame our troubles on others, slow to see how we block our own way.