

# philippine studies

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## **Power and Sicat: The Philippines: Mo-Huan Hsing: Taiwan**

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THE PHILIPPINES, by John H. Power and Gerardo P. Sicat; TAIWAN, by Mo-Huan Hsing: *Industrialization and Trade Policies*. London: Oxford University Press, 1971. 324 pp.

This volume forms part of a series on industry and trade in several developing countries. The series was commissioned by the Organization for Economic Cooperation and Development (OECD) under general editorship of Ian Little, Tibor Scitovsky, and Maurice Scott. Brazil, India, Mexico, and Pakistan are the subjects of other studies, and a comparative analysis by the overall editors rounds out the series.

The OECD, with 22 member nations in Europe and North America, aspires to bring together knowledge and experience from many lands to promote economic growth, fuller employment, and higher standards of living. It hopes to apply its findings to programs of economic aid for developing nations and to the expansion of world-trade on a multi-national, non-discriminatory basis.

The volume under review offers a recent history, and a brief but authoritative appraisal and critique of post-war trade and industry in two countries, the Philippines and Taiwan. Both co-authors of the Philippine part, John H. Power and Gerardo P. Sicat are professors of Economics at the University of the Philippines. Doctor Sicat is also Chairman of the National Economic Council of the Philippines. Professor Mo-huan Hsing lectures on Economics at Taiwan National University, and is director of the Institute of Economics of the Academia Sinica (Taiwan).

The studies are quite compact. They are well-indexed, offer a bibliography selective and up-to-date, and furnish abundant, useful statistical data.

The first half of the volume describes the Philippines entering the decade of the 1970s and faced with grave economic and political challenges. After postwar reconstruction, the national income has grown at a yearly average rate of more than 5.5 percent. But this otherwise respectable economic growth is largely offset by the high rate of population increase (3.5 percent).

Chronic difficulties with balance of payments reached critical proportions and a once-promising industrial upswing declined markedly through most of the 1960's. Fortunately, agriculture, forestry, and mining achieved gains which kept the overall growth rate near 5 percent. But in 1970, political disenchantment spread extensively; labor and the studentry were restive. Strong protests against political and social abuses were voiced by almost all groupings of the people.

The authors enumerate as major issues (among others): land reform, honesty in government, shocking contrasts of wealth and income,

failure of courts to enjoy trust and credibility, absence of a true opposition to the political establishment, the continuing American economic and military presence seen as holding back reform. Acute political alienation was surfacing in Central Luzon and Moslem Mindanao.

Power and Sicat, however, find substantial elements of strength in Philippine institutions to justify a measure of optimism about the nation's ability to realize the reforms needed to keep moving forward in economic and social fields. "The democratic framework within which politics operates and the widespread commitment to democratic processes and the rule of law comes first to mind. The strength of educational institutions and the general level of educational attainment are advanced in relation to the state of economic development. And there is apparent, even in the Roman Catholic Church, which includes the great majority of Filipinos in its fold, an awakening to the need of reform." Not all observers, this reviewer believes, will share the authors' sanguine evaluation of democratic processes, the educational picture, and the Church's commitment to improve the social order.

The authors focus on the central role of economic development in meeting these challenges. Such growth is needed to give physical vigor and moral spirit to the people; without it a stable independent nation cannot mature. Success in Philippine economic development, the authors hold, can only be won by industrialization. Here lies the key to optimum use of the copious but latent resources which the large, quickly growing population requires. The study of the authors aims at outlining reforms needed to give industrial growth a strong, new impetus forward.

Prof. Power and Dr. Sicat propose a redirection of economic policies. They believe, if such a fresh approach is adopted, the resources and entrepreneurship will soon enough emerge to raise living standards and gainful employment to a healthy level.

Their first two chapters trace the history of economic growth and industrialization in the RP since American rule ended, and in the last two decades especially. Chapter 3 describes the institutional setting within which economic policies and processes operate. Chapters 4 and 5 are devoted to an analysis and critique of industrialization policies adopted until now. The concluding chapter stresses the need for new directions in industrial growth, and sketches suggested reforms in policy which the authors think this need calls for.

Plainly, most of these policy recommendations are well-taken. Their prescriptions are to allow for backward integration, export expansion, and the discouraging of trends to substitute capital for labor. As for the marginal producers, Sicat and Power would allow the cold air of competition to take its course. It is here, however, that the problem looms large again.

For the marginal and inefficient manufacturers there is a lot of political backing, which they will call upon in order to preserve their business from disintegrating. These people have such political influence that they can have uncooperative economic ministers removed from office.

Past investments were encouraged by an undervaluation of foreign exchange offset by heavy protection, and these past investments represent present interests which are hurt by change. In contrast, the new system encourages things that are yet to be done. Consequently there are no existing interests to speak up for them.

However, the political process has another rationale, that of accommodating existing interests. The economists can always apologize by claiming that they are only "economic technicians," not politicians. And evidently these are issues deeply interrelated with politics.

The authors would allow the Board of Investments to offer special incentives to industries that are linked to the natural resources sector, to intermediate and capital goods industries, and to those with export potential. They would make use of tariff as a protection for domestic producers, and subsidies for exports—as is now done in Japan.

But where will the government get all that money? New tax levies are politically unpopular, and not a few Senators and Congressmen achieve considerable free publicity at the expense of essential taxation.

Observers, then, take the view that what ails the country is not economic but political. In the rarefied air of the Japanese mountains, one top-ranking Tokyo minister whispered to Secretary Virata that Philippine undervaluation to Japan is around \$700 million. That would have been enough to solve the balance of payments problem. Actually many Filipino economists know what is ailing the economy, and have good remedies to prescribe. But it reverts again and again to finding out who will swallow the bitter pill. And who has the firmness, and the readiness to lose "friends," necessary to administer this pill effectively? Can men be found to place the interests of the nation above sectoral interests? Plans and blueprints are admirable. One earnestly hopes he is in error when he says that serious steps to implement these plans are not taken with thoroughness.

The second half of the book, telling of the recent economic development of Taiwan is a success story of how foreign aid can bring about the transformation of a country in a short time. It is true that U.S. \$1.4 billion of aid was given; but this sum, reckoned in the framework of a sizable country's economy and distributed over twelve years of financial assistance, is hardly colossal. With it Taiwan became what, in late 1971, was proportionately the fastest developing country in the world.

Where lay the secret of this success? Why have many other countries been unable to reach the take-off stage in spite of longer and more generous outside help? If U.S. aid is about as large elsewhere, what other factors in Taiwan influenced rapid development?

Certainly, Taiwan had to face serious handicaps to economic growth. Its endowment of natural resources is not lavish. It had to grow almost from scratch in 1950 because the war had hurt it badly and its technology was quite backward. Its population growth was rapid, partly from mass immigration, and partly because of a high birth rate. Moreover, the need to maintain a large and strong defense system, with its over-sized army constantly on the alert, absorbed year after year a staggering 20 percent slice of the country's gross national product. Some experts put this figure even higher. In any case, it has represented a lion's share, or four fifths, of the national budget.

Perhaps the reasons for this striking success are the following:

- 1) Very intelligent efforts by, and cooperation between, a well-trained and dedicated team of economists.
- 2) Well-suited economic measures of the Taipei government, for instance, its trade policies and, concretely, its policy on importation of raw materials, which represented 72.6% of all aid received.
- 3) Insistence on developing and erecting infra-structural facilities, such as means of communication and electric power supply.
- 4) Transformation of an incipient manufacturing industry with concurrent development of the agricultural sector. Foreign aid, if not essential to this growth, helped substantially with 21.1 percent of all aid devoted to the acquisition of capital goods.
- 5) The low cost of labor in comparison with its skills and productivity.

Professor Mo-huan Hsing presents a well-documented, well-organized account of twelve years (1951-1961) of Taiwan's economic history. His study and the conclusions he draws from it make this a work invaluable to students of international aid and Far East economic development. It can also be enlightening to those responsible for the future of Third World countries, while it lends a ray of hope that what was done in Taiwan in spite of so many handicaps can well be achieved elsewhere.

Given the present mentality in Taiwan, it is understandable that Professor Hsing gives the Japanese less than due credit for laying the foundations of the island's development. During the decades of Japanese rule, Taiwan may have been regarded simply as an outlet at the service of Japan. It is true that the island was well-nigh demolished by war before it was restored to China. But one cannot deny that Japan had made gigantic efforts to create infra-structural facilities

which have been used and improved ever since. Japan left a respectable level of education and dedication to work among the Taiwanese. It had also begun to develop certain fundamental agriculture-based industries.

Professor Hsing makes a solid contribution with this book. He writes in an objective, competent way. He might have done still more, if he had let himself express more his personal opinions, and had set forth a lengthier subjective analysis of the matter, instead of limiting himself almost to the bare statistical facts.

It is likewise regrettable that this book did not provide a third part for its readers, presenting a comparative analysis of the two countries, the Philippines and Taiwan together, in view both of the economic and non-economic factors responsible for the difference in the end result.

CHARLES J. MCCARTHY