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Toward Greater Philippine Exports

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American juristic methods. The legal methods of Thailand and Japan were distinctly their own.

At the session on the relations of law schools with the bench, bar and government an interesting discussion arose concerning academic criticism of government policies. Code Commissioner Enrique M. Fernando of the Philippines, who led the discussion, gave an account of the sharply critical comment on the conduct of government which law professors in the Philippines, even those of the state university, indulged in as a matter of course.

The Conference certainly brought home to Asian professors of law and legal scholars a clearer realization of their common responsibilities and problems—and has paved the way for further exchange of ideas. It appears that not only in the Philippines but in the other Asian countries also there are too many law schools with too many students, and too many lawyers licensed but unfit to practice law. Hence the raising of standards of law education and the improvement of the quality of the law profession is a common concern of all the states represented in the Conference, for in the final analysis, the improvement of the standards of the legal profession should mean greater respect for the rule of law in Asia.

JORGE R. COQUIA

Toward Greater Philippine Exports

To those who think in pictorial terms, the word "export" in the Philippines conjures up sawlogs and lumber, bags of sugar, gold and mineral concentrates, piles of copra and bales of abaca. These five traditional export products have provided over 80% of the total traditional foreign exchange earnings and have, as a result, tended to circumscribe and cramp our thinking.

To export more has come to mean to export more of the traditional products. A great part of our best energies and attention has been devoted to this, with an ever increasing tendency to shut our eyes to other possibilities. While traditional exports should continue to receive full encouragement, we should not think only of them. To be realistic is not to be ungrateful. We must, however, recognize the overall unlikelihood that these products can continue to grow as they have in the past or even grow at better than a 5 to 7% rate per year. The demand for sugar is relatively inelastic and the other traditional crops face serious competition. If the economy is to grow, export earnings must grow much faster than this.

The question is how and by what means? The answer is that many of the means are at hand and if we use them we can confidently look forward to export earnings growing at 10 to 15% a year and possibly more. Let us not forget a major point. More exports mean more dollars. With more dollar receipts the peso-to-dollar rate will be strengthened and internal prices will be beneficially affected.

Throughout the period of exchange controls the best bargain in the country was a two-peso bill that was permitted to buy a dollar. Not only was the exporter of the five traditional products penalized for the most part, but the importer was subsidized. This represents a totally different approach to that of most countries where imports have been penalized and exports subsidized. Very often the most modern, labor-saving plants were put up because at a 2 to 1 rate labor was more expensive than machinery.

Partly because the policy generally favored the purchase of machinery and plant items, there was a great growth of Philippine manufacturing capacity throughout the 1950s. Tire plants were established, the first one followed immediately by two others. Paint factories were established in rapid succession. Cement plants followed one another in rapid succession. By the end of September 1962 four oil refineries were completed and "on stream". In many instances the first comer did so well that he was rapidly followed into business by a number of others sometimes over-optimistically, and often the capacity of the manufacturing establishments exceeded any existing or immediately potential internal market. Perhaps the most chronic case of this is the textile industry which has a capacity almost 30% greater than any foreseeable local demand in the near future. In a sense the man who came first scooped the pool and the latecomers discovered to their sorrow that competition was tough and profits negligible. Even a sanguine projection of growth of national internal demand will leave many of these establishments with excess capacity for many long years to come, with no hope of full employment of the plant or full utilization of the greatest available unemployed Philippine resource, namely, large numbers of capable, skillful, industrious people. Only in markets outside the Philippines is an opportunity for utilization of these machineries and men immediately available.

It is to this market outside the country that we must surely look if we wish to employ fully the resources of excess capacity at our command and develop new exchange earnings. A glance at four important factors of cost will show that our export opportunities are vastly improved. First, look at Philippine labor. Under devaluation, the minimum daily wage in the Philippines is now just over $1.00 a day. This compares favorably with Hong Kong and puts the Philippines at an advantage, say, over Japan and Taiwan. Second, consider depreciation. This is a built-in cost of existing plants, many paid for at 2:1. When we use surplus capacity, fixed depreciation is spread out over a greater number of units of production. This can mean a competitively priced export product and in the longer run lower cost for products sold even in the local market. Third, think of power. This is cheap in parts of the Philippines, particularly when priced at the present open-market rate. Fourth, there is land. While we may tend to think of land values as high in the Philippines, in terms of foreign currency our land values are not in fact high. Real estate values in Japan are many times what they are in the Philippines, and in Hong Kong property comparable to an Escolta lot costs ₱1,000 per square foot — not per square meter.

In passing it may well be worth noting that several months ago an article appeared in a leading Hong Kong paper expressing concern lest Hong Kong's costs had become so high that many international firms would probably consider moving their offices to the Philippines. The article pointed out that rentals for executives were at least U.S.$500 per month for an apartment. The equivalent in pesos would obtain an extremely fine home in Manila and its suburbs and leave a substantial residue of income. In Hong Kong a stenographer costs the equivalent of ₱800 per month and a clerk ₱600. The concern expressed in Hong Kong is further proof of the fact that we are now a highly competitive country in terms of cost.

Or take Taiwan for comparison. Here we have a country about a third the size of Luzon with a population only slightly less than the Island of Luzon. In the last five years in Taiwan a substantial manufacturing capacity has been built up. Electric fans are exported to the Philippines. Taiwan's textiles are sold profitably in the most competitive textile market in the world, namely, Hong Kong. Large quantities of cement (upwards of 3/4 of a million tons) are exported to Saigon and elsewhere. Even the forlorn U.S. mushroom grower is complaining about the $3 million a year of new exports of mushrooms to the U.S. A thriving machine industry has been built up that serves not only the Taiwan manufacturing plants but is even able to duplicate existing production facilities at great savings in foreign exchange. None of these things would have been possible if the people of Free China had looked only introspectively, as we have tended to do, toward the internal market. They did what they know they had to do: they exported their goods.

We can take another illustration from Taiwan. Today a plant for polyvinyl chloride is still being talked about for the Philippines. PVC is a plastic used for floor tiles, seat coverings and molded articles. The Taiwan market for these was never great enough to justify a plant. Today Taiwan has justified a plant and exports 7,000 tons of PVC a year. Who buys 3,000 tons of this? The Philippines, of course, despite its population of 29,000,000!

In 1962 Taiwan exported $3 million worth of rubber shoes, as against no exports in 1961. Let us sum up what Taiwan has achieved. Exports of manufactured goods in Taiwan have increased from $15 million a year in 1956 to $85 million in 1961 and in 1962 manufactured exports were expected to rise another 30% to $110 million. All this was done from a base without the substantial excess manufacturing capacity which we in the Philippines have.

Like Taiwan, India is desperately trying to increase its exports. The June 16, 1962 issue of *The Economist* published an article on what the government there is doing to encourage exports. Particular attention is being given to exporting from newly built plants, and a special revolving foreign exchange fund has been set up for raw materials for the export manufacturers. This is to assure Indian manufacturing exporters of a continuing adequate supply of exchange.

We can examine our own excess manufacturing capacity. Possibly the greatest single potential is in the realm of textile exports. Hong Kong and Japan between them export some $400 million a year of piece-goods to the States. So great are these that the United States has had to establish quotas for them. Here in the Philippines we have the textile plant, we have skill, we have labor, but we are exporting only embroidered items to the United States. We have one very particular advantage here, namely, the Laurel-Langley Agreement. Not only are we subject to but 20% of U.S. duties but, furthermore, we are not subject to quota limitations. The textile industry has estimated, perhaps conservatively, that export of over $100 million a year of piece and cotton-goods to the U.S. is within the realm of existing potential.

Let us take another example. In October 1962, the Philippines already had excess petroleum refining capacity of over 30,000 barrels (4,500 tons) per day. With very minor adjustments of existing petroleum refineries, the Philippine petroleum refining industry will be able to meet the demands of the local market into the early part of the 1970s. Markets for fuel oil, asphalt, specialized processing oils and possibly even gasoline, diesel oils and other products exist in a great land arc from East Pakistan all the way around to Japan. Unless exports are developed, we shall have $35 million of petroleum refining capacity unemployed.

In addition to tires, textiles and petroleum products, the Southeast Asian market could take up a good deal of our potential production of items like paints, lacquers, thinners, printing inks, adhesive tapes, shoes, recap treads, heels and soles, pharmaceuticals, biscuits, jams, processed foods, batteries and other items.

To accomplish this we must give clear recognition to two principal factors. First, we must be competitive from the point of view of cost.

Looked at from a purely manufacturing and labor-cost standpoint, we have been competitive since January 22, 1962. Where we are not competitive is in the matter of duties and taxes applicable to the imported raw-material components that will be exported in the manufactured goods. It is only right that these taxes and duties on the raw-material components should be recoverable after the locally manufactured article is exported. It is right because without such relief the locally manufactured article would not be competitive in world export markets. How great this tax refund should be is not so difficult to determine. Our cost accounting techniques are such that this can be calculated with considerable accuracy. While bonded operation is possible in some instances, in most cases it is not. The reasons for this would constitute a separate article by themselves.

The second factor we must consider is that of differential exchange rates between the cost of purchasing raw materials that go into exports and the rate applicable to export proceeds. Let us be realistic. Raw materials that are processed in the Philippines and are exported are not, in truth, what the country is exporting. The true export consists of five elements. These are:

a. Philippine labor
b. Depreciation on existing Philippine plant assets
c. Local materials
d. Philippine taxes, and
e. Profit.

These are the five elements that we are truly exporting when we process imported raw materials and export a finished product. Therefore, what we need to do is establish the fact that we are exporting these five elements—labor, depreciation, local materials, taxes and profit—and only the value of these items, not the total value of the exported products (having imported components) should be surrendered at the inward remittance rate applicable to exports. If an export tax is enacted, then at worst the same philosophy of taxation should apply. The foreign currency cost of the raw material component should be permitted to be offset without exchange or export-tax penalty. Without such an arrangement, the mechanics of which are not too difficult, most of the idle capacity is hopelessly priced out of the world market and will therefore continue to remain idle. Whatever are the merits of an export tax upon traditional exports, it does not seem possible to build any logical case whatsoever for an export tax on new manufacturing exports.

It might be thought by some that this would open up the floodgates to cheating of one sort or another. Analysis, however, does not support such a contention. Large manufacturing plants are closely audited by both reputable Philippine accounting firms and examiners of the Bureau of Internal Revenue. Existing cost records can produce ratios to determine usage-percentages which would be adequate guidelines for determining foreign and local-currency components. Furthermore, it is probably not a misstatement to say that the larger manufacturing establishments never have planned to operate except on an honest basis. Realistically, they are just too big to operate any other way.

A careful survey could probably determine within broad general terms the export potential and dollar earnings of the many industries with productive capacity lying fallow today. The survey, however, would only serve to prove what is known by those in the various industries with surplus capacity—that given, not special incentives, but simply fair treatment on the refund of special import taxes on the one hand and, on the other, replacing dollars for the raw-material component in exports at an equal rate, a truly enormous potential export market exists, here and now.

President Macapagal's Socio-economic Program calls for an annual growth-rate of 7% starting in 1965. To hit this target, a large increase in exchange earnings is required. How much less will the drain on the scarce dollar reserves be, if we find the means of utilizing present idle capacity. What is earned will be available for more production of wealth. New investments are necessary and desirable but will take time to come to productive fruition.

Philippine management and foreign investors tend to look at new investments very scientifically. If they see that the Philippine market is inadequate in the near future for an economic investment, they will wait until the market grows up to them. This, however, is the route of slow progress. If an investor, be he foreign or domestic, sees that he could forthwith export, say, 20 or 25% of his manufacturing capacity, he could well justify a plant today instead of waiting for the population to rise from 29 millions to 34 millions. This is what he is doing when he reasons that the local market is still 20% short of an economic plant.

It is the experience of almost every manufacturer that, when he puts up a plant, he generally has more capacity than he budgeted for. Accordingly, it seems well within the bounds of possibility that a manufacturer who is prepared to go ahead on the basis of exporting part of his product can not only satisfy local demand but retain over the years many of the export-markets that he built up in the early days, while the Philippine demand was growing to the designed size of his plant.

It is well to remember that Japan's fantastic economic growth has been based on exports. It is interesting also to remember that U.S. military demand was one of the factors which gave the Japanese economy its early lift in 1950. The Cold War in Southeast Asia indicates continuing heavy U.S. military expenditures and purchases in this area, a part of which we might well supply. Another point to remember is that an export potential means bigger and more efficient plants in the Philippines which, in turn, means lower prices for both the export and the local internal market.

With a demonstrated capacity to export, investors currently looking at Hong Kong and Taiwan as potential plant sites can be attracted to the Philippines, which represents a more stable and lower-risk area than the other two. All these factors produce what the economist likes to call the "multiplier effect." Simply put, it means that success breeds success. Increased industrial activity means increased income and increased income means more revenue with which to meet the objectives of the Socio-economic Program.

Over the years, everyone has remained bullish about the longer term picture for the country. It always seems, however, that the longer term is still around the bend of an endless curve. Meanwhile, 350,000 men and women are entering the labor market each year for whom employment must be found, and soon we will be facing some 600,000 pairs of hands each year seeking gainful employment.

Development of exports from existing plants and those to be built will bring about a psychological breakthrough to new vistas that will give the economy that little extra boost that enables us finally to get around the corner to an ever increasing national prosperity. We have the managerial skill, we have the plant, we have the men, we have the machines. Devaluation has given us a special new export-cost advantage. It is time to seize the opportunity and go forward.

H. KING HEDINGER

The Establishment Clause and Public School Prayers

Not since the desegregation decision of 1954 has a Supreme Court ruling aroused the kind of heated debate which has been generated by the recent case of *Engel v. Vitale*. By a 6-1 vote, the United States Supreme Court, on June 25, 1962 banned as unconstitutional an optional and non-denominational 22-word prayer recommended for public school pupils by the Board of Regents of New York. The prayer read:

> Almighty God, we acknowledge our dependence upon Thee, and we beg Thy blessing upon us, our parents, our teachers and our country.

The decision was based on the Establishment Clause familiar to students of Philippine and American constitutional government.