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New Look At Economic Nationalism

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A New Look At Economic Nationalism

DAVID ZENOFF

AT a time in its national development when the Philippines is on the verge of an economic take-off and an era of social and political "reform", it behooves all interested parties to reflect upon this status and ponder the policy designs for the future. And insofar as the recent exposures of purportedly illegal business practices by an American businessman and alleged communist leanings by a group of Chinese journalists have served to stir up some doubts and anti-alien sentiment in the minds of Filipinos, it is especially important now to delve into the question of alleged alien control of the Philippine economy and the possible legislative implications of such assertions.

To discover the truth of this matter is of critical importance, for the degree and form of any *reactive* nationalism which may breed upon beliefs of this sort is certain to affect the kinds, velocity, and volume of foreign capital flowing into the economy, as well as the livelihood and economic future of both the Filipino and alien groups in this country, and the resources which they control.

For purposes of obtaining and then reporting the factual information available on this subject, the writer made two procedural decisions: (1) "alien" business activity would pertain *only* to those parties or entities having non-Filipino *citizenship*

status in this country,¹ and (2) meaningful guides to determining the extent and kinds of alien business activity and economic control would be: newly invested capital, participation in net sales and profits within an industry, loan and deposit totals in the banking system, the allocation of foreign exchange, and foreign trade activity. Unfortunately, figures showing extent of ownership of business assets by aliens and other data from 1961 will not be available for some time.

I. CAPITAL INVESTMENTS IN NEWLY REGISTERED BUSINESS ORGANIZATIONS.
SEE TABLES: 1, 2, 3, 4, 5, 6, 7, 8, 9

In 1946, Filipino capital accounted for about 50% of the ₱45,000,000 total investments in new firms. Chinese accounted for one-third, and Americans one-ninth. Over the years, the *amount* of Filipino investment has increased by sevenfold, the Chinese has doubled, and the American remained negligible. By 1960, Filipino investment in newly registered businesses amounted to about 85% of the total.

Similarly, at the present time, the Filipino share of paid-up capital in *tax-exempt industries* is about three-fourths of the total. The aliens' share over the years has dropped from forty to twenty-five percent; although the *absolute amount* of their

¹ Statistics available from government or educational institutions classify Chinese, Americans, etc., *only by nationality*. The question of *how* to classify naturalized Filipinos in studies of this sort is troublesome and complex. In one sense, a person fulfilling the country's legal requirements for citizenship is entitled to the rights and protection of said citizenship—including the matter of classification. Yet the very nature of *reactive* and *exclusive* economic nationalism stems largely from notions and evidence that certain cultural and/or anthropological minority groups (e.g., Chinese) retain such strong devotion and ties to that subgroup, that *legal citizenship* is *not* sufficient grounds for re-classification and protection as a citizen. Does a man at the moment of gaining citizenship then change "allegiance" from mother country or mother group to his new one? Where this query, as in the Philippines, is by no means merely academic, the answers arrived at may very likely determine the economic well-being of the nation. Since adequate studies have not been undertaken to determine the degree and kind of cultural and economic assimilation made by naturalized citizens, the conclusion of this and similar articles must be tempered in lieu of complete evidence.

investments has remained about even over the five-year period, 1956-1960.

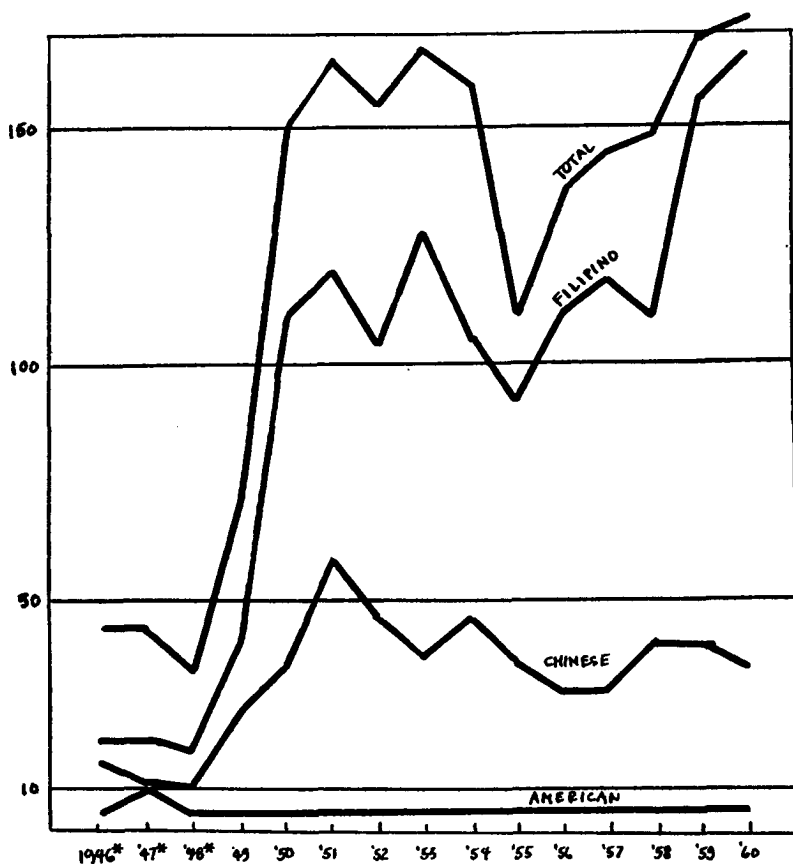
In newly registered retail and wholesale businesses, the total amount invested in them fell sharply from 1953 to 1954, corresponding to the signing of the Retail Trade Nationalization Law. Since then, as the law anticipated, the absolute and relative amounts of Chinese investment has steadily diminished, whereas the Filipino share has increased. It is also likely that these trends are related to the establishment of the NAMARCO, which has distributed commodities only to Filipino establishments, giving them certain strong marketing advantages. In 1961, approximately 75 percent of new capital invested in commerce was of Filipino origin. This trend is shown clearly in Table 6, which describes the changing number of alien retailers registered in the Philippines over the years. That, in addition to 1954, 1960 showed a marked decline from the preceding year in the number of alien retailers registered suggests that this number has responded not only to the Retail Nationalization Act and NAMARCO of 1954, but also to the passage of the Rice and Corn Act in 1960.

In agriculture, the trend for total investments in new businesses since 1953 has been on an uneven increase. Closely paralleling the total curve was that depicting the Filipino share. By 1959 there were but negligible investments in this sector made by aliens.

In the manufacturing sector, the ratio of Filipino investments in new business to the total increased steadily since 1955, while the *total* itself increased sharply during the same period (1956-1961). According to information gleaned from an unpublished study in 1959 made by A. S. Hooley of the Central Bank, in both the mining and textile industries Filipino *capital, sales and profits* are *larger* than those of aliens, and all three accounts have been following steeply rising curves. Among the ten industries studied by Hooley, in only two (basic metals, electricity and gas) did aliens invest more than Filipinos in 1959.²

² Industries studied: Textiles, Footwear, Chemicals, Agriculture, Mining, Wood Products, Basic Metals, Transportation, Electricity and Gas, and Miscellaneous.

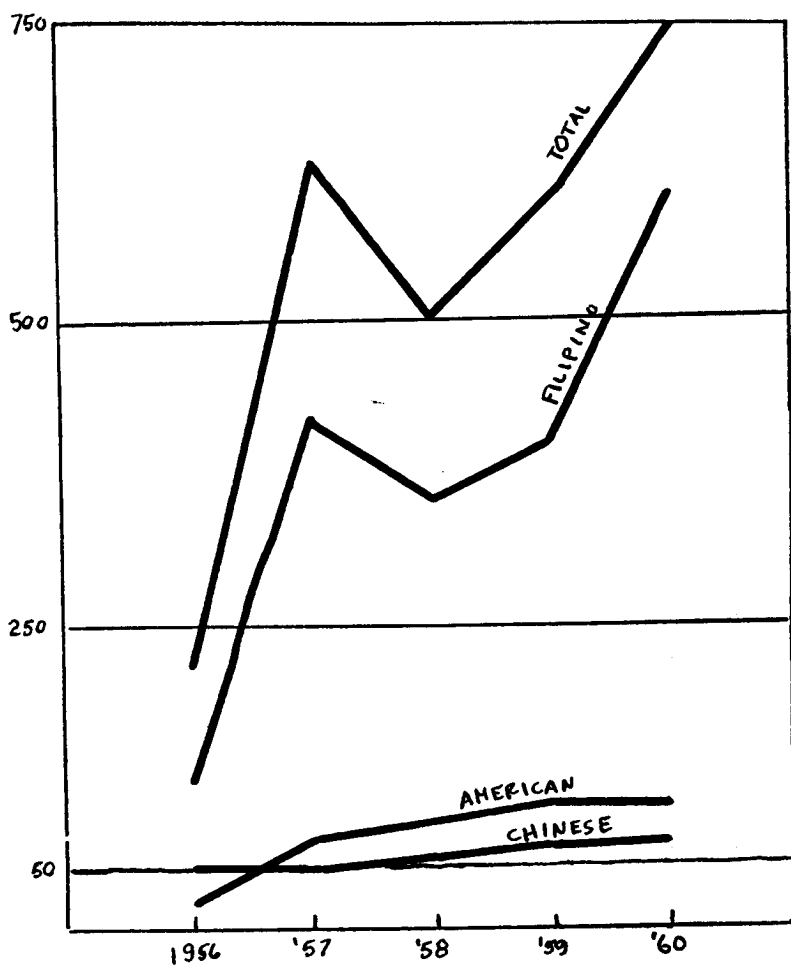
TABLE 1. Capital Investments of Newly Registered Business Organizations Classified by Nationality (in million ₱)



Source: Bureau of Commerce

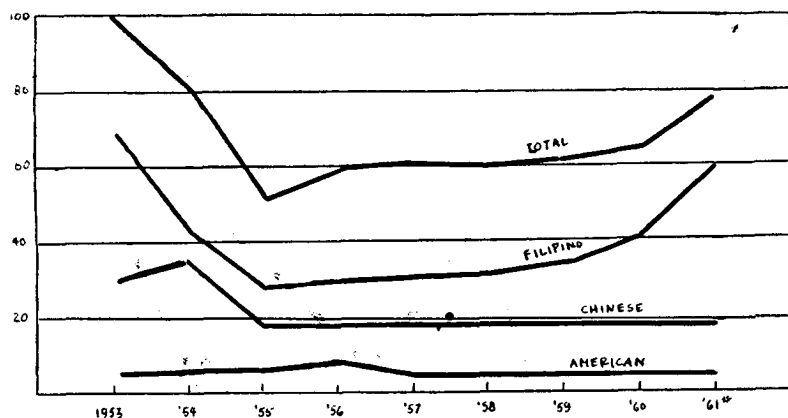
* Does not include partnerships registered in provinces.

TABLE 2. Paid-Up Capital of Tax-Exempt Industries by Nationality
(in million ₱)



Source: Department of Finance

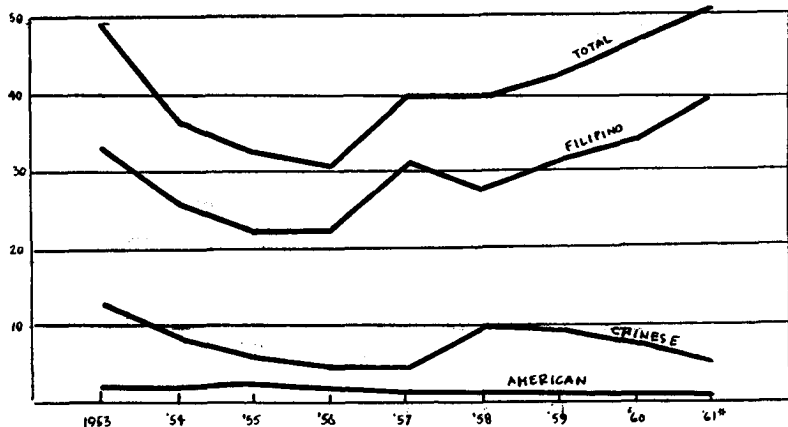
TABLE 3. Capital Investments in Newly Registered Wholesale and Retail Business Organizations by Nationality (in million ₱)



Source: Bureau of Commerce

* 1961 figures are estimates, based on January to June performance.

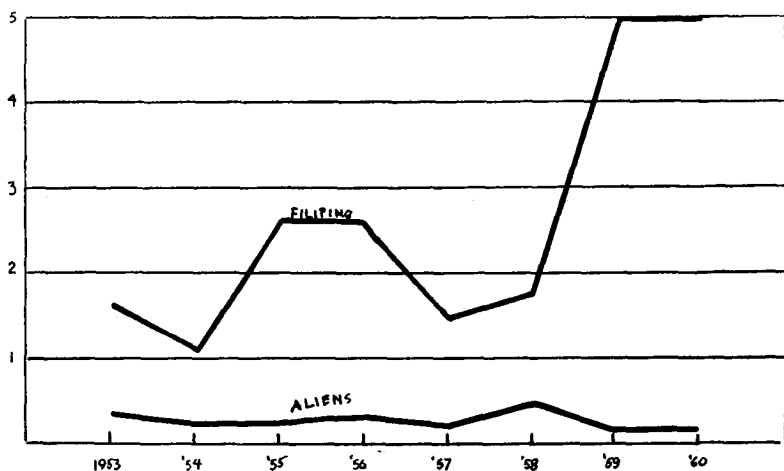
TABLE 4. Capital Investments in Newly Registered Manufacturing Business Organizations by Nationality (in million ₱)



Source: Bureau of Commerce

* 1961 figures are estimates, based on January to June performance.

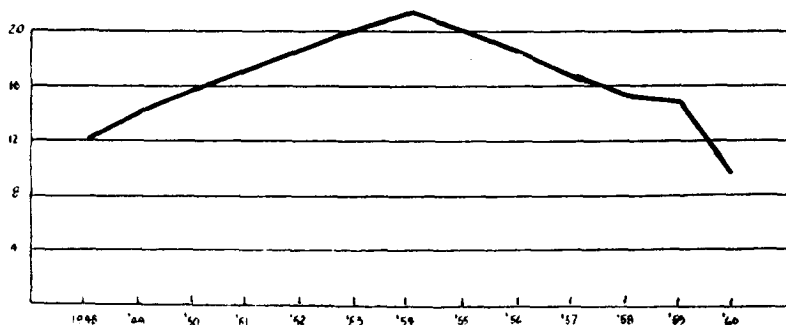
TABLE 5. Capital Investments in Newly Registered Agricultural Business Organizations by Nationality (in million P)



Source: Bureau of Commerce

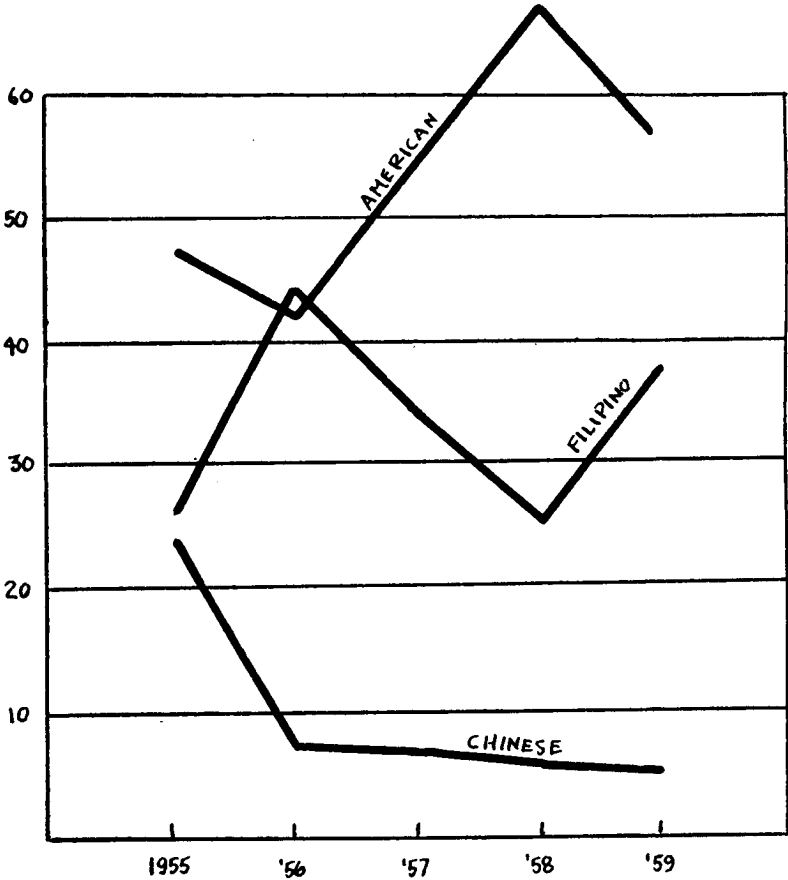
* 1961 figures are estimates, based on January to June performance.

TABLE 6. Registered Alien Retailers in the Philippines (in 000's) 1960 preliminary figures.



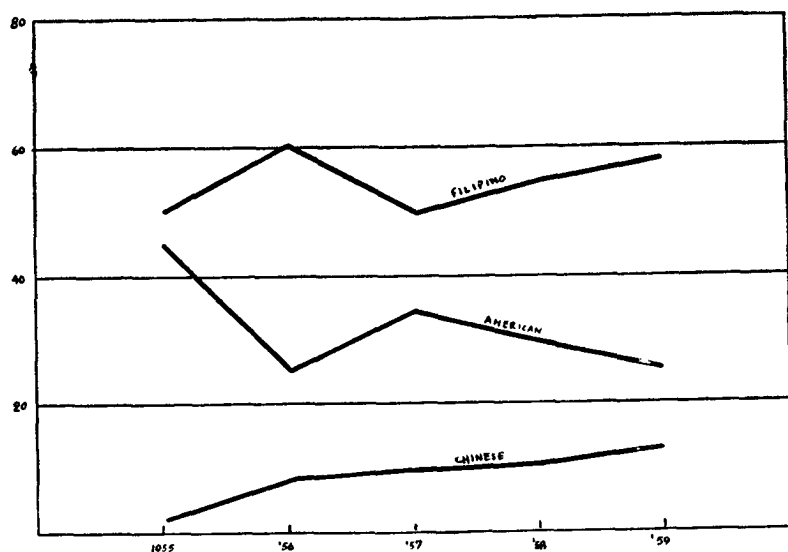
Source: Bureau of Commerce; Bureau of the Census and Statistics.

TABLE 7. Percentage Participation in Paid-In Capital by Nationality in Basic Metals Industry.



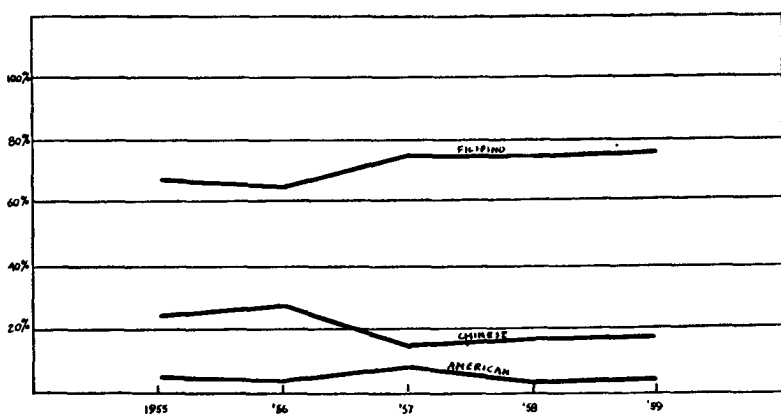
Source: A. S. Hooley, Central Bank of the Philippines.

TABLE 8. Percentage Participation in Paid-In Capital by Nationality in Mining Industry.



Source: A. S. Hooley, Central Bank of the Philippines.

TABLE 9. Percentage Participation in Paid-In Capital by Nationality in Textile Industry.



Source: A. S. Hooley, Central Bank of the Philippines.

2. NET SALES AND PROFITABILITY BY NATIONALITY
FOR SELECTED INDUSTRIES. SEE TABLES: 10, 11, 12, 13

In five selected industries shown in the tables, Filipino and alien firms each dominated the sales and profits in two; whereas among six other industry groups studied by Hooley Filipinos held the edge five to one in sales and four to two in net profits. What is interesting in this breakdown is the characteristics of those industries dominated by the respective nationality groups.

DOMINATION OF:

| <i>Filipino</i> | <i>Sales</i> | <i>Profits</i> | <i>Aliens</i> |
|------------------|--------------|----------------|-------------------|
| Textiles | X | X | |
| Rubber & Leather | X | | |
| | X | X | Chemicals |
| Agriculture | X | X | |
| Mining | X | X | |
| Wood Products | X | X | |
| | X | X | Basic Metals |
| | X | X | Electricity*, Gas |
| Transport | X | X | |
| Miscellaneous | X | X | |
| | | X | Rubber & Leather |

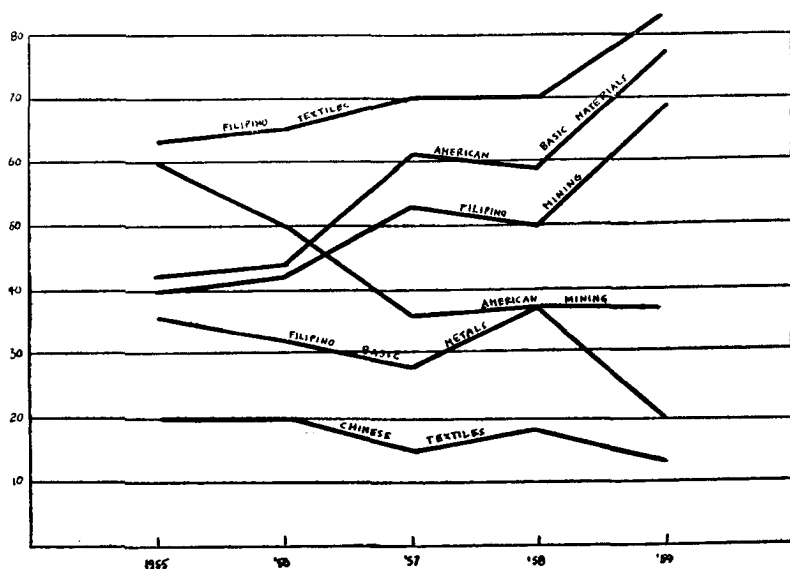
* The Manila Electric Company, owned at this time by Americans, was purchased in 1961 by Filipinos, making them dominant in this line.

The alien domination in sales and profits seems to be in those post-war industries necessitating advanced technological (scientific) know-how and large capital investment. Chemicals, metals, electricity seemingly required sizeable initial outlays, and rubber and chemicals especially advanced technology. Among Filipino-dominated industries, agriculture, textiles, and mining are not *new* ones here, transport is largely owned and

controlled by the government, and wood and leather products require not large amounts of capital investment and/or advanced know-how.

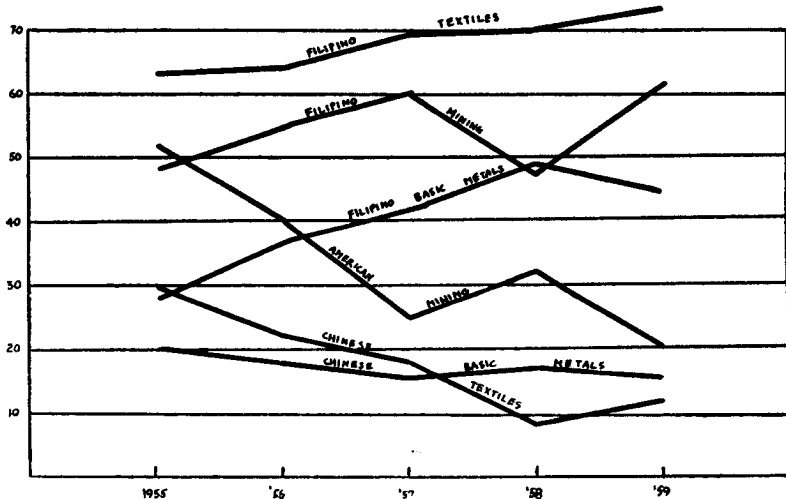
While these generalizations for any one industry may not, in fact, be correct, for the group under surveillance here the explanations seem quite reasonable. Foreign and more developed countries surely have the edge over the Philippines in capital resources and technical and management skills. It is natural that the alien investors should exploit their advantages, especially where the difference is not only a relative one; since the *absolute* amounts of capital and technological resources yet available locally have not sufficed to establish more than a few of the basic and large industries.

TABLE 10. Percentage Participation in Net Profits by Nationality and Industry Groups.



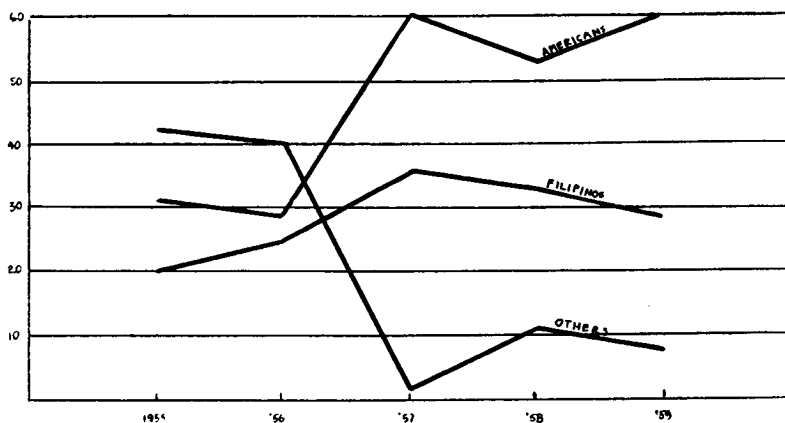
Source: A. S. Hooley, Central Bank of the Philippines.

TABLE 11. Percentage Participation in Net Sales by Nationality and Selected Industry Groups.



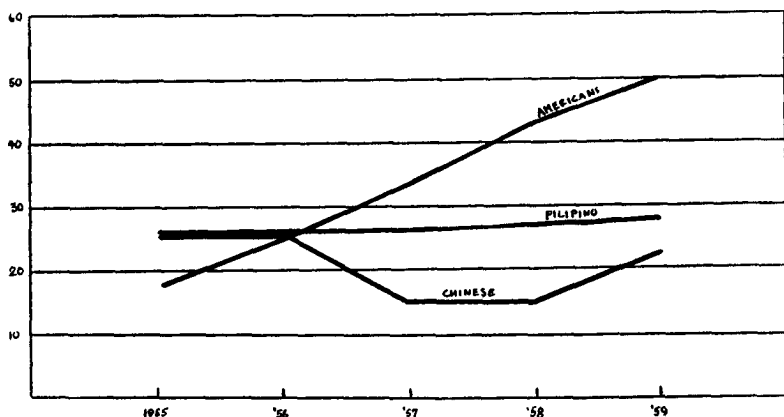
Source: A. S. Hooley, Central Bank of the Philippines.

TABLE 12. Percentage Participation in Net Profits by Nationality in Chemical, Medicinal Industries.



Source: A. S. Hooley, Central Bank of the Philippines.

TABLE 13. Percentage Participation in Net Sales by Nationality in Chemical, Medicinal Industries.



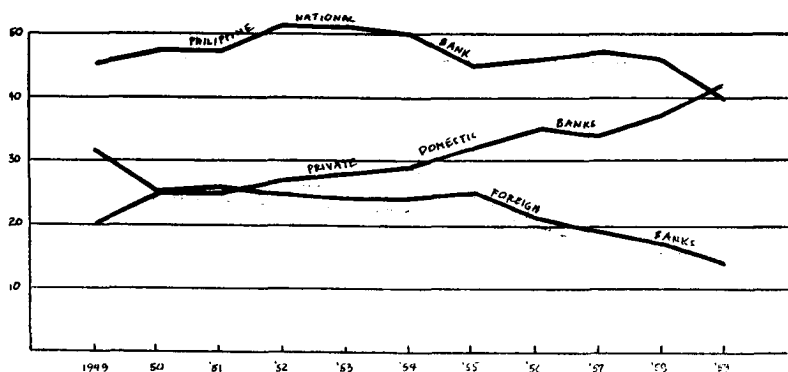
Source: A. S. Hooley, Central Bank of the Philippines.

3. THE BANKING SYSTEM. SEE TABLES: 14 AND 15

While the assertion of foreign domination in the banking community may have been valid in the early post-war years, a trend is now clear wherein since 1952 the total *deposits* and *loans* of private domestic banks are significantly larger than those of their foreign counterparts. Furthermore, in the ten-year period 1949-1959, the *number* of foreign banks remained unchanged at four, whereas the number of private domestic banks increased from six to thirteen.

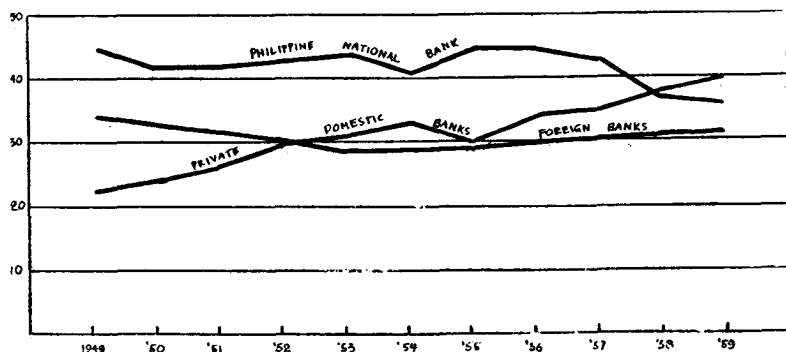
As shown in Tables 14 and 15, the foreign banks showed an increase in deposits of approximately 61 percent over the ten-year period, while the private domestic banks increased theirs by 330 percent. The loans of the foreign banks showed an increase of 70 percent and those of the private domestic banks 520 percent.

TABLE 14. Percentage Composition of Loans in the Philippines Banking System (includes loans, discounts, overdrafts, and bills purchased)



Source: A. V. H. Hartendorp, *History of Industry & Trade 1961*

TABLE 15. Percentage Composition of Deposits in the Philippines Banking System (includes special blocked fiduciary accounts).



Source: A. V. H. Hartendorp, *History of Industry & Trade 1961*

4. FOREIGN TRADE AND FOREIGN EXCHANGE ALLOCATIONS. SEE TABLES:
16, 17, 18

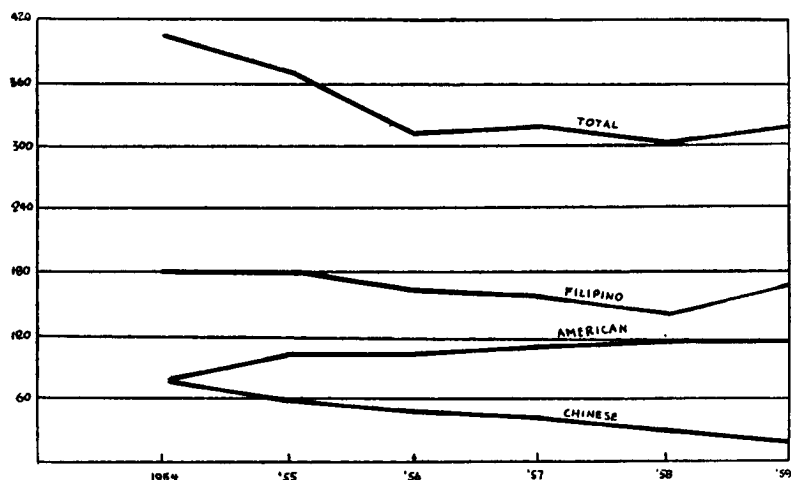
In an island, industrializing economy, under a system of government import and foreign exchange controls, it is the nature of these controls and the way that they have been implemented that is crucial in determining both the *kinds* and *absolute* amounts of business activity and economic growth. Similarly, the *kinds* of business activity in the Philippines are also governed by historical patterns of control and activity within a segment of business, and the opportunity for new parties to gain entrance into the industry.

In the post-war, (pre-control) Philippines, trading was dominated by alien concerns, notably Americans exporters, and Chinese and American importers. The Second Import Control Act, passed in 1950, brought an immediate sharp decrease in the total volume of importation. Even though American-Chinese trading activity dropped 33 percent in the two-year period 1949 to 1951, their Filipino constituents apparently were unable to take full advantage of the slackened competition, for it was not until 1955 that Filipino importers — aided significantly by the decreased foreign-exchange allocations to Chinese — controlled at least half of all imports into the Philippines. By 1960, Filipino importers accounted for *twice* the volume of imports of the American and Chinese traders combined. Their cause was undoubtedly aided by the National Economic Council Resolution 204, containing Filipino First recommendations for the future allocation of foreign exchange. By the end of the first quarter of 1960, Filipinos received 53% of total allocations, as compared to 33% for the Americans and only 6% for the Chinese.³

In the area of exportation, it has only been recently (1957) that Filipinos have come to export at least the volume of the American and Chinese combined. Since that date, the rise in Filipino and decline in alien exports have been steep. In 1960, Filipino exports accounted for about 60% of the total.

³ In 1953 the allocation percentages were: Filipinos, 39.8%; Americans, 26.4%; Chinese, 20.1%.

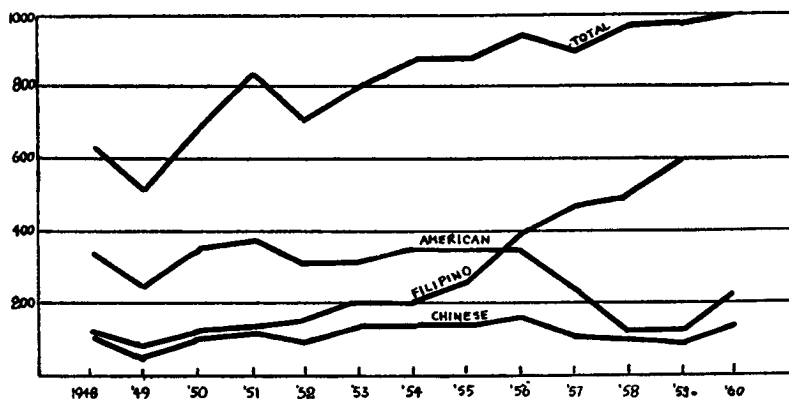
TABLE 16. Foreign Exchange: Regular Quota Allocation by Nationality* (in million US \$)



Source: Central Bank of the Philippines.

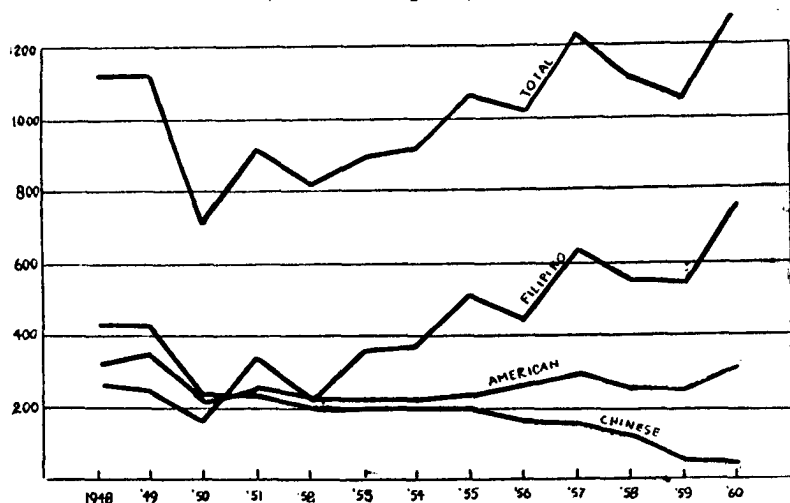
* Exclusive of government allocation.

TABLE 17. Philippine Foreign Trade: Exports by Nationality (f.o.b. millions of pesos).



Source: Bureau of the Census and Statistics.

TABLE 18. Philippine Foreign Trade: Importations by Nationality of Traders (millions of pesos).



Source: Bureau of the Census and Statistics.

INTERPRETATION

The task is now to interpret the information just presented for meaningful implications relating to the welfare of the Philippine nation and the people having an interest in it. A straight interpretation of the numbers alone will not suffice, it is necessary to draw some policy conclusions having to do with the future forms of economic nationalism.

The numbers in this article have pointed to three main conclusions: (1) the trend since 1949 has been for increased Filipino participation, ownership, and influence in the local

business community; (2) today, 1962, the absolute numbers and competitive positions of Filipino-controlled businesses are such that they have a dominant role in the Philippine business community; and (3) the legislated implementation of the Filipino First policy since the early post-war years has been highly successful in the attainment of its expressed goal.

Given these empirical observations about the Philippine business environment, what kind of recommendations for government policy can we make?

1) The Philippine economy has recently been described as being in the "take-off" stage; what economists prescribe to insure its flight are a continuation of the free enterprise system, prudent government credit and development policies, increased foreign trade and fresh capital inflows. Inasmuch as loans from abroad are unlikely fully to satiate the economy's thirst for capital, it is to the foreign investor that this country must turn. And considering that the foreign investor is an *opportunist* and has a whole world in which to find a use for his capital resources, it behooves the Philippine Republic to adopt a realistic, necessary and mature attitude toward the place of foreign business in this economy. Based on all the evidence that is presently available, there is room here for all; the Philippine leaders must appreciate this, and make certain that the world does too!

2) While uncertainties do remain as to the economic behavior of *naturalized* Filipinos, and the exact number of aliens in this country, the evidence based on *nationality* figures suggests that the Filipino people do not *have to* impoverish and crush small alien minorities to assume economic control of the country. Filipinos already have that control.

3) When economic nationalism becomes a battlecry of the people, the opportunity is presented for false nationalistic responses, aimed at undue economic advantage over foreign competitors. While it is difficult to determine the extent to which nationalistic feeling is really a motivating factor and not merely a useful instrument in the hands of businessmen, it is observed

by an eminent study group "that when a Filipino company invokes its nationality as a factor to justify preferential treatment in the grant of dollar allocations, the *probability* is that nationalism is merely being used as an instrument for strengthening its market position."⁴

4) It is not to be denied that in the Philippine business community there are thousands of aliens possessing managerial know-how, capital resources, and wide contacts and associations. To follow a policy of *reactive* economic nationalism, of *excluding* aliens from established businesses for the sake of opening up an opportunity for a Filipino, is not in itself economically sound. The Gross National Products is not affected, economic growth does not result; moreover, it is unlikely that a new owner could manage the same business organization in as efficient and stable a manner as did his predecessor. In that respect the immediate public, and possibly the national economic well-being, would be *negatively* affected.

5) Finally, while the foregoing recommendations are based mainly on the *nationality* evidence presented in this paper, they do not wholly face up to the crux of the problem. For without any evidence as to the economic behavior and allegiance of now naturalized Filipinos, we cannot be sure that a recommendation based on the concept of "an alien is not a citizen" will solve the nation's dilemma. So long as it is possible that many of the Philippines' naturalized citizens *continue* to behave as members of a minority group whose first allegiance is *not* to the Philippine Republic, then Filipino First and articles like this will have somewhat missed their mark.

In lieu of the kind of evidence on which to conclude with a feeling of "having tackled the problem", the best which the writer can suggest is that the answer may lie in dealing *not* with *who* is transacting business in the Philippines, but rather *how* it is done. In this way, the government can stop business practices inconsistent with the common good, *and* the persons so limited will be *only* those who deserve interference.

⁴ The study group was composed of J. Ahrens Dorf, Quirico Camus, Jr., Amado Castro, Armand Fabella, B. Legarda, Jr., Thomas MacHale and Sixto Roxas.