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The Philippines: An Economic Situationer

By

Rufino O Rogel
FOREIGN TRADE

The Philippines' traditional exports are coconut products, sugar, copper concentrates, logs and lumber. The country's imports are composed mostly of oil, capital equipment and raw materials.

It is interesting to note, however, that oil alone accounts for about 30 percent of the country's import bill. Whatever gains are made by the export sector are also dented by foreign exchange expenditures for merchandise imports.

Experience has shown that the country's traditional exports are vulnerable not only to changes in the international market scene but local unforeseen forces like the long dry spell that struck the coconut industry this year.

Be that as it may, rapid changes are taking place in the structure of exports with the steady increase in non-traditional exports like garments, semi-conductors (integrated circuits or chips), handicrafts, furniture and footwear.

To boost this emerging export sector, the government is offering various incentives like preferential financing known as export packing credits and tax reliefs.

No less than the Ministry of Trade and Industry took cognizance of this development by evolving an export development strategy which calls for, among other things, a long-drawn search for a wider market for these products.

But efforts to promote the sector seems to be lagging and one of the primary causes was traced to underutilized plant capacity because of lack of raw materials.

This situation is rather ironic for the simple reason that the country is rich in natural resources.

The root cause was trace to heavy exports of raw materials and steps are now being undertaken to provide incentives to gatherers of raw materials who sell their goods to local manufactures.

Another factor contributing to the slow growth of non-traditional exports is foreign trade preferences.

The roots of the current difficulties brought about by high trade and current account deficits lie deep in a context of world and domestic economic, political and confidence factors, according to the Philippines' Central Bank.

Filipinos have been used to cheap imports and a stable peso-dollar exchange rate that a depreciation in the value of the peso vis-a-vis the U.S. dollar, such as what has taken place since 1981, tend to be viewed with mistrust.
INDUSTRY

Industrial investments that were heavily foreign-financed continue to feel the pinch of the oil shock of the '70s and the subsequent worldwide recession that followed.

The cumulative impact of high import prices, low export prices and tight credit resulted in a considerable drop in the industry capacity utilization rate but most industries, including the sub-marginal ones, continued to operate either as a tax umbrella for related business interests or purely for prestige.

The prevailing economic conditions coupled with the belt-tightening program also saw nine of the 11 major industrial projects undergo further studies or were momentarily shelved while waiting the end to the financial crisis.

Only two of the 11 projects are on stream - the copper smelter plant and the phosphate fertilizer plant.

The other projects still under consideration are coco chemical complex, diesel engine, non-energy sources, copper fabrication, aluminum refinery, pulp and paper, heavy engineering, integrated steel mill and petrochemical projects.

Viability tests, in terms of peso profitability, employment, tax and foreign exchange generating capability were employed, but in the end, the time lag between investment financing and future foreign exchange receipts has proved to be too long.

To check the high dependence on imported inputs, the government is now restricting importations and materials which can be supplied competitively by local firms are referred to the Board of Investments for possible assistance in terms of incentives.

In line with the government's policy of equitable distribution of wealth, a law was enacted which also envisaged balanced national economic growth and development.

The law gave impetus to the policy of the State to encourage investments and to assist the establishment and development of industrial and agricultural projects to generate employment and raise the standard of living in less developed areas.

With regards to foreign investments, government policies and incentives are structured to attract foreign investments in preferred areas which it believes can fill the gaps in the industrial structure.
Besides stimulating the development of an integrated system of industries, foreign investments are encouraged in ventures where substantial amounts of capital and a high degree of technical skill and knowhow are needed.

A Technology Transfer Board monitors the activities of foreign investors in highly-technical ventures and firms are required to submit progress reports regarding the transfer of technology.
ENERGY

The country's energy self-reliance continues to improve with the development of indigenous energy sources. In particular, geothermal is turning out to be the major replacement for oil-based electricity.

For 1982 alone, the displacement of imported oil by local energy sources resulted in savings of $918 million, pushing the country's degree of self-reliance from 22 percent in 1981 to 32 percent last year.

Prior to the development of alternative energy sources, the oil bill has singlehandedly accounted for more than 70 percent of the country's perennial trade imbalance.

In the development of alternative energy sources, geothermal aims for the confirmation of an additional 1,375 megawatts of field steam capacity by 1987.

This will require exploration and development activity in 14 fields, and the drilling of 300 wells with an aggregate depth of 2.4 million feet.

The start-up of power plants of 112.5 MW in Tongonon, Leyte and Southern Negros this year boosted the installed capacity of the National Power Corporation and further reduced the share of oil-fired plants in generating electricity.

With an installed capacity of more than 700 MW, the Philippines has become the world's second largest producer of geothermal steam for power generation. This comes from the development not only of the fields in the Visayas, but also of the Tiwi and Makiling-Banahaw fields in Luzon.

The renaissance in coal mining, spurred by the Coal Development Act of 1976, has raised annual output by 55 percent at 558,000 metric tons (MT) and is expected to hit the one-million-metric-ton mark this year.

To develop a substantial market, the government is assisting the cement industry, composed of 18 plants, to convert their oil-fired machineries to coal.

Based on the requirements of these prospective users, in addition to the current needs of minesites, the coal demand is expected to rise about 6.7 million MT by 1987.

Supplementary imports may be needed until domestic output catches up with demand. The high-grade imports will also be used to upgrade domestic stock which is mostly of sub-tuminous quality.
The 620 MW nuclear plant now being built on the west coast of the Bataan Peninsula is expected to come on stream by 1985.

Due to the various upgrades introduced in the plant design following the Three Mile Island incident, officials said it has become the most modern and safest plant of its design in the world today.

On petroleum consumption, the government's policy of allowing prices to adjust itself, in relation to the floating exchange rate of the peso vis-a-vis the U.S.-dollar, is paying off.

Records of the Ministry of Energy showed that consumption continued to decline in 1982 totalling 74.7 million barrels compared to the previous year of 75.2 million barrels.

To meet the energy needs of rural areas, the President issued a decree in 1973 converting the National Electrification Administration into a public corporation to implement the total electrification of the country on an area-coverage basis.

The decree calls for the development of rural electric co-operatives which are granted long-term, low-interest loans to subsidize the construction and operation of electric distribution system.

The energy needs of the rural areas are variable but majority of the requirements is for lighting purposes while some areas use it for running irrigation pumps.

Electrification, ecology-wise, is not yet affecting the rural areas since most plants are located in remote areas. Plans are on for the introduction of mini-hydro power plants.
SOCIAL NEEDS

Economic development is not an end in itself since the overriding condition is to bring the benefits of economic progress to the most number of people.

The Philippine government, however, has adopted a new work ethic and does not believe in dole-outs as a system for the distribution of wealth by encouraging everyone to work and contribute to the well-being of society.

An innovative livelihood program called Kilusang Kabuhayan at Kaunlaran (KKK) was launched specifically to help every individual, even a bootblack or a marginal fisherman, with seed capital to start his own small business and repay back his loan.

The beneficiaries of the program are mostly landless workers, subsistence farmers, urban slum dwellers, cultural communities, out-of-school youths and disabled persons.

The restructuring of the country's educational system to meet the requirements of national development is likewise a major area of concern.

As a basic policy, the new Constitution of the Philippines provides for the establishment and maintenance by the state of a complete, adequate and integrated educational system relevant to the goals of national development.

Access of children to elementary education is unhampered since public schooling is free while there are a number of private schools catering the various strata of society.

Records of the Ministry of Education, Culture and Sports show for school year 1981-82, there were a total of 8,670,613 children from seven to 12 years old in the elementary level or up by 217,601 ever the previous school year's level of 8,453,012.

For secondary education, public schools charge minimal fees payable in installments but poor and deserving students are granted scholarships.

Health services have increased much in recent years, with the nutritional status of the poor getting unprecedented attention.

Health and nutrition programs have focused on people in the small towns and villages, and on the poor areas of the big cities, that investment has matched the intensity with which the programs have been carried out.
The number of hospitals alone has grown by almost 70 percent while the building of regional training centers and barangay (village) health stations has similarly been speeded up.

Programs to moderate population growth and to avert malnutrition especially among babies and nursing mothers, have been successful.

The crude birthrate was reduced by 2.7 percent 1980 to 1981, an indication that the population control program is paying off.

To maintain environmental sanitation, an intensive campaign for better sanitary facilities and an active participation by the government on dissemination of food hygiene is effected.
AGRICULTURE

The Philippines was not only able to attain self-sufficiency in rice, but it also became a rice exporting country through the efforts of the government and the farmers.

What could be considered as the turning point is the Land Reform Act of 1972 which gave recognition to farmers as owner of the land they till particularly in small towns and villages in the countryside where roughly 67 percent of all Filipinos live.

Besides transferring ownership of these lands to farmers tilling them -- under a government subsidy that enables them to pay the landlords in easy installments -- the government has supported land reform with a package of services.

The package includes farm credit, free legal services, agricultural extension, marketing facilities, infrastructure, rural electrification, cooperatives and manpower development.

Credit support is also given to postharvest activities through the extension of the Grains Quedan Financing Program to include other grains and commodities.

Added to this is a favourable pricing policy and a marketing scheme that assures farmers not only of a ready market but a comfortable margin of profit to enhance their economic well-being.

With regards to sugar and edible oils, the government established marketing schemes in a continuing effort to protect smallholders.

For sugar, the government established the National Sugar Trading Corp. (Nasutra) where even smallholders can sell their product at a set price.

On the other hand, a farmer-owned company was established to serve as the marketing arm of coconut farmers themselves to obtain the highest price possible.

Known as Cocomark, the system calls for a systematic gathering of coconut products from municipalities to the provinces, cutting across the well-entrenched and long lines of middlemen.

To improve yields, researches are going on and a replanting program is also carried out. Hybrids are being introduced which are fast maturing and gives more nuts per tree.
Inter-cropping is likewise encouraged not only to augment the income of farmers but as a hedge against uncertainties in the world market.