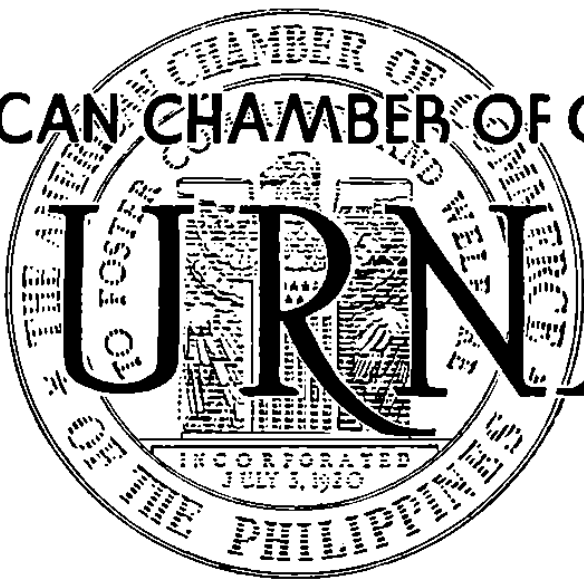


# THE AMERICAN CHAMBER OF COMMERCE

# JOURNAL



## Editorials

*“ . . . to promote the general welfare ”*

Despite the fact that President Magsaysay's Address on the State of the Nation, delivered on the opening day of the Second Session of

### The Magsaysay "State-of-the-Nation" Address

the Third Congress of the Republic of the Philippines, January 24, is rather long, it is printed in full in this issue of the *Journal* because of its value not only as an authoritative official statement on present conditions, but also a comprehensive progress report for the year 1954, the first year of the Magsaysay Administration, and a valuable forecast of what may be expected during 1955.

It is to be regretted that some of the statistics given concerning the national finances are still not the annual figures but cover varying periods, some ending as of September 30, others as of October 31, and, concerning government finances, as of November 30. The annual presidential addresses on the state of the nation could be even more valuable sources of references than they are if complete annual figures could be included each year.

The President spoke with an appealing modesty on the accomplishments of the year and credited them chiefly to the people themselves "who wanted them and worked to bring them about". The chief accomplishment was a moral one. He said that when his Administration took over, "there were bitter dissension and defeatism...our people had lost [we would have said, "had all but lost"] faith in their institutions and themselves." With truth he said, "Today, there is a new spirit of confidence in our land."

Since the address is printed in full in this issue of the *Journal*, it is not necessary to attempt to summarize it here. Let it suffice to point out that the entire address was excellently organized. The President, after his introductory remarks, spoke first of the national security and the relationship of this security with the Philippine-American Mutual Defense Treaty and the Southeast Asia Collective Defense Treaty, and then he spoke of the country's internal security, more particularly with respect to Communist subversion, and in this connection he mentioned the surrender of Luis Taruc and the death of Mariano Balgos, two of the top communists of the country. Externally and internally, the national security has greatly improved.

Next he spoke of what has from the first loomed as a matter of very great importance in his mind,—rural reconstruction. To this topic he devoted more than a third of his address. The subject of labor came next and then that of industrial development. The next section dealt with national and government finances, and this was followed by a short section on economic planning. Under the heading, "Foreign Affairs", he spoke first of the negotiations for the revision of the Trade Agreement with the United States and then of the Philippine-American collaboration through the PHILCUSA-FOA program. The last part of the address was devoted more particularly to the relations established between the Government and the people and to morality in the conduct of government business; he made especial mention of the Presidential Complaints and Action Committee (PCAC) which represents a characteristic Magsaysay innovation in government action, and which, he stated, "has done a good job." In his concluding remarks he spoke of the year ahead and of the need of a "united leadership worthy of the confidence and support of all our people".

It was a high-spirited and tonic address, such as should come from the head of a nation.

A FEW points brought out by the President in his address gives rise to some uneasiness. He stated that while the ordinary operational expenses of the Government were reduced to some extent and "deficit spending for ordinary expenses has become a thing of the past", the public debt has increased by ₱65,400,000 to ₱1,168,000,000, and that past deficits amounting to ₱275,260,000 "must still be settled" and outstanding budgetary loans amounting to ₱160,000,000, plus ₱550,000,000 in backpay obligations also "must be paid". Consequently, he said, "we must be prepared to increase existing tax rates, levy new taxes, or resort to public borrowing for the purpose of accelerating our economic development". The "or" in this statement is somewhat equivocal. Public borrowing has already been resorted to, and taxes already being numerous and existing rates being already high, the President seems to have implied that public borrowing, that is, deficit financing, must be continued,—on the grounds, as he said, that "the financing of capital investments and permanent public improvements for economic development is another matter",—he meant, from the deficit financing of operating expenses.

This is, of course, another matter, but deficit financing for any purpose piles debt upon debt and these debts must be serviced,—that is, interest payment and amortization has to be provided for, so that deficit financing offers no real solution unless it results in the establishment of public works and enterprises from which an almost immediate return can be had.

The only true solution to the country's financial problems is not to enlarge them and thereby make them more difficult of solution, but to exercise the greatest caution in assuming further obligations and to turn, instead, to more determined efforts to obtain the assistance of private capital.

In his advocacy of industrial development, the President indeed declared that he could not over-emphasize the need for measures to encourage and facilitate the entry of foreign capital, but his rather light-hearted statements later on in his address with respect to continued government borrowing even if it would be for economic development, weakens this point.

It would seem that if the Philippine Government is to act wisely, there is really no alternative between public financing on any great scale of further economic development, and the private financing of such development. The only wise course is to rely chiefly, if not entirely, on private financing and to make the decision to that effect absolutely clear, further taking measures to make this financing economically possible by definitely providing the necessary inducements and protection.

On the one side there is the prospect of a piling of debt on debt by an already debt-ridden government, and, on the other, the prospect of more directly and more rapidly achieving the desired result,—economic development, at no cost to the government and, indeed, to its great and immediate profit.

It is strange that there should ever be the slightest hesitation in determining upon such a course of action, but "socialistic" and "planned economy" notions still continue to pervert much of our economic thinking. Let us have our national economic councils and planning boards, but let them plan principally on getting government back to governing and turning business over to business.

The fact, given in another editorial in this issue of the *Journal*, that the United States, Western Europe, and Canada, comprising the most

### The Importation of Raw Materials in Industry

highly industrialized countries in the world, are dependent on outside areas for no less than 50% of their combined imports of industrial raw

materials (exclusive of raw foodstuffs), and that the demand for these foreign raw materials is rapidly increasing, gives emphasis to the principle that industrialization anywhere is largely based on the importation of raw materials.

If the Philippines is further to industrialize the economy, no restrictions whatever should be placed on the importation of the necessary raw materials.

That this principle is not so well understood as it should be, is indicated by a recent move in Congress to deny foreign investors the right to establish any industrial or manufacturing activity which would require raw materials more than 30% of which would have to be imported.

Such a provision, incidentally, conflicts with the provision in the New Industries Tax-Exemption Law (Republic Act No. 35 as amended by Republic Act No. 901), which specifies that no industry is eligible for tax exemption in which the required imported raw materials represent a value of more than 60% of the manufacturing

cost plus reasonable selling and manufacturing expense. And this Law covers only the eligibility for tax exemption; it does not actually forbid, as a Bill recently introduced would, the establishment of a new industry by foreign investors which would require a proportionately greater foreign importation of raw materials than the 30% specified.

It is true that there has been a certain disappointment in the Philippines over the fact that some of the so-called new industries started here in recent years are little more than packaging plants whose establishment was more or less forced by the import and exchange controls. As this *Journal* has pointed out, such forced "industrialization" has little to commend it, as, often, the ventures may be basically uneconomic.

But limiting the proportionate amount of foreign raw materials required, is certainly no way to encourage a more genuine industrialization.

Whether all or a large part of an industry's raw materials would have to be imported, is not the principal criterion by which the possibilities and value of an industry is to be tested or measured.

From the point of view, both of the interests of the country and the interests of the investors, there are other important factors. From the point of view of the country, any new industrial investment, if successful, means enlarged trade, increased production, more employment, larger tax revenues, a greater economic dynamism.

From the point of view of the investor, granted that the local availability of all or part of the raw materials required is a factor, there are other important factors which may offset the importation handicap: the industrial facilities present (labor, transportation, power), and, especially, the present and future market possibilities, as well as such factors as property security, freedom of management, level of taxation, transferability of funds, etc.

A very important consideration in connection with the Philippines as an industrial investment area, is the country's geographic situation with respect not only to the mainland of Asia, but its distance from other industrial centers. The Philippines' relative security, its relatively high cultural advancement, its form of government, and its international political associations, are still others.

The exact percentage of the imported raw materials required by a projected industry, may, in many cases, be a relatively minor consideration which should be left to the business judgment of the investors and entrepreneurs whom the Philippines wishes to attract.

Let us be careful in the framing of any legislation covering foreign investment that it will actually be a law to promote it and not to restrain it.

It is worthy of note that President Eisenhower used the words "foreign economic program" rather than "foreign aid program", both in the

### The Economics of Foreign Aid

title and in the body of his message to Congress on this subject, delivered last month, and that he

again pointed out that American self-interest is concerned.

In outlining the need for a continuation of a foreign economic program which "will stimulate economic growth in the free world through enlarging opportunities for the fuller operation of the forces of free enterprise and competitive markets", he declared that our self-interest requires such a program because (1) the economic strength of our allies is essential to our security, (2) economic growth of the underdeveloped countries is necessary as a bulwark against Communism, and (3) greater trade will help our growth and rising standards of living.

UNITED States post-war aid to the rest of the free world during the period from July 1, 1945, to the end of