Implications of Economic Internationalization for Economic Development in the Philippines

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If it is contended that the goal of the economic internationalization is to underpin an open, fair and free economic structure which nurtures competition, innovation, and the creative entrepreneurship, it might not be claimed that the economy of the Philippines is to a satisfactory extent internationalized. Many studies point out that the following problems, *inter alia*, had prevented the internationalization and at the same time had impeded economic development in the Philippines over the past two to three decades: an inward-oriented growth strategy; the inequal income distribution; a slow land reform; a preferential credit allocation; and the economic concentration on large firms. (*JEL* Classification: P16)

I. Introduction

The word "internationalization" is obscure, and it is not thought that the term has been prevalently used for economic discussion. It has been used with various different implications according to the interest and intention of the people who deliberate economic openness or outwardness. Above all, this word seems to be used only in a handful of East Asian countries which have contrasted themselves with the Western economic model by taking advantage of the so-called East-Asian growth model signified by an extraordinarily rapid growth under a *dirigistic* governmental regime.

The issue of internationalization is deemed to have begun to attract

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the public attention in the wake of two internationally interrelated events which had taken place since the late 1980s. The first event was the demise of the centrally-planned economic (CPE) system together with the collapse of the former Soviet Union. The CPE system had been sustained in the communist countries over the past seven to eight decades with it being compared to the market-oriented economic (MOE) system, which has been underpinning economic system in the capitalist countries. However, with the collapse of the CPE system, the general assessment is that the MOE system was much superior to the CPE system in light of the better economic performance of countries under the MOE system.

The second event is the conclusion of the Uruguay Round talks of the GATT after about seven years of multilateral negotiations which aimed at a freer system of international trade. It is now supposed that the World Trade Organization will soon loom as a new international organ to govern world trade in place of the GATT, which guided world trade since World War II.

These two momentous events are creating a new global politico-economical order which underscores a more open, liberal economic system, a system somewhat overshadowed until before these two events occurred. This new trend is a dominating one which individual countries cannot resist to comply with. Under these circumstances, the issue of the economic internationalization has emerged as an important policy task for the East Asian countries, including the Republic of Korea, which has by and large favored a protectionist economic regime by international standards.

In the Philippines, as a matter of fact, the issue of the economic internationalization did not emerge as an important policy agenda. However, with the background as discussed above, this paper attempts to deliberate this topic with respect to the Philippines.

Section II of this paper discusses the nature and goals of economic internationalization. Section III presents a brief overview of the historical background and recent growth performance of the Philippines. Section IV examines the impediments to both internationalization and economic development in the philippines. Section V presents concluding remarks.

II. Nature and Goals of Economic Internationalization

It is not easy to unquestionably construe the nature and goals of the economic internationalization. However, this paper wants to define economic internationalization as a state or situation where the overall economic system is underpinned by the economic paradigm proven internationally as the most constructive for the enhancement of socioeconomic welfare. It is proposed that such paradigm should be constituted by three guiding principles, namely, economic freedom, fair competition and creative entrepreneurship. Furthermore, such an environment should be en-sured not only for domestic citizens but also for foreigners, albeit not exactly similarly, in order that the economic internationalization can be secured in a true sense. Economic history evidences that such an economic paradigm has been most productive for economic progress and most beneficial for the enhancement of economic welfare.

In the first place, freedom in economic activities, including resource allocation, production and consumption, should be preserved as long as the economic activities are not generating any economic harm or external diseconomies. Market participants should determine their demand and supply, and the government or any other economic planning unit should not go beyond the extent of nurturing and supporting the private sector. This supporting role of the government will lead to a good governance which in turn will generate dynamism and efficiency of markets and market participants.

Such free and open system gives rise to the maximum flow of ideas, thereby spurring innovation and generating technological progress. The endogenous growth theory (e.g., Romer 1986, 1990; Lucas 1988; Murphy et al. 1989; Grossman and Helpman 1991) introduces explicitly knowledge, R&D, innovation and new ideas in the determination of the long-run growth rate. It points out that the presence of increasing returns caused by such factors is responsible for the per capita income growth in the long run.

Second, it is a central constituent of the internationalization to ensure fair competition with equal opportunity among all the economic participants. No protective shelter should be rendered to any particular classes or individuals, and no one should be provided any privileges in relation to credit, tax, license, production, trade, etc. Unequal opportunity at one point in time generates unequal opportunity subsequently over time. Once people are excluded from certain opportunities, they are deprived of the incentive and chances to develop their potential that they otherwise can realize.

Last, the internationalization entails the encouragement of the creative entrepreneurship as an imperative element. The entrepreneur undertakes the role of introduction of a new production technique, production of a new commodity, improvement of production systems, development of newly discovered resources, or exploring new markets.[1] In sum, creative entrepreneurship plays a pivotal role in economic progress. In Schumpeter's world, it is the supply of entrepreneurship that ultimately determines the rate of economic growth.

III. Historical Background and Recent Growth Performance of the Philippines

A brief overview of the historical background and recent growth performance of the Philippines would be useful for understanding its intrinsic problems in relation to internationalization and economic development. More than four centuries ago, Ferdinand Magellan, the Portuguese explorer, landed in the Philippines. Soon the Spanish colonized the country. At the end of the 19th century, the Filipino people were able to be independent from the Spanish rule, but immediately after that the country was annexed to the United States.

In terms of the global strategy employed by the U.S., the Philippines was then vitally important to its operation. "The Pacific is the ocean of commerce of the future. Most future wars will be conflicts of commerce. The power that rules the Pacific, therefore, is the power that rules the world. With the Philippines, that power is and will forever be the American Republic," said the U.S. Senator Alfred Beveridge in January 1990.[2]

The time of the U.S. administration was a thriving period to the *hacienderos*, the Philippines' landowning elite because agricultural exports were booming, particularly due to the country's position of being included within the boundary of the U.S. tariff barriers. At the same time, U.S. manufacturers enjoyed free access to the Philippine market: which impeded the development of local industries.

In 1946, after three years of Japanese occupation, the Philippines became independent. However, the U.S. and the Philippines continued their close economic ties through the establishment of preferential tariffs, special treatment for U.S. investors and an exchange rate system

[1]Benjamin Higgins (1968), pp. 93-5.

[2]Alfred Beveridge, "Our Philippine Policy," Congressional Record, 9 January 1990, quoted in Boyce (1993), p. 5

pegged to the U.S. dollar.

In the 1950s, industrialization efforts were strengthened sparked by the introduction of import controls which initially had been imposed to alleviate the balance of payments crisis in 1949, but were later undertaken in order to protect domestic producers of consumer goods from foreign competition. Attributed to such policies, during the period 1949 to 1958, the output of manufacturing increased by 12 per cent annually. A new industrial group emerged and clashed with the group of the agricultural exporters on certain policy issues, particularly on the exchange rate policy: the former favored a strong peso to import capital goods and raw materials at a cheaper peso price, whereas the latter preferred a weak peso to secure a better exchange rate condition for agricultural exports.

In 1961, Diosdado Macapagal became the President and in 1962, he attempted to introduce drastic changes in trade and exchange rate policies by removing import and foreign exchange controls to a significant extent, while at the same time devaluating the peso by almost 100 per cent. By this move, agricultural exports once again became active and the traditional oligarchy resumed to gain economic power. However, this period observed a higher rate of economic growth than that in the subsequent period. During the period 1961 to 1965, the rate of real GNP averaged 5.6 per cent, the highest among the average records achieved by each President for the period 1961 to 1993 (Table 1).

In 1965, Ferdinand Marcos was elected as the country's new President. He maintained and strengthened his political power by the support of military officers, civilian technocrats and his followers at home as well as the support of the U.S. In 1969, he was reelected and in 1972, he declared Martial Law. He ruled the country for twenty years until he was ousted by the "people's power" revolution of February 1986. The period of his presidency may be called the "lost two decades" in the recent history of the Philippines. Abuses of national resources by his family and his limited group of favored followers together with a mismanagement of economic policies led to disastrous economic results, signified by low economic growth, a huge foreign debt, ruin of economic infrastructure and aggravation of poverty. His two decades of power transformed the Philippines from what was once the second richest after Japan in Asia to one of the poorest countries in the Asian region.

Corazon Aquino became the President by the People's power revolution in 1986. It is the common assessment that she had difficulty in

TABLE 1
ECONOMIC GROWTH, POPULATION, AND UNEMPLOYMENT: 1961-1993
(annual average; in per cent)

President (Year)	GNP[1] (Growth)	Population (Growth)	GNP per capita (Growth)	Unemployment (Ratio)
I. Macapagal				
(1961-1965)	5.6	3.0	2.6	6.4(1961)
II. Marcos				
(1966-1970)	4.8	3.0	1.8	7.0(1966)
(1971-1975)	6.4	2.7	3.7	4.2(1975)
(1976-1980)	6.3	2.8	3.5	5.0(1980)
(1981-1985)	-1.0	2.5	-3.5	7.1(1985)
(1966-1985)	4.1	2.8	1.6	7 1(1985)
III. Aquino				
(1986-1991)	3.8	2.4	1.4	9.0(1991)
IV. Ramos				
(1992-1993)	2.0	2.2[3]	-0.2	8.9(1993)
V. Whole Period				
(1961-1993)	4.1	2.7[4]	1.4	4-9
Actual Number				
1993	US$55.4 bln.[2]	64.3 mln.[3]	US$839[2]	8.6%
1961	US$7.5 bln.	28.4 mln.	US$265	6.4%

Note: 1. GNP is measured in constant 1985 pesos.
2. In current prices.
3. 1992 only, due to lack of data in 1993.
4. 1961-1992 due to lack of data in 1993.

Sources: Asian Development Bank, *Key Indicators* 1993; *International Monetary Fund, International Financial Statistics* (various issues); and National Economic and Development Authority, Philippines, *1980 Philippines Statistical Yearbook.*

controlling her transitional government during an era of crisis. The country experienced severe natural disasters, while it suffered from political instability. Several coup attempts by some military factions had aggravated the fragile political situation after the people's power revolution, while a string of natural disasters, including earthquakes, volcano eruptions and typhoons afflicted the already impoverished economy. Furthermore, her populist policy attitude did not pay enough attention to rehabilitating the country's infrastructure and this problem led to serious infrastructural constraints which emerged in the

TABLE 2
COMPARISON OF GROWTH WITH OTHER EAST ASIAN DEVELOPING COUNTRIES: 1961-1992 (annual average in per cent)

	GDP	Population	Per Capita GDP	Per Capita GNP (US$: 1992)
Philippines (GNP)	4.1	2.7	1.4	(847)
Republic of Korea	8.3	1.8	6.7	(7,007)
Taipei, China	8.9	2.0	6.9	(10,219)
Indonesia	5.7	2.3	3.4	629
Malaysia (1970-1992)	4.9	2.7	2.2	2,936
Singapore	8.3	1.7	6.7	16,582

Sources: International Monetary Fund, *International Financial Statistics* (various issues); Taipei, China, Council for Economic Planning and Development, Taiwan, *Statistical Data Book*, 1967, 1981, 1988; and Asian Development Bank, *Key Indicators* 1993.

subsequent president Ramos administration.

As soon as Fidel Ramos took the office of the President in 1992, he initiated broad-based reforms aimed at promoting exports, the inflow of foreign direct investments, rehabilitation of infrastructure, encouragement of investment, and consolidation of fiscal deficits. Unlike in the era of President Aquino, President Ramos secured excellent political stability and the country has not suffered from any acute natural disasters. However, for the period 1992-93, annual rate of growth of real GNP averaged only 2.0 per cent, much lower than the rate of growth during the Marcos and Aquino eras. This poor performance was attributed to the severe power shortages, which were a natural result of the outdatedness and deterioration of power plants. In the first half of 1994, however, the rate of GNP growth exhibited more than 4 per cent, as the reform programs began to work.

In sum, over the last three decades from 1961 to 1993, the annual average rate of growth of real GNP in the Philippines remained at only 4.1 per cent, and rate of growth of per capita GNP was only 1.4 per cent annually. Table 2 compares the economic growth in the Philippines with that in other East Asian developing countries. Among the six selected countries, the Philippines ranked the first in the growth of population, but last in the growth of real GDP and real per capita GDP.

IV. Impediments to Internationalization and Economic Development in the Philippines

As discussed above, the Philippines had achieved mediocre economic growth over the three decades since the early 1960s. A large number of causes might explain this result. However, from the point of view of internationalization issue, the following problems had prevented the economy of the Philippines from being internationalized and at the same time have impeded sustained economic development. They are: (i) inward-oriented growth strategy; (ii) inequality of income distribution; (iii) tardiness in land reform; (iv) preferential credit allocation under weakly institutionalized criteria; and (v) economic concentration on large firms.

It is apparent that these problems had inhibited realization of the principles of "internationalization", i.e., economic freedom, fair competition, and creative entrepreneurship in the society of this country. Instead, they created an economic system which is to a significant degree constrained, unfair and inefficient. It is presumed that these problems may account for much, though not all, of the causes for such poor economic performance.

A. Inward-oriented Growth Strategy

Economic growth strategies, in relation to foreign trade, can be largely classified into two groups: (i) export-promotion strategy; and (ii) import-substitution strategy. There is also a mixed strategy between these two representatives, in which the two strategies are pursued simultaneously. In this strategy, the implicit tax on exports is offset by export subsidies.[3]

Because in (i), overseas markets are the major target markets of the domestic products, unlike (ii) which emphasizes the domestic markets, the first is often called the outward-oriented growth strategy and the second the inward-oriented growth strategy.

In the inward-oriented growth strategy, exporting is discouraged by the increased costs of both imported and domestic inputs, by way of an overvalued exchange rate, high tariffs, direct controls (import licensing, administrative allocation of foreign exchange, quantitative import

[3]The Korean case would fall on this mixed category (Kim 1994).

restrictions), various subsidies (tax and credit) and quasi-tariff measures (hidden import duties). Heavy protection of the domestic industry for the home market prevails in the economy.

The evidence of the development experience over the past three decades strongly suggests that the outward-oriented strategy has been more successful than the inward-oriented strategy. It is a hard task to elucidate precisely as to why this has been the case. However, in terms of technological and economic factors, as well as policy feedback procedures, the outward-oriented strategy is seen to be much more advantageous than its counterpart (Krueger 1985). Technological factors cover the nature of production functions including the extent of indivisibilities and economies of scale, while economic factors refer to such phenomena as people's responses to incentives and direct controls, and the flexibility of the economy. Policy feedback procedures refer to the fact that the feedback to policymakers on the negative effects of policies is much stronger under the outward-oriented system than it is under the inward-oriented system.

The favorable effect of the outward-oriented system can be further upheld by the endogenous growth theory, as mentioned in Section II. The driving force of the model as advocated by that theory is capital accumulation, in which capital comprises physical capital, human capital, and disembodied knowledge or blueprint. Under the outward-oriented system, the trade system is usually more open and freer, giving rise to a large flow of ideas throughout the country and generating competition with foreign markets. Such an environment helps to speed up innovations and enhance productivity. On the contrary, the inward-oriented system shows a few negative features: suppression of market functions, investment planning, licensing and a protectionist trade system, which may engender corruption, favoritism and inefficiency.

The Philippines had long adopted an inward-oriented growth policy since its independence. After President Ramos took office in 1992, there have been many efforts to streamline the policy structure towards a more outward-oriented model. However, the legacy of the long-time adoption of the inward-oriented strategy still prevails in the economy. The economy is dominated by the industrial structure inherited from several decades of biased import substitution under a regime of heavy protection and currency overvaluation. The industrial structure is biased toward import-substitution in a wide range of consumer goods and a narrow range of intermediate goods and few capital goods. By contrast, exports of manufactures and capital goods have suffered under the protectionist regime since they have had to pay more for their inputs. The policies protecting particularly large scale producers of import-substitution discouraged competition, but nurtured an oligopolistic industrial structure that was unresponsive to changes and that tended toward capital intensity despite the economy's labor abundance.[4]

B. Inequality of Income Distribution[5]

Table 1 shows that albeit at low rates, real GNP and per capita GNP increased between 1961 and 1993, with per capita GNP reaching U$839 dollars in 1993 from U$265 in 1961. However, this number is a deceptive average, and this period might be an era of deepening impoverishment for the poor. There are five possible ways of dividing a larger income pie:

1) Unchanged distribution, in which all slices grow at the same rate;

2) Mild equalization, in which all slices grow, but those of the poor increase more rapidly than those of the rich;

3) Strong equalization, in which the slices of the poor grow, while those of the rich shrink;

4) Mild polarization, in which all slices grow, but those of the rich increase more rapidly than those of the poor; and

5) Strong polarization, in which the slices of the rich grow, while those of the poor shrink.

The distribution of income in the Philippines generally falls under the category of the strong polarization for the period under review. If the poor got poorer while the rich got richer, the social welfare must have dropped as pointed out by the marginal utility theory.

According to the study of the World Bank, income inequality deteriorated by regressive government tax policy. Revenue collections fell more heavily on the poor than on the rich, and hence, inequality of incomes after taxes was also much worse when compared with similar indicators in other countries.

Table 3 provides some ideas on trends in real income distribution in the Philippines during the period 1961-85. In the case of total distribution comprising both rural and urban areas, the real income of the poorest 30 per cent, in real terms of 1978 prices, declined during the period, whereas the real income of the richest 10 per cent had increased. As a result, the rich/poor ratio was 9.3 in 1966, but rose to 13.9 in

[4]International Labor Organization (1974, Chapter 3).

[5]This section is indebted to Boyce (1993, Chapter 2)

TABLE 3
TRENDS IN REAL INCOME DISTRIBUTION: 1961-1985
(Average annual family income; thousands of 1978 Pesos)

	1961	1971	1985
(a) Rural			
Richest 10%	20.7	39.0	30.5
Poorest 30%	3.4	3.3	3.0
Rich/Poor ratio	6.2	11.7	10.2
(b) Urban			
Richest 10%	66.1	81.3	73.5
Poorest 30%	6.2	6.8	4.7
Rich/Poor ratio	10.7	11.9	15.6
(c) Total			
Richest 10%	39.9	55.9	49.9
Poorest 30%	4.3	4.0	3.3
Rich/Poor ratio	9.3	13.9	15.2

Source: James K. Boyce (1993), Table 12, pp. 40-1.

1971, and further to 15.2 in 1985. When examined by region, the inequality between the income groups was higher in the urban area than the rural area. This measurement reveals that the income inequality in the Philippines deteriorated, evidencing an impoverished growth.

This impoverished growth in again documented by trends in the poverty incidence as computed by Tan and Holazo (1979) and the National Economic and Development Authority of the Government of the Philippines (1988). According to these studies, the poverty incidence, in terms of per cent of families living below poverty line, had risen from 41.0 per cent in 1965, to 43.8 per cent in 1971, 51.5 per cent in 1975, and 58.9 per cent in 1985. As the economy grew, poverty incidence increased, showing a "strong polarization" possibility.

C. Lack of Progress in Land Reform

The land reform in developing countries is of particular importance because most of the sources for income inequality may be attributed to the inequality in land holdings. Land reform can make an enormous impact on the overall economy in many aspects. First of all, in the poor developing countries where the agricultural sector forms a major portion of the national product, land reform may create a competitive climate among numerous land owners who otherwise would be just tenant farmers or landless wage workers. While such a competitive climate contributes to the generation of higher productivity in the agricultural sector, furthermore, this competitive climate can be diffused throughout all economic sectors. Another favorable change brought by the introduction of land reform is to weaken social conflict between the poor and the rich, thereby diminishing socio-political disturbances and uncertainties. An additional positive aspect is that the wealth holders in the poorer developing countries may prefer the status quo to any changes in the socio-economic system, with this attitude obviously reducing the innovative, productive and creative efforts necessary to develop the economy, but land reform can make a great contribution to change of such an environment.

Although the government attempted to undertake land reform in the Philippines since the early 1960s, it could not achieve desirable results because of the slow implementation process with many loopholes in the reform programs.[6] In 1963, the Macapagal government enacted the agrarian reform law, but it only made it possible for landowners to eject their tenants and switch them to wage laborers. In October 1972, Marcos issued the presidential decree (PD) No. 27 which stipulated ownership of tenanted rice and corn lands to be gradually transferred to tenants. This PD 27 stipulated that landlord holdings in excess of seven hectares were to be expropriated and the landlords were to receive compensation equivalent to two and a half year's normal harvest, 10 per cent in cash and the remainder in Land Bank bonds. The erstwhile tenant would become an amortizing owner, who should make annual payments to government Land Bank for 15 years. The amortizing owner would initially receive a Certificate of Land Transfer (LT) and then, after completing payments, an Emancipation Patent under which the new land rights were to be transferable only by inheritance.

The reform of the Marcos regime started with high expectations and zeal, but it was riddled with many loopholes. The first loophole was that the reform program applied only to the land sown to grow rice and corn, and landlords could evade this regulation by switching to other crops. Second, it applied only to tenanted land, so landlords could evade it by converting to wage labor. Third, tenanted rice and corn lands could be registered in the names of different family members to evade the 7-hectare ceiling.

[6]The following discussion relies upon J. Boyce, ibid, Chapter 5.

It was reported that within months of the issuance of the PD 27, many landlords were ejecting tenants, some of whom were forced to declare themselves farm laborers, while others were driven off the land. Consequently, wage labor in the rice agriculture grew rapidly in the 1970s in response to the PD 27. By 1986, reportedly, LTs had been issued for less than 800 thousand of the six million hectares. Furthermore, the primary beneficiaries of the land reform were the larger tenants (2-3 hectares) who held political power in the villages. The most serious shortcomings of the Philippine land reform was the utter neglect of the poorest and the most numerous strata of Philippine rural society, the landless rural laborers.

D. Preferential Credit Allocation under Weakly Institutionalized Criteria

The Philippines has long had an extensive system of preferential credit, but the system did little for economic development. The system is generally lacking objective criteria with dominant favoritism, thereby the selection of beneficiaries being particularistic. Hutchcraft (1993) argues that the status of the government development policies is heavily influenced by patrimonial state and self-protective oligarchy. The policymaking of the government is weakly institutionalized and patrimonial, while a self-protective oligarchy—which has a firm independent economic base outside the state—is dominating machinery inside the government. He enunciates that the major oligarchic families are the political elite of the country who are promoting their private accumulation of economic power. Demands by these group are so widespread and strong that the state is incapable of playing a coherent role in guiding national development.

The major types of preferential credit are as follows:

(i) Subsidized policy loans: Two state banking institutions, i.e., the Philippine National Bank (PNB) and Development Bank of the Philippines (DBP) allocate the subsidized credit. Their presence in the financial market is substantial, with their combined share of assets in total financial system accounting for 20-5 per percent.

(ii) Foreign exchange allocation: Licensing of imports and foreign exchange began in response to the 1949 balance of payments crisis, but later in 1950s became an important means of credit policy.

(iii) Rediscounting of the Central Bank: This is an important tool for the Central Bank monetary policy, but there has been a high degree of favoritism in the provision of rediscount programs.

(iv) Government-managed credit programs: These are usually financed by external agencies.

(v) Forward exchange cover or swaps: A commercial bank obtains a foreign currency loan or deposits and converts into pesos with a contract on repurchases of dollars at a favorable rate from the Central Bank.

In determining allocation of these preferential credits, political logics, rather than economic rationale, have played a key role. State financial institutions might have contributed significantly to economic growth, but the PNB and DBP have been restored to health only at a great cost to the state treasury. Foreign exchange allocations could have been a potent tool of industrial planning, but political favoritism importantly worked with little regard for larger national developmental goals. Rediscounting of the Central Bank is also considered to be rarely determined by economic criteria. The Central Bank has suffered enormous financial losses from the massive give-away programs under both Marcos and Aquino regimes, while the credit allocation system governed by political favoritism has inhibited sustained economic growth.

E. Economic Concentration of Large Firms

In the manufacturing sector, a small number of very large firms command strong market power. In 1988, large-scale establishments, which employed 200 or more workers, accounted for 75 per cent of the added value and 50 per cent of employment in the manufacturing sector, while their numbers were only one per cent of all firms. A very large number of micro (less than ten employees) and small-scale establishments (10-99 employees) formed 98 per cent of all establishments in number, but amounted for 41 per cent in employment and only 14 per cent of the added value in the same year. Between these two ends a few medium-scale establishments (100-199 employees) occupied less than 0.9 per cent of all firms in number, a little more than 9 per cent in employment and less than 11 per cent of the added value. The economy is marked with an extremely dualistic size structure favored toward large firms.

There has been a strong bias against small and medium-sized firms in trade and foreign exchange policy, investment incentives system, and financial policy. For instance, import licenses allocated to applicants were usually based on previous performances such as past history of imports, apparently favoring large firms. Another example is that cost of capital was the major criteria for institutionalizing investment incentives, again favoring large firms. In the banking finance schemes, the small and medium firms should have paid higher interest rates, due to greater risk and less creditworthiness of these firms.

The government had prepared various schemes to promote the small- and medium-sized firms, including a "Magna Carta" for small and medium enterprises. However, they entailed so many impediments inhibiting effective implementation: including little coordination among various measures, lack of real concern from the government, and long legacy in favor of large firms. This led to a high level of economic concentration on large firms together with a market with limited competition. Barriers to entry and exit have been strongly established through financial power, economies of scale, and predatory pricing practices by large firms. At the same time, substantial rents or monopoly profits were supposed to be extracted from consumers.

V. Concluding Remarks

This paper aims to conjecture the politico-economic structure and nucleus underpinning the Philippines, notwithstanding its limited coverage of a few selected problems. The nucleus, on which the overall economy had been based, is largely a protected, closed, inequitable and oligarchic structure. If it is contended that the ultimate goal of the economic internalization is to have an open, fair and free economic system nurturing creative entrepreneurship in the national economy, it cannot be claimed that the economy of the Philippines is well internationalized. Many studies, as shown above, point out that the concentration of economic and political power in the hands of a small oligarchic group had hindered free and fair competition in resource allocation, production and trade, while at the same time providing plenty of room for rent seeking and favoritism. The severe inequalities in wealth ownership and income distribution, which have persisted for long periods, have affected in a negative way the economic development of the Philippines.

Another lesson extracted from the experience of the Philippines is that westernization does not necessarily lead to internationalization. The Philippine was for a long period exposed to two Western countries which were then among the few most powerful countries over the world. Over the past four and a half centuries before the Philippines became independent in 1946, it was first colonized by Spain for four hundred years and then by the United States for the last five decades. Although both powers have left the Philippines, left behind are virtually all their systems, cultures, practices, and regulations which continue to affect the Philippines, even after its independence. In this sense, the Philippines is to a significant degree westernized, but is not considered well internationalized. The same argument may well be applicable to many developing countries in South Asia, Latin America and Africa.

Lastly, economic internationalization, which seems to be occasionally confused with just the opening of trading doors to other countries, should go beyond such an extent and move towards the establishment of an internationalized system in all corners of the domestic economy. Employment of the spirit of internationalization should not be restricted only to the foreign sector, but to all economic sectors within the national economy. A dualistic economic structure, where the foreign sector is fairly well internationalized and efficient in contrast to the domestic sector, does not generate sustained growth in trade and production in the longer term due to the inefficient domestic sector.

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Comments

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1. Concept of 'Internationalization' is to be defined in concrete terms. In this paper, internationalization is defined as freedom in economic activities, fair competition, creative entrepreneurship. But these terms are not clear enough to explain a specific case such as the Philippines.

2. The hypothesis of this paper, the positive relationship between internationalization and economic development, is not supported by the Philippines case. According to this paper, "the Philippines had long adopted an inward-oriented growth policy since its independence." But it is not true. In the Philippines, development policy has been fluctuated between inward-orientation and outward-orientation. During the colonial period, the Philippines had free trade relationship with its colonial mother countries. From the 1949, it adopted import-substitution industrialization policy to protect its domestic industries, especially consumer-goods industries. But the Philippine government changed its policy to export-oriented policy beginning of the 1960s. In the 1960s, the Philippine government enacted investment incentive act (1967) to attract foreign investment in industrialization (especially in export-oriented industries—agricultural processing industry). However, the Philippines did not record high economic growth in this period.

3. This paper indicates that five problems which prevented economic development of the Philippines. However, this paper did not explain how the five problems prevented economic development of the Philippines. Among the five problems, three variables such as inequality of income distribution, preferential credit allocation and economic concentration on large firm did not play a negative role in economic development of Korea. Economic concentration, rather, played a positive role in economic development of Korea. Therefore, in order to argue that these problems prevented economic development of the Philippines, causal mechanisms between these five problems and economic stagnation should be explained.

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