SIXTO K. ROXAS

MANAGING

ASIAN

FINANCIAL EVELOPMENT

### MANAGING ASIAN FINANCIAL DEVELOPMENT

SIXTO K. ROXAS



MANAGING ASIAN FINANCIAL DEVELOPMENT. Copyright © 1976 by Sixto K. Roxas. All rights reserved. Designed and produced by Sinag-tala Publishers, Incorporated, P.O. Box 536 Greenhills, Mandaluyong, Metro Manila. This book is set in IBM Journal Roman-11-medium and display type in IBM Theme-11-bold. Printed in the Republic of the Philippines. First printing, 1976.

SINAG-TALA PUBLISHERS, INC. Greenhills P.O. Box 536 Metro Manila, Philippines 3113

#### FOREWORD

The essays presented in this volume were written as papers and talks before a varied audience over the period from 1962 to 1976. One common theme unifies them: the idea that deliberate management of financial evolution is as essential to national progress as irrigation dams, hydroelectric projects and textile mills.

Each country's financial system must be deliberately constructed according to an explicit design. Part of the management craft is to pick the optimum design for the conditions of each country and determine the best path and timetable for the actual construction.

For too long, development has been identified with capital projects. The conventional wisdom on it leans heavily towards hardware and buildings. This series of essays focusses on the software, as it were, of development.

The papers do not manifest the analytical rigor and polished presentation of scholarly work. They were written in the midst of deep involvement in practical management. As the practical concerns precisely lay in the field of building a financial institution that represented in his country a new mode of financial intermediation, I can only hope that the essays make-up in relevance and realism what they lack in academic elegance.

#### CONTENTS

		FOREWO	RD	$\mathbb{V}$
Part	Ι		PMENT AND FINANCE CONCEPTS Relationship between savings and	1
			investment	3
			development	6
		3	The management of financial evolution in developing societies	13
Part	II	THE PHI	LIPPINE FINANCIAL MARKETS	25
		4	Development of the market for loanable funds and their implications for	
		5	Philippine economic growth  Money markets and the Philippine	27
			case	39
			remedies	43
			The moulding of a Philippine financial community  The future course of investment	51
		0	banking	58
Part	III	ASIA AN	D ITS FINANCIAL EVOLUTION	67
		9	The role of financial markets in	
		10	regional cooperation	69
			Asia's resources	107
			Eventually a "Bill on Hong Kong?" Current and future trends of doing	121
		1.3	business in Asia	125
		13	present and future	135
		14	The foreign investor in Asia-Pacific	147
Part	IV	WORLD	FINANCIAL FORCES IN ASIA	161
			Aid fatigue and "D.D2" in Asia Foreign aid and the second development	163
			decade in Asia	166

			7																										1	179
		1	8	L	iq	u	id	it	У	a	nc	1	W	01	·lo	1	or	ic	ri	ti	es								1	183
		1	9	0	il	p	ri	ce	S	aı	nc	1	th	e	p	et	r	od	lo	11:	ar	p	r	ob	10	er	n	٠	1	185
		2	0	T																				S	0	Ê				
				in	np	li	Ca	ıti	0	n	s i	fo	r	ir	ıv	es	tı	n	en	ts	3	ın	d							
				fi	na	ın	Ce	2		٠			٠	٠						٠									1	194
Appendic	es							٠	٠	٠				٠			٠			٠									2	205
Glossary		 1																		٠			٠						2	251
Index								۰	٠							٠	٠					٠.		٠	۰				2	259

#### LIST OF APPENDICES

ASEAN financial indicators	207
Percent distribution of assets among institutional sectors	
in the ASEAN	207
Philippines: resources of the financial system 1973-75	208
Pie chart: resources of the Philippine financial system, 1975.	209
Philippines: number of entities in the financial system 1973-75	210
Commercial papers registered with the SEC classified by industry May, 1976	211
Outstanding government securities 1965-75	211
Commercial banks: basic functions and regulatory framework	212
	213
Uses of funds of commercial banks 1965-75	214
Total credits outstanding by commercial banks classified by industry 1965-74	215
Sources of funds of savings banks 1965-75	216
Uses of funds of savings banks 1965-75	217
Development banks: basic functions and regulatory framework	218
Sources of funds of private development banks 1965-75	219
Uses of funds of private development banks 1965-75	220
Resources of Development Bank of the Philippines	
FY 1965-75	221
Finance companies: basic functions and regulatory	
framework	222
Assets and liabilities of non-bank system 1973-75	223
Insurance companies: basic functions and regulatory	
framework	222
Portfolio of insurance companies 1965-73	224
Total assets of insurance companies 1965-73	225

Assets of domestic insurance companies 1965-73	226
Pension and trust funds: basic functions and regulatory framework	227
Portfolio of Government Service Insurance System FY 1965-74	228
Portfolio of Social Security System 1965-72, FY 1973-74	229
Investment houses: basic functions and regulatory framework	230
Sources of funds of investment houses 1965-75	231
Uses of funds of investment houses 1965-75	232
Money market: basic features and regulatory framework	233
Development of the Philippine money market 1961-76	235
Distribution of money market transactions volume by instruments for 1975	237
Distribution of money market transactions volume by participants for 1975	237
Key money market rates monthly averages 1974-76	238
Weekly excess reserves and interbank demand rate 1974-76	239
External sector flows and bank reserves 1974-76	240
Capital market: basic features and regulatory framework	241
Number of issues listed in the stock exchanges (March 1976)	242
Value and volume of stock transactions (1974-1976)	243
Bancom mining and commercial-industrial indices and Manila Stock Exchange oil average 1974-76	244
Monthly excess reserves and monthly value of stock transactions 1974-75	245
Public regulatory bodies: basic functions	246
Private associations of financial institutions: basic	
functions	248

### Part I

# DEVELOPMENT AND FINANCE CONCEPTS

### Relationship between savings and investment\*

The growth and progress of a country depend on the ability of its people to organize themselves for two principal purposes: first, to induce regular habits of saving out of current income and, second, to apply manpower and material resources efficiently to productive projects. The man who understands these two basic purposes has acquired an insight into the essential characteristic that differentiates an economically progressive from a stagnant community.

A progressive community is one which has built into the values, motivations and habits of its people and into its institutional arrangements the inducements and the facilities for people to lay aside systematically out of their current incomes an increasing proportion of savings. It is not historical accident that the periods of most rapid development in all countries are also the periods in which banks, insurance companies, cooperative savings and loan associations, investment houses, and other such financial intermediaries have developed most rapidly.

To appreciate the significance of these institutions one must understand the relationship between savings and investment in

<sup>\*</sup>A published article in The Manila Chronicle, June 8, 1962.

#### 4 Development and finance concepts

an economy. It is investment that increases the productive capability of a country. But all investment involves the application of available resources. Thus the construction of an irrigation dam will increase the productivity of the soil. But before that productivity is achieved the dam must be built with cement, reinforcing steel bars, construction equipment and other materials and equipment that must be available and on hand. The labor that goes into its construction must be fed, housed, and clothed with food, construction materials, and textiles that are ready at hand.

All these are real resources that must be in existence as inventory or can be readily produced from existing productive facilities or can be bought from abroad by available foreign exchange. Since over any given period the capability of the entire economy to supply these materials is limited, then there must be a limit to the investment projects that a country can undertake over that period.

#### Limiting factors

Three factors set this limit: first, the actual productive capacity of the country at any given time; second, the actual capability of the country to command foreign exchange resources both from its own trade and from foreign loan and investment capital; third, the rate of savings out of current national income. The first two elements determine the maximum volume of material resources a country is capable of generating over a given period. The third element determines how much of these resources a people will use to satisfy current consumption needs and how much will be liberated for application to investment projects.

The function of money and credit is purely to facilitate the movement of real resources in the economy so that inventory of materials and services of labor can produce and distribute commodities and so that the commodities of production and trade, domestic and foreign, can flow into final consumption or investment. It is true the curtailment of credit can produce bottlenecks and prevent the smooth flow of real goods and services. It can, therefore, restrict production below the full capability of actual facilities of the country. The mere creation of domestic credit, however, does not of itself increase the over-all magnitude of cement,

construction steel, machinery, equipment and wage goods available in an economy over any given period, beyond the limits of its productive capability. Domestic credit facilitates the movement of goods and services that the economy is capable of supplying. It does not create those goods and services. All through history, how many countries have learned the painful lesson that while money can be created, the goods and services that money must buy have to be produced.

In the Five-Year Socio-Economic Integrated Program of the Philippines submitted to Congress, emphasis is precisely laid on two things: first, the encouragement, stimulation and creation of institutions that induce habits of systematic savings out of current income and, second, the removal of bottlenecks in the entire investment promotion field, the provision of facilities for research and pilot testing, for preparation of project feasibility studies, the coordination of public with private investment programming, etc. These are solid housekeeping measures that may not have the glamour of spectacular panaceas. They will produce sound economic progress.

## The conspiracy of economic development \*

#### Introduction

Lord Balfour, in his introduction to an edition of The English Constitution, applied to its author, Walter Bagehot, one of Bagehot's own comments on a political biography. He said that Bagehot practised his own precepts, looking closely and for himself at political life.

It might be said of Professor Giblin that he developed into a great economist because he did look closely and for himself at economic life. Agriculture was for him not merely a set of input-output coefficients. The man who was sensitive to elms breaking into flower, to green shoots showing on lilac and laburnum and japonica, to almonds breaking, to pear buds in the green tip stage at the end of an English January — this man could also note at sight that Lord Keynes' wheat fields promised crops that were sure to fill over forty bushels.

It is to this economist that the Giblin Lectures give honor. And while I knew nothing of Professor Giblin until I received the invitation to deliver this year's lecture, a cursory reading of what he had written and what had been written of him made me regret that I had not known his work earlier.

<sup>\*</sup>Paper for the Giblin Memorial Lecture, 42nd Congress of the Australian and New Zealand Association for the Advancement of Science, Port Moresby, New Guinea, Australia, August 20, 1970.

After reading Professor Giblin's life, I have decided to commend to all schools of economics in the Philippines the unusual steps to the preparation of an economist: take a bachelor's degree in the classics and mathematics; spend a few years matching skills against raw nature in the wilds of Canada or Alaska and in the rain forests of the tropics; find employment in the civil service, grappling with data that are the product of human decisions and human efforts to make a living, and then seek the quiet atmosphere of a university, there to reorder experience and history into a system that generates insights and deep wisdom.

I find it particularly appropriate that the Giblin Memorial Lectures are designed to cover both the science of economics and the art of public administration and government. It is part of the problem of underdevelopment that this science and this art are so widely divergent. I should like, in this paper, to determine why the two are so divergent and how they may be brought together so that one can be an aid to the other. But first, to trace the divergence.

#### State direction and 'laissez faire'

In their origins, economic science and economic management were, of course, identical fields. Even the word *oekonomia*, from which the science took its name, connoted household management. This identification remained from Aristotle to Steuart. Scientific analysis, a requirement of rational management, followed the older sequence in the Latin saying, *Primum vivere deinde philosophare*. And theoretical speculation gained its momentum from the demands of what the French called *les oeuvres practiques*. (See Notes).

The separation of the science from the art had ideological sources, in a Marxist sense, in the struggle between State control and private rights in England and continental Europe during the late 17th and the 18th centuries. Then dirigisme meant state direction of the economy. The manege economy was one with the government on the saddle.

In the struggle to free the economy from state direction, the issue became that of management against non-management of the economy. The preponderant questions faced by economic science was how an economy performed the functions and responsibilities of providing the nation its livelihood without state direction, but through a "hidden hand" or through the automatic

workings of "natural laws". The analytical exercise produced only a single, simple counsel for governments: leave the economy alone — it works better left to itself, because of the natural laws of economics.

And so *laissez faire* economics became orthodox doctrine during the middle of the 19th century. In this form, it became accepted into the body of scientific studies, producing its own faculties and departments in the universities of Europe and its own sections in the science academies and associations of scholars. Out of this body of science emerged the new profession of "economist" among the ranks of the older professions — lawyer, physician, engineer.

What then happened to the art of economic management? This, too, began to seek its own path of evolution. In the older tradition, among the ancient Greek philosophers and scholars, through the medieval period (whether from the exalted writings of a Thomas Aquinas or the earthly plottings of a Niccolo Machiavelli), and up to the beginning of the 18th century, economic and social treatises were chapters in manuals for the *Prince*, to teach him how to rule effectively, at least, wisely and with justice, at best.

As capitalist societies evolved in history, and the class differentiation that accompanied this process gave rise to the growing numbers of public and private bureaucracies, the arts of public administration and private enterprise management evolved their own body of science and tenets of wisdom. They bred new professions and new social classes — the career civil servants, the proprietor managers, the petite bourgeoisie, the "tycoons", the professional managers. The science of economics and the art of management proceeded on their respective evolutionary paths, the one growing more abstract and mathematical; the other, more systematic and rational.

As laissez faire economic science became the firmly established orthodoxy, economic "statecraft" was considered a "heresy". Nevertheless, its proponents continued its tradition in a coterie which one historian of economic thought has called "the underworld of economics". This tradition reasserted itself in the second

half of the 19th century and, with Keynes in the vanguard, as neo-mercantilism in the 1930's. Both had for their common battleground the old conflict between state management of the economy and *laissez faire*. Each had a different answer to the question that might have been posed by an economic Hamlet: "To manage or not to manage?". The effect was to shake confidence in the old orthodoxy.

In more recent times, the growing theoretical work occasioned by the requirements of the managing arts has produced a new body of thought: the theory of human organizations. Out of the perspective of this theory, the realization has grown that our economic Hamlet was really posing the wrong questions. "To manage or not to manage, that is not the question."

Human organizations are managed, and have to be. The significant questions are: by whom? Through what mechanism? Under what system of distribution of responsibilities and authority? For what purposes and functions? And by what systems of checks and controls?

Once more, the arts of administration and management and the science of economics are beginning to fuse in a new union. No better example of this convergence can be seen than through a comparison of the recent writings of economist John Kenneth Galbraith and management-consultant Peter F. Drucker.

#### Development and administration

Development theory and development administration have reflected in their own evolutions the same cycle of divergence and convergence of the main bodies of economic science and economic management. Thus, even now, in the field of development theory, one of the preponderant issues is the hoary one of "planning versus free enterprise". Much of the rigorous work in economic analysis has been couched in "dynamized" macroeconomic equilibrium models. The analysis of factors responsible for economic development is deliberately confined strictly to the economic factors. So-called "non-economic factors" are relegated to "date", deference properly paid to their importance, after which they are blithely ignored.

In the meantime, practical development administration plods on without the benefit of applicable "manuals" from professional