Yoshihara Kunio

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Foreign and Domestic Capital

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THIS study is based on two one-year visits I made to the Philippines. The first visit was during the 1970 academic year and was financed by the visiting professor programme of the Rockefeller Foundation at the School of Economics, University of the Philippines. On that occasion I collected data at the Securities and Exchange Commission and started a collection of company history and biographical data. Just over ten years later, during the 1981 academic year, I returned to the School of Economics, this time under the visiting professor programme of the Japan Foundation. Without these two long-term stays this study would have been impossible. I would like to thank both foundations for financing my stays, and the School of Economics for acting as a host institution.

My library research was done primarily in the Filipiniana Collection in the General Library, University of the Philippines. This was supplemented by research at the Library of Congress and at the libraries of the School of Economics, University of the Philippines, Ateneo de Manila University, American Historical Collection, Lopez Museum, Philippine Sugar Commission, American Chamber of Commerce, Asian Institute of Management, and De La Salle University. I would like to express my appreciation to these libraries, especially to the General Library, University of the Philippines, which gave me free access to its collection.

I could not get very far with library research alone, though it was the first essential step, as many large companies and important entrepreneurs have not appeared in any writings. For information on these companies and individuals I had to look to other sources. I was fortunate in this to receive the cooperation of the Development Bank of the Philippines which has information on the companies that have applied to it for loans. For those companies which had not applied for such loans I needed another source of information. A reputable credit reference company established pre-war also co-operated and made its files on individuals and companies available.

In addition, I interviewed about a dozen senior executives and numerous other people who had indirect knowledge of the persons and companies in which I was interested. I also corresponded with several companies after I left the country.

The first draft of this manuscript was completed in December 1982 when I was in Bangkok, and a few months later a number of copies were made and distributed for comment. Some of my correspondents read the entire manuscript, while several others read only those parts of it in which they were interested and felt competent enough to comment. I also gave seminars at the Faculty of Economics, Thammasat University, at the Institute of Southeast Asian Studies (Singapore), and at the School of Economics, University of the Philippines. Those who read the first draft, and some of the seminar participants, offered numerous constructive comments and helped me improve the manuscript. Although I cannot name them individually, I wish to thank them all; all that I can offer in return is this volume.

Center for Southeast Asian Studies YOSHIHARA KUNIO
Kyoto University
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I

INTRODUCTION

FOR a developing country the Philippines has a long history of industrialization. During the second half of the nineteenth century, while other developing countries remained dormant, the Philippines received the first impetus. Unlike such countries as Japan, which had also began industrializing around this time, this early phase of Philippine industrialization was confined to the processing of agricultural products which were in great demand in the West. Before the middle of the nineteenth century the volume of foreign trade was, despite the country's potential for trade expansion, minuscule, since the Spanish government had little interest in exploiting the country for economic gain. But under the pressure of Britain and other Western countries, which were looking for new sources of supply of tropical products and markets for their manufactured goods, the Spanish government reluctantly changed its policy and opened up the country to foreign trade. During the last few decades of the century, abaca, copra, sugar and tobacco became major Philippine exports.

The transfer of colonial power from Spain to the United States in 1898 accelerated production of these commercial crops. Among them abaca, copra, and tobacco were exported largely in unprocessed form, but others were processed into finished goods before export. Rope factories were built when it appeared more profitable to import machines and undertake production in the Philippines. For the same reason, some copra was exported in the form of coconut oil and desiccated coconut. In the case of tobacco, since cigars were made manually and labour in the Philippines was relatively cheap cigar production for export became a major economic activity.

In the case of sugar, milling was unavoidable. During the Spanish period wooden or stone mills were first used to extract sugar from the cane. Later, steel mills driven by hydraulic or steam power were introduced. During the American period, many large

sugar mills (called centrals in the Philippines) were built to take advantage of a more efficient, centrifugal method of production, and the sugar industry became the vanguard of machine production in the pre-war period.

The lack of progress outside the processing industry, however, was appalling. Not only sophisticated machines but even simple manufactured goods were imported. Thus, after independence, the government took measures to encourage domestic production of some goods previously imported and thereby change the structure of the economy. This so-called import-substitution policy gave the second impetus to industrialization. In the first five years of the 1950s, the value-added in manufacturing increased by over 12 per cent per annum. In the following years, the rate dropped to about 7 per cent, but since this was faster than the overall average, the share of the manufacturing sector in the GNP continued to rise, and in the early 1970s it reached a level of about 20 per cent.

Critics of the import-substitution policy argue that the industrialization it fostered was nothing more than packaging, mixing, and assembly activities too simple to be called genuine industrialization. Undoubtedly, the industrialization in the 1950s and 1960s, the heyday of import-substitution, was shallow in many ways. But with time, the volume of production increased, products diversified, and the quality improved, so that today many activities are well beyond the derisive characterization of the critics.

Studies by economists on Philippine industrialization are usually based on national income accounts, trade statistics and manufacturing censuses. As a consequence, analysis is confined to structure and its statistically observable changes. In some cases sample surveys are used to gain a micro picture; but even then, the purpose is usually to supplement what is lacking in macro statistics. If a study is not statistical, it is usually a study of government policies and their effectiveness.

In mid-1970, when I first visited the Philippines, the extent of industrialization was already fairly impressive; but after seeing numerous hoardings and TV commercials advertising foreign brands, I began wondering whether the agent of industrialization was foreign capital. This suspicion was reinforced by the large presence of American capital, which had established a firm footing during the American period and after independence had been guaranteed free access to the Philippines by the Bell Trade Act and later by the Laurel-Langley Agreement. At first glance, it looked as if the Philippines was politically independent but econ-

omically still an American colony.

When I came to know a little more about the manufacturing companies that made up Philippine industry, I realized that my first impression was wrong. Even among the relatively large companies in the vanguard of industrialization, quite a few seemed to be not American. Then I began to realize that the Chinese business community, which has been historically active in commerce, might be an important participant in industrialization. It now appeared that the Philippine economy might be, if not American, then Sino-American-dominated and that Sino-American capital was the major agent of industrialization. If this were so, Philippine industrialization would be far less impressive, since it could be considered as an extension of colonial development.

My desire to ascertain whether or not this was true provided the starting point of this study. To answer this question, I decided to take the top 250 manufacturing companies as my sample and to study the nationality of their ownership. It appeared that this would require a great deal of time and effort but I decided to go a little beyond that. In the case of foreign capital I wanted to know when and why and from where it came. What was puzzling was why American capital seemed predominant and Japanese capital virtually absent. This could not be adequately explained by the fact that the Philippines had been an American colony, for in other former colonies in South-East Asia, Japanese capital was far more visible.

In the case of domestic capital, I wanted to know the people behind it. Who were they? What was their ethnic background? What did they do before going into manufacturing? Why did they invest in manufacturing? How did they organize their companies? Were there major differences in these respects between ethnic groups? These questions are essential to understanding the human side of industrialization, but hitherto have not been adequately explored. This is because, unlike in developed countries, the biodata of entrepreneurs and the history of businesses are difficult to obtain. The paucity of printed information cannot be adequately supplemented by interview, because people with the information often refuse to be interviewed. In contrast, information on foreign companies is more abundant since they are more open to outside enquiry. Because of this situation, it was tempting to concentrate more on foreign than domestic capital; but I have tried to avoid this temptation and place more emphasis on the latter, since a viable strategy for industrialization requires domestic capital to be

its major agent and it is imperative for us to understand its pattern of evolution.

The rest of this book is organized as follows. Chapter 2 explains how the sample was obtained, what types of information were sought on each company in the sample, what were the sources of information, and what problems arose in trying to answer the questions posed above. Chapter 3 first examines the industrial distribution of the sample and the year of incorporation in order to find out what activities have been undertaken and when they commenced; then it unravels the positions that foreign, Chinese and Filipino capital have occupied in each of these activities. The last section of this chapter takes up the issue of licensing, in order to throw light on the degree of dependence of domestic capital on foreign technology. Chapters 4, 5 and 6 discuss foreign, Chinese and Filipino capital in turn, taking up such issues as why specific enterprises were established, what has motivated them, what their characteristics are and what problems they have faced. Chapter 7 considers Philippine industrialization as a drama acted out by various entrepreneurs, and recapitulates its plot and themes.

2

RESEARCHING THE FIELD

The Sample

Business Day, a Philippine business paper, has been publishing a list of the 1,000 largest companies almost every year since 1970.[1] The first issue came out a few months after I first arrived in the Philippines. It was based on the turnover for 1968, extracted from the company financial reports submitted to the Securities and Exchange Commission.

The list included non-manufacturing as well as manufacturing companies, starting with those with a turnover of 1.86 million pesos. From *Business Day*'s industrial classification, it was clear that the number of manufacturing companies was much less than 1,000, though still large. Thus, I took 5 million pesos as an arbitrary cut-off point, and eliminated those companies whose sales were less than that figure. This gave me 582 companies (manufacturing and non-manufacturing) to work with. Since manufacturing companies, as classified in the list, accounted for about 50 per cent of the total, I anticipated a sample size of around 300.

Before arriving at the final sample, a few things had to be settled. The first was what to do with the companies engaged in lumber manufacturing. Although lumber production is usually considered a manufacturing activity,[2] in the Philippines most companies derived the bulk of their sales from logging, with lumber accounting for a small percentage of sales. In the few companies producing plywood manufacturing was much more important, but since they were also engaged in logging and lumber production, I did not treat them separately. In all, about 50 of these companies had sales exceeding 5 million pesos, in 1968 sales. Since their degree of manufacturing activity was small and I could substantially reduce the number of companies to work with by simply deleting them all.

This I did even though *Business Day* considered them as manufacturing companies.

Printing and publishing are sometimes considered as manufacturing activities,[3] but in my conceptual framework they are better classified as service activities. Among the companies whose sales exceeded 5 million pesos, none was engaged in printing alone, but there were a few publishing companies. For example, Manila Times Publishing Co., publisher of *The Manila Times*, ranked sixty-second in sales. *Business Day* also regards publishing as a service industry.

Many companies I wished to exclude from my sample were considered as manufacturing companies by *Business Day*, and some I wanted to include were considered as commercial. One reason for this was carelessness on the part of *Business Day*. Metro Drug, for example, while actually a commercial company, was listed as a manufacturing company. Among companies regarded as non-manufacturing by *Business Day*, I included those which were also engaged in substantial manufacturing. For example, La Compania General de Tabacos de Filipinas is essentially a trading company, but at the same time, it is a major cigar producer. Honiron is primarily a construction company, but also undertakes a wide range of steel fabrication. These companies were included in my sample.

Since the industrial classification of *Business Day* could not be totally relied upon for my purpose, I decided to check all 582 companies. I talked to several knowledgeable persons to check the validity of *Business Day*'s industrial classification while my assistants checked various company directories and in ambiguous cases made telephone calls. After these checks, I finally obtained a sample size of 254. Of these I deleted 4 companies and reduced the sample size to 250. The 4 companies deleted were taken from those whose major activities were non-manufacturing: they were judged to be more commercial-orientated than those retained.

Industrial Classification

The industrial classification of the United Nations (UN) divides manufacturing industry into the following nine major groups: (1) food, beverages, and tobacco, (2) textiles, (3) wood and wood products, (4) paper and paper products, (5) chemical, petroleum, and rubber products, (6) non-metallic mineral products, (7) basic metals, (8) fabricated metal products, and (9) others.[4]

Since this classification did not suit the Philippine situation very

well, nor fit in with my conception of manufacturing industry, I modified it as follows. The number of industrial groups was increased to fourteen. From Group 1, three separate groups (food, beverages, and tobacco) were created. From Group 5, three more groups (chemicals, petroleum products, and rubber products) were created. Group 8 included various kinds of machines as well as metal products such as nails and bolts. Metal products except machinery and equipment were made into one group, and machinery and equipment were divided into three groups: electrical appliances, transport equipment (consisting of motor vehicles and motorcycles), and other types of machinery and equipment.

Two groups were left out. Since the Philippines has no smelters, Group 7 (basic metals) was not very appropriate. There were a few companies producing semi-finished products which could be classified under basic metals, but it was more meaningful to include them under metal products. Basic metals was thus made a subcategory of metal products. Group 3 (wood and wood products) was also left out for the reasons pointed out in the preceding section. From Group 4, printing and publishing were excluded because I do not consider them to be manufacturing activities.

Many of the 14 groups thus derived were subdivided to give more detailed information on manufacturing activities. Food was further divided into twelve subgroups, beverages into three, paper and paper products into three, rubber products into three, chemicals into eight, non-metallic mineral products into four, metals into thirteen and machinery, equipment into eight. The textile industry was divided into consumer and industrial textiles, the former being further divided into five subcategories. The complete classification and the industrial distribution of the sample are shown in Appendix 2.

Deciding which company belonged to which industry was sometimes difficult. San Miguel, for example, produces beer, soft drinks, ice cream, glass bottles, animal feed, and packaging materials. The company used to be called San Miguel Brewery, but in 1963, because of the diversity of its products, it was renamed San Miguel Corporation. San Miguel is not alone in its product diversity. Delta Motor Corp. produces air-conditioners and other electrical machines as well as cars. Union Industries, a licensee of Hitachi, was producing in the mid-1960s television sets, transistor radios and electric fans, tableware, vacuum flasks, nails, and hinges. Later, the glassware division became a substantial part of the company. General Milk Co., whose major concern is canned milk,

was therefore a food producer; but it has a can-making factory and thus is a metal manufacturing company as well. One reason for such diversity was the paucity of supporting industries, which necessitated backward integration or integrated production.

While it is possible to enter a company in more than one industry, it is simpler and clearer when discussing the industrial distribution of the sample if only one industry is chosen for one company. Thus, I decided to take a dominant product (or a product considered dominant by the public) as the basis for classification. San Miguel, for example, was therefore considered a producer of beer, Delta Motor of cars, Union Industries of electrical appliances, and General Milk of dairy products. This recourse solved the classification problem for most multi-product companies.

For one company, Gonzalo Puyat & Sons, the major product could not be determined, and it was put in the last category, 'others'. Having started as a furniture manufacturer several decades ago and become prominent in the field, the company went into logging and, after the Pacific War, into flour milling and steel processing. By 1970 the company had four divisions: timber, furniture, flour milling and steel. It also had a substantial investment in Manila Banking Corp., a bank controlled by the Puyat family. Gonzalo Puyat & Sons was, thus, essentially a holding company under which three manufacturing activities were undertaken. While it was sometimes known as a furniture-maker, the other two manufacturing activities were too large to put it in that category.

After deciding to which of the fourteen major industries each company in the sample should belong, the next task was to allocate it to a subdivision, for many companies engaged in several activities. A flour miller, for example, produced animal feed; a producer of cheese also produced mayonnaise and sandwich spread; and a manufacturer of industrial chemicals produced fertilizer. This problem was usually solved by choosing the major product as the basis for classification. Companies with integrated operations were classified on the basis of an activity which was unique for an enterprise in the Philippines. Marcelo Steel, for example, has electric furnaces to process scrap iron into steel ingots, and also produces nails, steel bars and rods. Although other companies produced similar steel products, only a few had furnaces, and, therefore, smelting was taken as the basis for Marcelo Steel's classification.

Industrial classification may sometimes generate false impres-

sions. For example, with reference to the textile industry hosiery and knitting do not necessarily imply that the companies in this category produce only knitted and hosiery goods. In the Japanese textile industry, which is quite fragmented, there is a great deal of specialization, and it is rare for a hosiery or knitted goods producer to be integrated backwards. But in the Philippines, it is not unusual for such a producer also to be engaged in spinning.

The level of integration in many cases is, nevertheless, low. The Philippine car manufacturer, for example, is essentially an assembler, in contrast with his American counterpart who usually produces components and even the steel necessary for their production. The pharmaceutical producer engages in mixing and packaging as the bulk of its manufacturing activities, and undertakes neither production of fine chemicals nor basic research to any significant extent. The major steel producer in an industrial country undertakes an integrated operation starting with a blast furnace, and even smaller companies often have facilities to process scrap iron or pig iron. In the Philippines, however, in 1970 there were no companies with a blast furnace, and only a few had any smelting facilities.

Year of Incorporation

To visualize the evolutionary pattern of manufacturing industry, I obtained the year of incorporation for each company. This was the easiest information to gather since all companies in the sample were registered with the Securities and Exchange Commission where they file their articles of incorporation. To use this for some purpose, however, required a certain degree of caution.

Normally the year of incorporation is needed so as to know when production began, but in the Philippines it is rare for a company to start operation in the year of incorporation. In most cases, there is a time lag of a few years. In some cases, because the foreign exchange needed to import machinery is difficult to obtain, it takes several years before operation starts.

More serious was the following problem. One company (Mabuhay Vinyl) was incorporated before the Pacific War to produce rubber shoes, but during the war, it stopped production and became dormant. Even after the war it did not resume activity for more than a decade. When it did so in the early 1960s it was as a producer of industrial chemicals. In this case, the year of incorporation is very much removed from the year in which production of