

THE EFFECTS OF GOVERNMENT POLICIES
ON THE MOTOR VEHICLE INDUSTRY
OF THE PHILIPPINES

by

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UNIVERSITY OF THE PHILIPPINES

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To my parents, brothers and sisters.

TABLE OF CONTENTS

Page

| | | |
|---------------|--|----|
| <u>PART I</u> | INTRODUCTION AND BACKGROUND | |
| CHAPTER I. | INTRODUCTION | 1 |
| | Statement of the Problem | 1 |
| | Objective of the Study | 2 |
| | Scope and Limitations | 2 |
| | Conceptual Framework | 4 |
| | Significance of the Study | 6 |
| | Methodology | 7 |
| CHAPTER II. | MOTOR VEHICLE INDUSTRY BACKGROUND | |
| | Historical Background | 8 |
| | Status of the Industry | |
| | PCMP Background | 11 |
| | Supplier Industry | 17 |
| | Factors Affecting the Motor Vehicle | |
| | Industry of the Philippines | |
| | Role of the Government | 19 |
| | Price Increase | 24 |
| CHAPTER III. | EFFECTS OF GOVERNMENT POLICIES | |
| | Definition of Policy | 29 |
| | Government Policies | 30 |
| | Major Government Policies | |
| | Policy to Maintain Competition | 32 |
| | Policy to Moderate Competition | 36 |

| | |
|--|----|
| Policy to Regulate | 41 |
| PART III. Case Study and Conclusion | |
| Chapter IV. Case Study | 45 |
| Canlubang Automotive Resources (CAR) (Formerly Chrysler Philippines, Inc.) | 45 |
| Company Background | 45 |
| Policies Adopted by Chrysler | 47 |
| Transmission Project | 49 |
| Technical Aspect | 51 |
| Financial Aspects | 51 |
| Chapter V. Summary and Conclusion | 53 |
| FOOTNOTES | 61 |
| LIST OF TABLES | 63 |
| BIBLIOGRAPHY | 64 |

CHAPTER I

I. INTRODUCTION

Statement of the Problem

The automobile industry is affected in many ways by the activities of the government. It is the government that provides the institutional foundation upon which the industry rests, the legal framework within which it functions, and many of the instruments through which its activities are carried out.

Government also renders valuable services to the automobile industry, extends to it various forms of public assistance, and promotes its activities in many ways. It collects and disseminates data that provide businessmen with information on the availability of productive resources, credit, and investment funds, on methods and costs of production and distribution, on trends of business activity, on present market conditions and future market prospects.

The economic system within which the automobile industry functions is shaped by the government; the character of its performance depends upon decisions that are made by the government. The demand for the products of the automobile industry and the nature of

its cost are influenced by public regulations, by the character of public expenditures, and by the tupe of taxes that are used in raising public revenues. Its expectations - of stability or instability, of prosperity or depression, of profit or loss - depend upon the policies adopted by central banking authorities in controlling the volume of credit and on those pursued by the government in balancing its budget, accumulating a surplus, or running a deficit. Its daily operations must be carried on within the limits that are fixed by a variety of public controls.

Objective of the Study

The study aims to supplement prior researches regarding the industry, and hopes to illuminate the prospective readers and endow them with a more critical and better-equipped mind in understanding the effects of government policies on the industry.

Scope and Limitations

The study considers the experience of the automobile industry after the Second World War up to 1978.

The major government policies to be dealth with are the following:

1) Government policy in maintaining competition.

Government has sought, in general, to maintain competition. It has preserved freedom of entry into markets, forbidden agreements to curtail production or fix prices, broken up existing combinations and prevented the formation of new ones, and outlawed competitive methods that would destroy competition and make for monopoly. At the same time, it has sought to raise the plane of competition by preventing fraud. To this end, it has established standards, forbidden adulteration and misrepresentation, required publicity, inspected business operations, and regulated organized exchanges. The prevention of fraud, though an end in itself, is essential to the maintenance of competition. It preserves public confidence in the integrity of private enterprise.

2) Government policy in moderating competition.

Measures requiring the moderation of competition have been adopted to prevent waste in the exploitation of natural resources; they have involved the requirement of conservation practices. Such measures have also been designed to protect workers, small businessmen whose bargaining power as individuals is weak; these have included laws establishing minimum standards of employ-

ment, requiring collective bargaining, and preventing suppliers from giving bigger discounts to large distributors than to small ones. Competition has been moderated, finally, at the behest of organized producers, by laws that serve their particular interests; laws limiting entry to the market, controlling output, fixing prices, and providing for other sorts of subsidies.

3) Government policy in substituting regulation for competition.

In the automobile industry, government has accepted monopoly as unavoidable, and has substituted administrative regulation for competition as a method of control. This has involved control of entry and abandonment, of securities and accounts, and of the quality of unit and the level of structure of rates.

Conceptual Framework

This paper seeks to study the effects of government policies on the automobile industry.

When the government moves to extend its controls, it does not act of its own volition. The government is not an independent entity; it does not possess a will of its own; it is not animated by purposes that are alien to

the desires of its citizens. The government is a creature of the people; it responds to the pressures that they bring to bear upon it; its policies and programs, wise or unwise, find their origin in organized demand and depend for their survival upon popular sufferance. The government does not willfully interfere with business. It intervenes only when it is forced to intervene. It acts reluctantly, deliberately, and tardily, in response to overwhelming pressures. Criticism of public intervention is criticism, not of dictatorship, but of the results of the democratic process.

It must be noted, moreover, that many of the laws that now regulate the automobile industry have been enacted, not in the face of the industry's opposition, but at the urgent solicitation of business itself. There are tariffs that prevent the automobile industry from buying goods abroad and ordinances that exclude the industry from local markets. There are regulations that prevent the industry from reducing the cost of production, from introducing new methods, and from employing new materials. There are laws that prevent the automobile industry from increasing its output and laws that prevent induction of prices. None of these ^{are} measures which an aggressive government has forced upon a reluctant business community. All of these are measures which the government has adopted at the behest of the industry itself. If the government is interfering

with the industry, it is largely because the industry has invited it to interfere.

Significance of the Study

Whether we like it or not, economic events affect our lives. Whether we live in a society (as we all do) or alone, some of the choices we have to make are of an economic nature. Most of us know that where there is prosperity, the wages and other incomes of people are likely to be high. If business suddenly contracts by one half in volume, the same people will suffer, perhaps others are laid-off and the ones remaining suffer cuts in salaries.

Understanding how the industry reacts to the policies implemented will pave the way towards the answer to the problem.

Also, many will allege that a well-developed motor vehicle industry is crucial in the development process of the economy. Efficient and effective modes of transportation are essential to maintain the economic activities of the country.

The current thrust of the government has been towards the provision of locally manufactured components. This indicates the desire of the government to utilize as

much as possible local products to enable local businessmen to market their products and further increase capital for the industry.

Methodology

The main sources for analysis of this study were gathered from articles, reports, etc. on the Philippine Automotive Industry. Statistics on imports of automobile, auto parts, tires, etc. are based on the report of the NCSO (National Census and Statistical Office). Interviews were also conducted among workers and owners of automobile repair shops and people connected with the automobile industry.

CHAPTER II

MOTOR VEHICLE INDUSTRY BACKGROUND

Historical Background

The Philippine Automotive industry underwent three phases of development, i.e., (1) from 1903 to 1950, the importation of completely built-up units (CBU); (2) from 1951 to 1972, the assembly of completely knocked-down parts (CKD); and (3) from 1972 up to the present, the birth of the Philippine Car Manufacturing Program (PCMP) and the Philippine Truck Manufacturing Program (PTMP), both of which gave emphasis to the need for increasing the proportion of the local content in locally assembled cars and trucks.

The end of the Second World War placed the industry in shatters as the war virtually wiped out the vehicle population. Completely built-up replenishments were imported mainly from the United States during the following five to six years of reconstruction. Only a network of distributors and dealers selling built-up vehicles composed the automotive industry.

The first vehicle assembly plant started in 1951 with the establishment of Fabar, Inc. Components for assembly were imported in completely knocked-down (CKD) condition.

Due to the pressures of diminishing foreign exchange reserves, the government imposed a comprehensive exchange control starting December 1949. A new import law was enacted on 15 June 1975¹ establishing priorities in the budgeting of dollars for imports to conserve foreign exchange.¹ Accordingly, dollar allocation were granted only for the importation of completely knocked-down (CKD) cars. In effect, the government issued licenses to qualified parties to set up completely knocked-down assembly plants. This ushered in the assembly phase of the automotive industry in the country. Although the original government plan was to limit CKD assembly to only a few plants, lack of definite policy on this matter resulted in the proliferation of assembly plants. As of May 1968, there were about 19 companies assembling more than 60 different models of passenger cars.

The increasing drain on the Philippine foreign exchange reserves in the second half of the 1960s necessitated cutbacks in the importation of CKD parts. A ban was imposed in 1969 on luxury cars and all CKD imports of cars until the industry could agree on a progressive manufacturing program in order to rationalize the industry and provide the necessary direction and strength for its growth. Consequently, the market for locally assembled

cars decline to 7,400 units from a level of 17,000 units. Thus, the Board of Investments was called upon to formulate a car manufacturing program for the industry. In May 1971 the President approved the guidelines for the Progressive Car Manufacturing Program. Of the eight firms which proposed to participate in the PCMP, only five car assemblers, i.e., Chrysler Philippines Corporation, Delta Motor Corporation, DMG, Ford Philippines and General Motor Philippines, were approved.

The Progressive Car Manufacturing Program (PCMP) which began 1 January 1973 has generated as of second semester 1976 some ₱629.62 million in fixed investments, some 7,000 new jobs, US\$9.52 million foreign exchange earnings.

In 1975, industry leaders urged the establishment of an ASEAN car complementation program, aimed at promoting the growth of the automotive industry on a regional level. Talks began on 24 September 1976, and in May 1977, the ASEAN Automotive Federation, a private organization among car assemblers from the five ASEAN countries, was formed.

The gains made by the PCMP and the continuing increase in prices of imported trucks prompted the government to also rationalize the truck assembly industry. Thus,

on 1 July 1977 the Progressive Truck Manufacturing Program (PTMP) was launched.

STATUS OF THE INDUSTRY

PCMP Background

Because of the drain on foreign exchange, the Central Bank requested BOI in 1969 to make studies on a car manufacturing program.² This was done by the Philippine Automotive Association and the Board of Investments under the chairmanship of Cesar Virata and subsequently of Vicente Paterno. After continued discussions with the automotive industry for almost two years, President Marcos approved the guidelines submitted by the BOI and recommended by the NEC on 17 May 1971.

The objectives of the PCMP as approved by the President are as follows:

- 1) To realize a measure of dollar savings for the country through the domestic manufacture of automotive components;
- 2) To create manufacturing activity in various existing small-to-medium sized enterprises for the domestic manufacture of automotive components and in the process ungrade engineering and production skills and thereby

provide technological know-how to the domestic manufacturing industries.

Because of the engineering, financial and management assistance given by assemblers, the capabilities of manufacturers increase in the manufacture of automotive parts according to international quality standards as well as in the manufacture of agricultural and industrial equipment and parts.

3) To generate new exports of manufactured products in a regional automotive component complementation program.

In the light of the above objectives, the major guidelines for the PCMP were established, namely:

1) The local content should be a minimum of 15% for the first year, 25% for the second year, and 35% for the third year.

2) The sales tax and tariff shall be restructured to encourage domestic manufacture of components.

3) Foreign exchange cost for the domestic manufacture of many components shall not be greater than the cost to import these components as part of the CKD pack.

4) The resulting cost to manufacture many components shall not be higher than the import cost of these components.

5) Automotive components exported shall be considered local content to the extent of the net foreign exchange earnings.

6) Horizontal integration shall be preferred to vertical integration.

7) Only assemblers registered with the BOI shall be allowed to import CKD packs.

8) Only cars and light commercial vehicles with four cylinders or less and 2,000 cc or less displacement shall be included in the PCMP.

(Source: The Mechanical Electrical Engineering Magazine
Fourth Quarter, 1972, p. 10.)

Under the guidelines, 11 car assemblers were qualified to submit proposals, however, on 31 January 1972 only seven submitted, while the rest did not participate, with some forming joint ventures with others. Those who submitted proposals were:

- | | |
|--------------------------|---------------------|
| 1) Chrysler | 6) Renault |
| 2) DMG, Inc. (VIV) | 7) Universal Motors |
| 3) Delta Motors (Toyota) | (Nissan) |
| 4) Ford Philippines | |
| 5) GM-Yutivo-Francisco | |

The BOI set the following criteria for evaluating proposals:

- 1) Local content proposals
- 2) Creation or expansion of existing manufacturing activities
- 3) Upgrading technological knowhow and skills
- 4) Capability for ASEAN complementation.

On 17 April 1972, after evaluating all proposals submitted based on the foregoing criteria, the BOI recommended the following for inclusion in the PCMP:

- | | |
|-------------|------------------------|
| 1) Chrysler | 4) Ford |
| 2) DMG | 5) GM-Yutivo-Francisco |
| 3) Delta | |

Universal and Renault were not recommended. Universal however appealed the BOI decision to the NEC, made their own inquiry for about two months resulting in an almost unanimous decision supporting the BOI recommendations.

On 2 September 1972, after an evaluation of all facts, President Marcos upheld BOI and Congress and allowed only five (5) participants recommended by the BOIL for inclusion in the PCMP. The Program officially started on 1 January 1973.

Program of Recommended Participants

The following models and facilities for major components manufacture had been proposed:

Table 1

Chrysler

| | | | |
|-------------|---|-----------------------|----------------|
| Brand | : | Dodge Colt and Minica | |
| Investment: | | Transmission Plant | ₱28,300,000 |
| | | Soft-Trim Plant | <u>593,000</u> |
| | | | ₱28,893,000 |

DMG

| | | | |
|-------------|---|---------------------------|------------------|
| Brand | : | VW 1300 and Sakbayan | |
| Investment: | | Stamping & Pressing Plant | ₱11,282,000 |
| | | Assistance to Vendors | <u>2,050,000</u> |
| | | | ₱13,338,000 |

Delta

| | | | |
|-------------|---|----------------------------|------------------|
| Brand | : | Corona, Corolla & Crown | |
| Investment: | | Engine block manufacturing | ₱36,742,000 |
| | | Others | <u>3,679,000</u> |
| | | | ₱40,421,000 |

Yutivo-Francisco-GM

| | | | |
|-------------|---|--------------------|--------------|
| Brand | : | Holden | |
| Investment: | | Transmission Plant | ₱103,330,000 |

Ford

Brand : Escort and Cortina

Investment: Body stamping Plant ₱244,000,000

(Source: Mechanical Electrical Engineering Magazine, 4th Quarter, 1972, p. 11.)

The tremendous influx of more than 400 million in investment for the manufacture of major components in the Philippines was a big boost to our economy. The volume manufacture of parts for the domestic market and export requires adherence to international quality standards at low cost.

Industry Production Capacity

The car capacity of the PCMP participants and three other non-PCMP assemblers is approximately 44,604 units annually, with a total production of approximately 27,897 units for 1975, utilization of the industry's capacity for car assembly was at 62.5%. The five PCMP participants major components' plant production capacities based on one shift operation are as shown in Table 2 below.

To carry out the objectives the five PCMP participants have to attain a certain domestic content ratio within the four program years, which are as follows:

Table 3

| <u>First Program Year - 1973</u> | <u>Domestic Content</u> |
|-----------------------------------|-------------------------|
| First Semester | 10% |
| Second Semester | 15% |
| <u>Second Program Year - 1974</u> | |
| First Semester | 20% |
| Second Semester | 25% |
| <u>Third Program Year - 1975</u> | |
| First Semester | 30% |
| Second Semester | 37.5% |
| <u>Fourth Program Year - 1976</u> | |
| First Semester | 50.0% |
| Second Semester | 62.5% |

(Source: PAIC Industry Folio, Vol. I, No. 5, September-October 1977, p. 2.)

Supplier Industry

One of the major guidelines imposed was the preference for horizontal integration over vertical integration in the development of the PCMP. As of today, there are 101 registered components to the five assemblers, ranging from

Table 2

| Participants | Major Components | Rated Annual Capacity (Units) | 1975 Production (Units) | Capacity Utilization (%) |
|--------------|-------------------------|-------------------------------|-------------------------|--------------------------|
| Chrysler | Automotive transmission | 40,000 | 8,700 | 21.75 |
| DMG, Inc. | Sakbayan car body | 3,600 | 705 | 19.60 |
| | Fiber glass top | 900 | 617 | 68.60 |
| | Steel top | 1,500 | 85 | 5.70 |
| Delta Motors | Automotive engine block | 7,200* | 2,344 | 32.60 |
| Ford Phils. | Car body | 36,000 | 35,900 | 99.70 |
| G.M. Phils. | Automotive transmission | 72,000 | 6,482 | 9.00 |
| | | | Average: | 38.9% |

*12R engine units.

(Source: PAIC Industry Folio, Vol. 1, No. 5, September-October 1977, p. 2).

forgings and stampings, castings, springs, glass,

rubber, plastic, electrical parts, tools, hardwares, radiators, mufflers, rims, platings, etc.

FACTORS AFFECTING THE MOTOR VEHICLES INDUSTRY OF THE PHILIPPINES

Role of the Government

The Prime Minister and the Cabinet

As we know the Philippine government today is parliamentary in form (cabinet government). It is one in which the chief executive (the Prime Minister) is legally responsible to the legislative (the National Assembly) body for his acts, and politically responsible to the electorate, while the titular or nominal chief of state (the President) occupies a position without responsibility.

The parliamentary system is based on the theory that both the Prime Minister and his Cabinet, and the majority of the members of the National Assembly shall be able to work together harmoniously.³ In case, therefore, of conflict on fundamental issues between the Cabinet and the National Assembly, it is always the people who finally decide on whom they would give their support.

The Cabinet is, to all intents and purposes, the working executive. The day-to-day enforcement of law is directed and other duties of an executive nature are performed by the ministers in charge of the various ministries. Ministers, in their individual capacity, may, however, be guided in what they do by what are in effect cabinet instructions. The Cabinet is the chief instrumentality through which the government operates in framing national policy and carrying it into effect.

The Cabinet draws its importance not only from its executive functions. It has much to do with legislation that a careful observer of the English Government has been moved to remark, without a great deal of exaggeration, that it is the Cabinet that legislates with the advice and consent of the Parliament.

1) Under our Constitution, no bill except those of local application may be calendared without the prior recommendation of the Cabinet.

2) It is the Cabinet that develops the legislative program of a session and formulates policies to be enacted. The Prime Minister and his colleagues are the leaders of the political party which holds a majority of the legislative seats, and they have a program and a mandate from the electorate to put their policies in operation.

3) Cabinet members who are also members of the National Assembly (Sec. 4) may introduce bills, explain and defend them, and push them to enactment.

In countries with cabinet governments, the parliament almost never initiates or creates, but rather only reviews, and usually accepts policy.⁴ So essential it is that the ministers have the confidence of the parliament that normally any serious rebuff or check at its hands leads forthwith to a readjustment designed to restore harmony, i.e., a change of ministry or even the election of a new parliament.

The Cabinet performs its multifarious tasks in conformity with the principle of collective responsibility. For the essence of a cabinet system is a solidarity, a "common front" of the Cabinet such that the members pursue an integrated policy for which all accept responsibility and on which they stand or fall together. But what does it mean to be "responsible"? It means:

1) Liability, before a court of law in case an act is alleged to be illegal; and

2) Accountability to the National Assembly - on political, as distinguished from juridical, for the reasonableness and desirability of what is done.

The first form of responsibility is a matter of law; the second, a matter involving questions of policy and not of legality. This does not mean, of course, that no minister will ever leave office alone. A minister may be dismissed by the Prime Minister because of official indiscretion or misconduct or he may resign.

The Prime Minister and the Cabinet are responsible to the National Assembly for the program of the government. They determine the guidelines of national policy.

1) Imposing upon the Prime Minister the duty to present to the National Assembly the program of government and to recommend for its consideration such measures as he may deem necessary;

2) Making the Prime Minister the head of the National Economic and Development Authority (NEDA) which is charged with the task of preparing national development plans and programs.

NEDA

The National Economic and Development Authority (NEDA) was created by virtue of Presidential Decree No. 107, dated January 24, 1973, pursuant to Proclamation No. 1081 declaring Martial Law and General Order No. 1 of the President.⁵

1) Composition. The NEDA is now composed of the President (Prime Minister) as chairman and the following as members: the Minister of Economic Planning (who is also the Director-General of the Authority), Minister of Finance, Minister of Foreign Affairs, Minister of National Defense, Minister of Agriculture, Minister of Natural Resources, Minister of Trade, Minister of Industry, Minister of Public Works, Transportation and Communication, Minister of Education and Culture, Minister of Public Highway, Governor of the Central Bank, and Commissioner of the Budget.

Members hold office at the pleasure of the President.

2) Functions. The main function of the NEDA is to recommend to the National Assembly, (to be submitted to the President in the meantime), after consultation with the private sector, local government units, and other appropriate public agencies, continuing, coordinated and fully integrated social and economic plans and programs. Such programs, therefore, will reflect a wide national consensus. Note, however, that the NEDA's function is only to recommend. Hence, the National Assembly may still adopt other social and economic plans and programs.

3) Importance. The need of organizing an integrated system of government agencies has long been felt in view of conflicting economic policies pursued by many agencies of the government during the past years. With the insti-

tution of NEDA, the drawing of plans, their implementation and control would emanate from a central source vested with strong authority. The appointment by the Constitution of the Prime Minister as the head of the body is most appropriate because this assures that the whole governmental machinery will be mobilized to achieve our developmental goals. As a matter of fact, in a parliamentary system, the responsibility of the government is clearcut. There can not longer be any passing of the buck for any failure in economic planning and implementation.

Price Increase

On April 2, 1970 in order to control the inflation rate the Congress of the Philippines upon the request of the President passed the Price Control Law officially known as Republic Act No. 6124. By virtue of this law the Price Control Council was created and empowered to fix such maximum price as shall be "fair, just and reasonable on the market of any of the articles or commodities under the stated seven prime commodities." The price increases were due to monopoly, hoarding, injurious speculation, manipulation and profiteering.

The price increases were carried over to 1971. Notable was the tremendous increase in the landed cost of

imports as a result of the devaluation of the pesos, hike in tariff duties by virtue of Executive Order No. 279 promulgated on 11 January 1971, and also the increase of original cost in foreign currency of imported merchandize and freight fee. In 1972 a more rigid enforcement of price ceilings was done and stabilization of the supply situation was applied in order to pull down prices of consumer goods.

The following year oil became a major issue and the price increases continued unabated. The Central Bank attributed the inflationary trend of price to the following:

1. Fast rising liquidity originating from the surplus in the foreign sector;

2. Worldwide commodity shortages aggravating the inflationary pressures of existing high liquidity;

3. Imported inflation arising from higher prices of exports which filtered down to affect domestic prices of home consumed exportable commodities;

4. Higher prices of exports which filtered down to affect domestic prices of home consumed exportable commodities.

1974 proved to be a very critical year. This year experienced great increase in price levels. These price

level increases were largely carry overs and effects of
1) more expensive food items due to both domestic and international supply shortages; 2) higher cost of imports particularly oil; 3) world commodity boom, which jacked up prices. Inflation was further aggravated by the following:

1) higher distribution cost; and

2) a certain degree of demand pull inflation resulting from the expansion of domestic liquidity mainly generated from the external sector;

3) export competition induced increase in domestic prices of home consumed exportable goods;

4) Increase in public utility rates;

5) Pressures on the price level of emergency allowances and other salary adjustments granted by both public and private enterprises;

6) Induced price mark-ups on commodities and services either to compensate for or hedge against the inflationary spiral.

The statistics in Table 4 show that there was a significant increase in consumer price in 1973, especially during the following year, 1974. Whereas the Philippines rate of inflation on consumer goods was only 12.2% in 1973,

it was 39.0% the following year.

Table 4
Consumer Price Index
(1965 = 100)

| Year | All Items | Food | Housing | Fuel, Water, Light | Clothing | Misc. |
|----------------|-----------|-------|---------|--------------------|----------|-------|
| <u>1973</u> | | | | | | |
| Philippines | 12.2% | 3.0% | 5.2% | 10.7% | 20.9% | 8.8% |
| Manila | 11.0% | 13.4% | 6.4% | 6.6% | 17.6% | 8.9% |
| Outside Manila | 12.5% | 13.0% | 3.9% | 11.8% | 21.0% | 8.8% |
| <u>1974</u> | | | | | | |
| Philippines | 39.0% | 43.0% | 9.5% | 80.6% | 44.2% | 30.5% |
| Manila | 34.5% | 38.9% | 9.1% | 98.3% | 45.7% | 30.4% |
| Outside Manila | 41.0% | 10.0% | 10.0% | 75.7% | 43.9% | 30.5% |

| Description | Durability and Performance, Standard | Utility Ratio | Imp. Part | Local Part |
|-------------|--|---------------|----------------|------------|
| | | | (Retail Price) | |
| Rims | Spin and strength | 1:1.50 | 65.0 | 45.0 |
| Headlights | Lifetime, rust proofness | 1:1.75 | 110.0 | 80.0 |
| Fuel tank | Strength, spotwelds, resistance to corrosion | 1:1.25 | 60.0 | 50.0 |
| | | 1:2.00 | 25.0 | 20.0 |

| <u>Description</u> | <u>Durability and Performance, Standard</u> | <u>Utility Ratio</u> | <u>Imp. Part</u> | <u>Local Part</u> |
|--------------------|---|----------------------|------------------|-------------------|
| Ampere gauge | Mileage or lifetime | | | |
| Radiator | Durability | 1:1.5 | 180.0 | 160.0 |

(Retail Price)

Source: Inevitability and Justification of the PCMP Car Price Increase and Cost Benefit of the PCMP.

Gauuan, U.P. Economics Library.

It is notable to consider that external developments were in turn affected by:

- 1) strained productive capacity in many industrialized countries;
- 2) the surge in world liquidity since 1970;
- 3) currency realignment; and
- 4) the international energy crisis.

The year 1975 had no difference from the preceding years. However, the Central Bank contends that there were relatively milder price increases in food items compared with non-food items.

Global recessionary trends particularly with respect to Philippine major trends partners weakened demand, for a major portion of the country's primary exports, and prices went against the pressures on the general Wholesale Price Index of domestically produced items.

CHAPTER 3. EFFECTS OF GOVERNMENT POLICIES

The Definition of Policy

The word "policy" generally refers to the principles that govern action directed toward given ends. Any study of policy therefore should concern itself with three things, i.e., what we want (the ends), how we get it (the means), and who are "we", that is, what is the nature of the organization or group concerned.⁶

The study of "what we want" (objectives) extends beyond the boundaries of the social sciences to evaluate the ultimate ends of human activity. The social sciences, therefore, can not give a final answer to the question whether any given policy is "right". The social scientist can study what people say they want, what they think they want, and may even infer from their behavior what they "really" want, but it is not the business of science to say whether people want the right things. The critique of ends - that is, the discussion of what are the right things to want - is more the province of the philosopher or the theologians than of the scientist.

Nevertheless, the social scientist can make important contributions to the discussion of objectives. He can point out, for instance, that many things that people think are ends are in fact means to some further end, and that a

discussion that seems to be about ends may be more easily resolved if it can be stated in terms of a choice of means to some further end. He may also usefully point out that human activity seldom has but one objective, and that there are many ends, some of which may not be compatible. We want peace; we want health, but we do not want the things that make for health; we want riches, but we also want things that make for poverty.

Government Policies

Undoubtedly man had an economic life before he had a political life. There still exist tribes of "food-gatherers", living on nuts, fruits, roots, and such vermin as can be captured by hand or with a digging stick. The social organization of these peoples is extremely simple, and does not include any regularized political behavior such as we associate with the state. As we move up the scale of economic complexity, to pastoral and agricultural peoples, we find more elaborate social institutions and a more definitely articulated public life of the community. At the stage of economic development where herding and tillage are regularly practiced in a settlement, what we call the state is almost invariably present.

This does not justify an inference that the state is a mere by-product of economic techniques. There are a

number of theories of the origin of the state, all of which are more or less compatible with these anthropological data. Nevertheless, we can safely conclude that an advanced technology is one of the conditions of the existence of the state.

Historically, therefore, political life and an advanced economic life are close partners - or, perhaps, they are Siamese twins. This is a fact often ignored in economics. The classical analysis of the division of the fruits of industry into rent, interest, wages, and profits omits a fifth claimant that is always at hand and that asserts its rights to priority in the division - taxes. In every politically organized society, the state is a partner in every economic undertaking. It is not only a tax collector that the state enters into economic life. The state supplies some of the conditions indispensable to economic life. The state which does not protect its people against foreign enemies or does not maintain internal order soon ceases to exist. These are the essential services of a simple society; a more advanced economy requires other public activities. The provision of a currency for exchange is a state function; and in modern times the establishment of uniform weights and measures has fallen to the state. The definition of legal capacity, the law of property, the regulation of inheritance, the establish-

ment of rules of exchange - these matters are basic in the law enforced by the state. All modern states have extended their laws to other economic topics as well; they have established rules governing trade practices, the quality of goods, permissible and nonpermissible occupations, admission to occupations through licensing, conditions of hiring and employment, and the like.

Major Government Policies

The major government policies are as follows:

- 1) Policy to maintain competition;
- 2) Policy to moderate competition; and
- 3) Policy to regulate.

Policy to Maintain Competition

A policy adopted by the government to maintain competition is the proper allocation of foreign money in the market.

Before the institution of import controls in the early 50's, vehicles were imported in a built-up condition. The automotive assembly industry was born when the Central Bank felt that there was a need to conserve foreign exchange.⁷ Considering the heavy demands of the automotive industry on such exchange, it was required that

Table 5. Foreign Trade of the Philippines (1953-1954)

| Item | Value (Pesos) | Distribution (Percent) | Value (Peso) | Distribution (%) |
|-------------|---------------|---------------------------|---------------|---------------------|
| Total Trade | 1,727,452,851 | 100.00 | 1,695,908,258 | 100.00 |
| Imports | 903,271,326 | 52.29 | 894,678,748 | 52.76 |
| Exports | 824,181,525 | 47.71 | 801,229,510 | 47.24 |

Balance of Trade

Favorable - 79,089,801

Unfavorable -

(Source: Foreign Trade Statistics, p. 79)

IMPORTS

| Automobile Parts and Tires | 1954 Value in Pesos | 1953 Value in Pesos |
|-------------------------------|------------------------|------------------------|
| United States | 62,268,387 | 63,130,162 |
| Japan | 59,749,768 | 62,611,856 |
| Great Britain | 1,178,004 | 85,990 |
| Germany | 813,377 | 260,434 |
| France | 281,886 | 19,158 |
| Italy | 56,464 | 72,254 |
| Hong Kong | 39,392 | - |
| Puerto Rico | 33,480 | 6,700 |
| Spain | 26,426 | - |
| Other Countries | 61,824 | 47,192 |

allocation for importation of vehicles should not be given unless these would be assembled from completely knocked-down units. This policy resulted in the establishment of 35 assembly plants all over the country.

The need to further conserve foreign exchange was felt sometime in 1960.⁸ Various companies started to manufacture light commercial vehicles, importing only the train and other critical components. Some companies even tried to manufacture cars. The institution of decontrol in 1962 retarded the progress of automotive industry because it was easier and economical for assemblers to import units on a CKD basis rather than procure locally-made components.⁹

The government's imposition of a lesser dollar allocation rate for the importation of CKD parts, coupled with the de facto devaluation of the peso, ushered in the hike in car prices from 1969 to 1972. From a persistent accelerating trend since 1964, car sales unprecedently nose-dived in 1970 with a drop of 9,774 units or a 57.0% decrease from its level of 17,149 units in 1969.¹⁰

Another government policy to maintain competition is the curtailment of production.

The increasing drain on the Philippines' foreign exchange reserves in the second half of the 1960s neces-

sitated cutbacks in the importation of CKD parts.¹¹ (See Table 2). A ban was imposed in 1969 on luxury cars and all CKD imports of cars until the industry could agree on a progressive car manufacturing program in order to rationalize the industry and provide the necessary direction and strength for its growth. Consequently, the market for locally assembled cars decline to 7,400 units from a level of 17,000 units.¹² Thus, the Board of Investments was called upon to formulate a car manufacturing program for the industry. In May 1971, the President approved the guidelines for the Progressive Car Manufacturing Program. Of the eight firms which proposed to participate in the PCMP, only five car assemblers, namely, Chrysler Philippines and General Motors, Delta Motor Corporation, DMG, and Ford Philippines.¹³

A third government policy to maintain competition is the review of the status of business activity.

In 1973 some sectors have complained that car prices have remained high and unaccessible. (See Table 4.) The rash of criticisms and questioning arose from the popular-but-misinformed notion that the main objective of the program was to bring down car prices. BOI Chairman Paterno then acted and conducted an investigation on the matter. To be able to get at the root of the pricing of cars, he

asked the participants to submit detailed costings of their products, such as CKD (completely-knocked-down) costs, taxes and duties paid, dealers margin, etc. After about six months of exhaustive study, Paterno announced that there had been no unjustified and undue increase in car prices.¹⁴ The five participants denied that it has formed a cartel. They pointed out that it would be ridiculous for them to price themselves out of the market since foreign exchange allocations for importing CKDs are based on the previous years' sales performance and inventories.

In effect, if a car firm wants a large share of the allocation for a year, it should be able to sell as many units as possible. A sure way to do both is to lower car prices.¹⁵ They further argued that there are 15 parts in a car and just about every one of them has gone up in price the past years. It was pointed out the workers who make the parts and put them together in a car are also getting more money, while the government is imposing more taxes. They added that this is not helped by the fact that the value of the pesos has not been exactly appreciating. In other words, taxes and other circumstances are passed on to the buyers.

The second major government policy in moderating competition explains how the government adjusts economic

stability in society. Adjustments are in terms of conservation, and having minimum standards of employment.

Conservation

The government policy on conservation is significant to our society. Let us try to define what conservation means.

"Conservation has two different meanings. According to the first, it is enforced non-use, requiring the present generation to abstain from exploiting natural resources so that they may be preserved for exploitation by other generations later on. According to the second, it is avoidance of waste."¹⁶ But waste also has two meanings. The one is expressed in physical terms: in this sense, waste occurs whenever resources are lost that might have been recovered by the most efficient methods available, even though their value may fail to cover the necessary cost. The second meaning is economic: here, waste is said to occur when resources are lost whose value would have covered the cost of saving them.

What has the automobile industry been doing regarding this policy? Through the years the automobile industry has not considered seriously the issue on oil. It was only in 1973 that the automotive industry suffered a lot in

| Export | 1 9 5 | | 4 | | 1 9 53(4) | |
|--------------|-----------|-----------|-----------|-----------|-----------|-------|
| | Quality | Value | Quality | Value | Quality | Value |
| Scrap metals | 8,314,480 | 1,291,337 | 8,934,456 | 1,695,600 | | |
| Japan | 7,122,000 | 679,520 | 7,060,000 | 749,934 | | |
| U. S. | 1,192,480 | 611,817 | 1,874,456 | 945,666 | | |

Table 6. Foreign Trade of the Philippines, by Month 1966-1965

| Year | Total Trade | 'Percent' | Imports | Exports | | ' Re-export' | Balance of Trade | |
|------|---------------|-----------|---------------|---------------|-----------|--------------|------------------|-----------------|
| | | | | Domestic | ' | | Favorable (+) | Unfavorable (-) |
| 1966 | 6,821,264,894 | 100% | 3,398,142,964 | 3,419,212,026 | 3,927,904 | 1,355,519 | 25,014,966+ | |
| 1965 | 6,335,671,079 | 100% | 3,235,830,511 | 3,098,483 | 1,355,519 | 35,990,143- | | |

Table 7. Foreign Trade by Month: 1971 and 1970

| Year | Total Trade | 'Percent' | Imports | Exports | | ' Re-export' | Balance of Trade | |
|------|----------------|-----------|---------------|---------------|-----------|--------------|------------------|-----------------|
| | | | | Domestic | ' | | Favorable (+) | Unfavorable (-) |
| 1971 | 15,556,225,592 | 100% | 8,858,122,854 | 7,488,533,564 | 9,569,074 | 556,020,116 | | |
| 1970 | 13,225,621,226 | 100% | 6,682,488,582 | 6,539,938,499 | 3,194,145 | 139,355,938 | | |

Table 8. Quality and Value of Philippine Imports, 1978

| Code | Road Vehicles | 1 9 7 8 | | FOB Value | CIF Value |
|------|-------------------------------|-------------|-------------|---------------|-----------|
| | | Quality | ' Dollars | | |
| 78 | Including Aircushion Vehicles | 271,689,480 | 295,876,872 | 1,523,308,166 | |

terms of sales and production due to the oil embargo. There was even the government scheme on rationing gasoline in order to conserve oil.

In the Philippines the automotive industry conservation scheme was not even geared to anything except during the 70's when oil became a major issue.

The succeeding years after the oil embargo resulted in the spiraling costs of petroleum. (See Table 4.) Thus, technologists in the United States, Japan and European countries have thought of ways and means to reduce consumption of gasoline. Likewise, local technicians of the five participants in the PCMP have been looking into the birth of a truly dependable low gas consuming automobile.

The development of several kinds of engines were revolutionized like the Wankel Rotary Engine that runs basically with pistons but moves in circular motion and not the usual power stroke and thus results in gas consumption.¹⁷

Finally, the policy on conservation to moderate competition toward the automotive industry has resulted in the development of new methods of running an automobile with less gas consumption. The policy has also enlightened the people on their social responsibility in terms of

imparting to the citizens the importance of oil to our society.

Another policy of the government to moderate competition is in the generation of employment.

Immediately after the Second World War the Filipino technicians' ingenuity in selling built-up vehicles became a means of livelihood. This was made possible because of the Philippine government's agreement with the U.S. regarding surplus of army units which resulted in the dumping of surplus in our country.¹⁸ Thus, the automotive industry was able to start business anew marketing built-up surplus units.

In 1951 the first formal assembly plant was established, i.e., Fabar Incorporated.¹⁹ To benefit more the local businessmen, the government issued licenses to other qualified parties.

In the late 50's and early 60's the success of the automotive industry in terms of sales resulted in the establishment of other businesses like the automotive supply stores, auto-repair shops, gas stations, vulcanizing shops and other related businesses.²⁰

The establishment of the PCMP in 1971 was the government's idea of utilizing locally made parts - thus was tapped

other businesses related to the automotive industry like the glass industry and the leather industry.²¹

Thus, through the years the automotive industry has generated employment not only in the assembly and manufacturing, but also in ancillary industries. As of the end of 1976, employment in the assembly sector reached 7,115.²²

The third major government policy is regulation. Regulation by government is in the form of taxation.

A large number of factors have contributed to the formation of the tax structure. History has left its mark, for a tax, once imposed, is seldom abandoned. Ease in collection has been a very weighty consideration. The political pressures of different interest groups, each eager to thrust the cost of maintaining government upon others, have played a part. Considerations of policy not purely fiscal have led to the imposition of important taxes, such as the income and inheritance taxes and franchise taxes upon corporations. Sentiments of justice or mercy toward particular groups of taxpayers have produced tax exemptions or deductions. The sales tax and other consumption taxes inevitably depress consumption. The bewildering network of business taxes, does not add up to an economic program. It merely creates a legal jungle in which the guides are

lawyers rather than economists.

Taxation may be an instrument of regulation as well as revenues.

In the PCMP the sales tax as well as car prices are being regulated to prevent increase in prices. The taxable value of a car, say at a car price of ₦45,000 with local content value of ₦20,000, would be taxed on the remaining value which is ₦25,000. This means that there is no need in rescheduling tax rates.

The rescheduling of tax rates would be in tune with the realities of time since no car (brand new) is now priced at below ₦40,000. The accelerated tax rates impose a higher and higher tax rate as price quotations of car escalate.

The importance of a reduced tax rate therefore is an increase in car demand. And thus an augmentation of revenue collections.

The government policy on regulation of imported cars has been concentrated on import tariff.

The present rate of tariff for imported cars have been formulated to protect the PCMP participants. So that if one imports a car worth ₦40,000, chances are the duties

and tariff would amount to ₱60,000 thereby increasing the car's actual cost of ₱100,000.00.²⁴

If tariffs for imported cars are relegated to its pre-PCMP days, it would be a lot cheaper to buy imported foreign assembled cars. (See Table 5 and Table 6.)

Tariff protection enjoyed by PCMP participants and local car parts makers ought not to be considered a permanent fixture. Protective tariffs for "infant industries" are temporary to be used only to give them a headstart and an entry into the market.

Economic Planning Minister Gerardo Sicat has doubted the long-term positive effects of "import substitution" in some of his writings. In fact, several months back, he announced that the National Economic Development Authority has authorized the reduction of the tariff for imported tires from 50 to 30 per cent, reasoning that the local tire firms have made a poor showing.¹⁵

It will be recalled that in the 1950's local industries were established to substitute for imported products which later result in high prices under unrealistically high tariff walls.

And like these industries, PCMP cars and parts might eventually be better priced if they compete with foreign assembled cars and made parts in the local market.

President Marcos during an Independence Day speech in 1977 served notice that there is a re-examination of the system of protective tariffs for infant industries, thus underlining the need for local industries to be efficient.

PART III. CASE STUDY AND CONCLUSION

Chapter 4. Case Study

A Feature on Canlubang Automotive Resources (CAR) (Formerly CHRYSLER Philippines, Inc.)

CAR was one of the five car assembly companies chosen by the Board of Investments (BOI) to participate in the Philippine Progressive Car Manufacturing Program (PCMP). The selection process based on BOI guidelines and policies were discussed in the historical background of the automotive industry in the first part of this study.

Company Background

Chrysler Philippines, Inc. (CAR) is a wholly-owned subsidiary of Chrysler International S.A. of Geneva, Switzerland. The international company in turn is a wholly-owned subsidiary of Chrysler Corporation in Detroit, Michigan, U.S.A. Chrysler has a worldwide reputation for its pioneering achievements in the development of domestic content and domestic automotive manufacturing.

CAR was incorporated under Philippine laws on 20 February 1963 with an authorized capital stock of ₱12 M and a paid-up capital of ₱10 M. Operations began in March 1964, with the assembly of passenger cars and trucks.²⁷ By 1974, the capital stock structure was held by the following groups:

C.J. Yulo and Associates (Filipino), 65%; Mitsubishi Motors Corporation (Japanese), 15%; Chrysler International S.A. (Swiss), 5%; and Nissho Iwai Company, Ltd. (Japanese), 15%.²⁸

In compliance with the government policy of technological development CAR kept the following goals in mind in participating in the PCMP:²⁹

- 1) To earn and save dollars for the country through its domestic production of car components;
- 2) To initiate manufacturing activity of automotive components; (Table 4)
- 3) To generate new exports of manufactured products as automotive components.

Using these goals and the PCMP guidelines, Chrysler organized four departments, which are as follows:³⁰

- 1) Domestic Content Development - for the purchase of local components and analyses of how the company can improve and meet the domestic content requirement;
- 2) Product Engineering and Quality Assurance - for product development, testing, design and maintenance of set standards;
- 3) Export and Complementation - for export and complementation with other companies; and

4) Special Studies Projects and Forward Planning - for deeper research on better implementation, for budgeting and pricing.

The Domestic Content Development Division was created to help achieve horizontal integration. The division had technical men from CAR, Mitsubishi Motors and various Chrysler International subsidiaries. After conducting a survey of approximately 130 auto suppliers in the small-scale parts sector of the car industry, the division developed the CAR Philippine Supplier Development Program. This program would generate new employment opportunities for about 18,000 workers and would utilize part of the ₱115 million idle capacity then existing.

Other related production processes used were casting, forging, heat treatment, stamping, surface plating and plastic forming.

Policies Adopted by Chrysler (CAR)

The auto industry was a technically demanding industry which required economic and efficient operations as well as a regular supply of components at specified quality levels and at reasonable prices. Success in the PCMP would depend on how well these conditions could be improved and stabilized. The following were adopted by Chrysler:³¹

- 1) Instituting an extensive supplier development program;
- 2) Seeking technical assistance from Chrysler International and Mitsubishi who were experienced in product design;
- 3) Organizing an engineering staff;
- 4) Providing assistance to local suppliers' productive output;
- 5) Assuring a steady demand for local suppliers' productive output;
- 6) Aiding local small suppliers financially by paying them for special tooling immediately upon its completion to relieve them of inventory and storage; and
- 7) Sending its managers for improved professional training abroad and to special courses here.

Moreover, Chrysler (CAR) intended to construct a technical testing laboratory in the Metro Manila area for inspection of domestic components. This was to benefit the auto industry as well as other industries which could use the laboratory services.

CAR's purchases of locally manufactured components were worth about ₱4.5 million from 71 suppliers in the

third program year. This represented added primary employment of 6,600 workers in 1977. Indirect or secondary employment generated was more substantial.³²

The following shows CAR's performance in domestic content for the program's first year:

| | <u>Prescribed</u> | <u>Reached</u> |
|-----------------|-------------------|----------------|
| First Semester | 10% | 9.50% |
| Second Semester | 15% | 18.70% |

(Source: Business Policy, by Emmanuel Soriano, p. 3)

CAR further hoped to improve its domestic content in seat assembly, exhaust system and soft trims.

Transmission Project

Chrysler (CAR) planned to export transmission, as well as electric wiring harnesses and sheet and automotive glass. The ASEAN target markets were Japan and Australia.

In choosing to produce transmissions, Chrysler made feasibility studies on two components, i.e., rear axle and transmission. The transmission would give additional net foreign exchange savings. In addition, the transmission gave better advantage in shipping costs because it was less bulky.

The transmission was composed of smaller castings and forgings. The gray iron castings were available in the Philippines. Given the right technical assistance, the castings could be produced locally.

The forgings could be produced by a local company which was already producing hand tools. In addition, an Australian company supplying the automotive industry in Australia was being encouraged to locate in the Philippines. Its application had been approved by BOI. CAR's casting and forging supply was thus assured.

There were difficulties encountered, however. The small foundries in the Philippines were primarily batch producing for specific job orders. They were not accustomed to working on a mainline basis. Inflation brought about uncertain pricing for electricity and pig iron. CAR was willing to give technical assistance in setting up reasonable quotas and pricing on a long-term basis as well as assistance in reducing scrap rate. Top management responses from foundries were good.³³

Another problem was meeting Japanese export prices. This problem was solved, however, with the joint venture of CAR and Mitsubishi.

Based on volume and price studies, the Philippine-made automotive components' future export potential,

including transmissions, was substantial.

Technical Aspect

The automotive industry is still a neophyte in car manufacturing, thus it still lacks some skills and technological know-how in certain manufacturing areas. The PCMP and the government are aware of this problem. The industry is doing its share in the development of a high level of technology. Key staffers are regularly sent abroad for technical training, in addition to the training of manufacturing employes at the Metals Industry Research Development Center (MIRDC). Technology experts from foreign partners or mother companies are likewise assisting their local counterparts to achieve efficiency of operations.³⁴

The government in coordination with the PCMP supports various manpower development undertakings. One of the agencies established by the government to provide technical assistance and training programs in car component manufacturing is the MIRDC, which provides training programs in the necessary facets of the automotive industry.

Financial Aspects

The shift from mere assembly to manufacturing affected the financial stability of the automotive industry. The PCMP participants had invested so much to put up their manufacturing plants. As of now the five companies in the PCMP are

still in need of capital to finance their expansion programs and purchases of necessary equipment.³⁵ The lack of capital is compounded by high production costs, and continued increases in the price of CKD. Thus, in order to fortify the PCMP's capital structure, it grants liberal incentives to foreign-based car manufacturers.

In order to reduce cost of operation, car assemblers should avail of the economies of scale. However, with a limited domestic market this may be difficult to attain. Thus, the industry should try to penetrate the ASEAN market. Besides improving sales and increasing profits through the maximization of its resources and attainment of efficiency of production, complementation will generate foreign exchange earnings and savings.

CHAPTER V

SUMMARY AND CONCLUSION

In our study of the effects of government policies toward the automotive industry we find that the policies have positively benefited the industry.

As mentioned in the automotive industry background the aftermath of the second World War virtually placed the industry in shatters. The government utilized the remaining army vehicles such as jeeps, trucks, etc. as means of creating an auto industry. The surplus army vehicle units signaled a new era in the local automotive world.

Because of the sick colonial mentality during the same period, American-made vehicles such as cars assembled by Ford Motors, GM (General Motors), etc. became their ultimate dream. This attitude of the local market buyers created a problem concerning dollar allocation. Thus the government was prompted to call for the establishment in 1951 of a vehicle assembly plant which would cushion the setback in the economy. Thus was established the Fabar Incorporated which utilized components for assembly in knocked-down parts (CKD).

Throughout the 50's the economy of the country was plundered with foreign made products which resulted in the diminishing of foreign exchange (Table 5). In the auto

industry a new import law was enacted to establish priorities in the budgeting of dollars for imports. The previous policy of the government to establish assembly plants went out of hand and resulted into the establishment of more than 19 companies which assembled 60 different models. The original policy was to limit CKD assembly to only a few companies so that foreign exchange returns could be balanced.

The same problem of drain in the Philippine foreign exchange swept through the 60's. (See Table 6.) During this period the government imposed a ban on the importation of CKD parts to stabilize the market. However, before the decade ended the Board of Investments was called upon to formulate a car manufacturing program for the industry. Thus the beginning of a local manufacturing and assembly industry was put into writing by the authorities. In May 1971, the President approved the guidelines for the Progressive Car Manufacturing program.

The 1973 Arab oil embargo terribly squeezed the economy of the country. (See Table 4.) The local auto industry still in its pick-up stage was forced to make measures to conserve energy. To boost further car sales, car financing companies were called upon to work with the automotive corporations to sort out problems in this respect.

The continuing increase in the price of crude oil has prompted the auto industry technologists to find

substitutes for the utilization of fuel for cars. So far only alcohol has been proven to be a viable substitute for this nature. In order to offset the further increase in prices of oil the auto industries answer to date is the scientific manufacture of a low mileage vehicle which consumes less fuel per mile. Luckily also the continuing search for oil in our country has given bright hope to the local auto manufacturers and to local entrepreneurs directly affected by the automobile industry.

In the process of our discussion, we find out that throughout the 40's, 50's, 60's and 70's, the government has implemented policies that shaped the automotive industry. In a more general view these policies of government are means to maintain competition, to moderate competition and to regulate the market. Let us look into this two cases.

Case 1. There was a move of the government to maintain competition during the 50's, because of some imbalance in the foreign exchange. The problem then was that people were eager to own foreign made products especially those made by the Americans - vehicles for one. This caused a terrible drain in our dollar reserves. In order to cushion the monetary setback, the government implemented a policy to establish an assembly plants using CKD parts and which can utilize local manpower, thus to create labor and employment to offset the imbalance in the currency dilemma.

Case 2. The government has also implemented a policy to regulate in terms of tariff. To protect the interest of local entrepreneurs a higher protective tariff wall was implemented in the importation of foreign made vehicles. This measure of the government discourages the purchase of foreign made vehicles and thus places the locally made vehicles in the market.

The policy implemented in Case 1 (to maintain competition) has stabilized the economy of the country during the period mentioned (early 50's). Due to the problem of the drain in foreign exchange, the government policy (See Table 5) implemented was the establishment of an assembly plant utilizing CKD parts. The result was the cushioning of the dollar allocation since local manpower may be utilized, thus, creating labor and employment which temporarily offsets the imbalance in the economy.

A question about Case 1 is-why did not the government impose a higher tariff for foreign made vehicles instead? The economy of the country would further suffer if the government imposed this policy since there was no local car manufacturer to be protected during that time.

The government policy in Case 2 (policy to regulate) gives the government a means to check any trade imbalance. Any excess in import creates an imbalance in the foreign exchange. A big imbalance in foreign exchange creates a

major setback in the economy of the country.

We must admit that through the years we have been victims of trade imbalance. A lot of imports have been coming into the country with only few exports for the international market. (See Table 5.) [In the automotive industry this is no longer the case.] The government has to sacrifice on this for a while because the authorities believe that there will come a time when locally made vehicles will be of market value in comparison to foreign made vehicles.

A related question is are foreign made vehicles important to our economy? I think that foreign made vehicles are important to the economy of the country to a certain degree. If we go beyond the level of import for this item, there will be big and serious problems like dollar allocation and drain in foreign exchange. Thus, importation of foreign made vehicles helps promote international trade but an excess in the import of this item creates an imbalance in foreign exchange.

In the process of development of the automotive industry the supplier industry was tapped to provide for component parts for assembly like radio, auto-airconditioners, structured glass, leather upholstery, exhaust system and so on. During the first program year of the

Chrysler Corporation 25% of the total component parts were supplied locally. (See Table 3.) In 1973 the amount reached 56% and then 93% the succeeding year and the latest report showed that component parts (domestic content) reached a high average of 140% (data gathered from Exhibit 4 of Chrysler Philippines Progressive Domestic Content Integration).

The data reveals to us that locally made components provide a major part in the assembly of cars. This further shows that in utilizing components manufactured by local entrepreneurs the company earns and saves dollars for the country through its domestic production of car components.

Chrysler's purchases of locally manufactured components were worth about ₱4.5 million from 40 industrial suppliers for the first program year. This increased to ₱23.5 million for 70 suppliers in the third program year. This represented added primary employment of 6,600 workers in 1976. Indirect or secondary employment generated was more substantial.

The study of the effects of the government policies toward the automotive industry informs the reader ^{on} ways ^{of} how the government implement policies, ^{var} numerous considerations, ^{show such} to make the consequences that the policies will bring to the industry, the economy, and to the people.

In the study we were able to relate specific cases like dollar allocation and drain in dollar reserves (see Tables 5, 6 and 7) in which the government made policies to moderate competition. Likewise, the government implemented a policy to regulate like tariff for foreign made vehicles. In this particular case the policy safeguarded the interest of local entrepreneurs to enable them to market their products locally with no hard competition at all from foreign car corporations.

The study further enriches the minds of readers regarding the present status of the automotive industry. And in spite of the spiralling costs of oil how well the car industry absorbs the terrible shock in its sales, production and manufacturing of vehicles.

Truly the critical point of this study is the dilemma that will turn up if policies do not conform to the good of the industry. In the study, however, the government policies implemented since World War II have always been to the benefit of the industry. In fact the government has been trying as much as possible to make the local car industry self-sufficient in terms of utilizing local component parts in the assembly of vehicles so that in being self-sufficient the country does not rely on foreign products which become agents of lost in dollar reserves of the country. Furthermore, if policies by the

government does not conform to the wishes of the industry millions will suffer since the industry provides capital for the country. A big shake-up in the industry may place a lot of people out of work, related industries might crumble and downfall of businesses of local entrepreneurs. If this happens the economy will be affected, and the country will suffer a setback. Therefore in our study of the effects of government policies toward the industry the reader gains an insight towards the importance of ones knowledge on the subject matter for in knowing something about this vital industry, he understands why such government policies were implemented. Understanding things will make it easier for the industry and the government to exist in pursuit of common goals for further development of the economy as well as welfare of the people.

^{End}
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32 Ibid.

33 Ibid., p. 4.

34 PAIC, op. cit., p. 6.

35 Ibid., p. 6.

LIST OF TABLES

- Table 1. Models and Facilities for Major Components Manufacture
- Table 2. Plant Production Capacity (PCMP)
- Table 3. Domestic Content Ratio (PCMP)
- Table 4. Consumer Price Index
- Table 5. Foreign Trade of the Philippines (1953-54)
- Table 6. Foreign Trade of the Philippines (1965-1966)
- Table 7. Foreign Trade of the Philippines (1970-1971)
- Table 8. Quality and Value of Philippine Imports

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