

Philippine-American Economic Relations, 1945-96

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One of the guiding principles of the study of history, no less than of economics, is that, to understand the present as well as foretell the future, one must know the past.

In today's instance the period under review might be looked upon, in terms of history, that is, the fifty years since the American flag came down in the Philippines in 1946 to today 1996, as the present, with your indulgence I shall stretch that year or so backwards, to the liberation of the Philippines in 1945, for the postwar Philippine economy really began then.

United States-Philippine economic relations are of long standing and I shall sketch some highlights in that relationship. I start two centuries earlier, in October 1796, when the clipper ship *Astrea* made the first direct sailing from the United States (Salem) to the Philippines.

In 1816 the first foreign consulate opened in the Philippines and it was an American, William Farren, who set it up. For fifty years, from the 1820's to the late 1870's, two American firms, *Peele, Hubbell and Company* (1822-1877) and *Russell and Sturgis* (1828-1876), were the leading non-Spanish foreign traders in the Philippines: They acted as commission merchants, exporters (cinnamon, abaca), merchant bankers and agricultural and industrial entrepreneurs (Cordages,

shipbuilding). Only when the British banks and British merchants came in the 1870's and 1880's were the Americans eclipsed.

As a result of the American activities, the United States was a leading and, at times, the leading trade partner of the Philippines; it was for many years the chief market for sugar and abaca. The Americans were instrumental in the transformation of the Philippines from a subsistence economy to a primary products exporting country.

Then came the American period starting in 1898. In these years the Philippines was still a primary producer but on a much larger scale. Preferential trade from 1902, followed by free trade from 1909, oriented Philippine trade towards the United States. Concentration in products and markets developed. The Philippine economy became more integrated with that of the United States. This, after all, is what the theory of customs unions predicts.

That was only part of the anticipated effects from a free trade area. Another is that incomes and economic welfare rose. Moreover, for the Philippines, the domestic market bloomed and as demand grew, manufacturing of many consumer goods became viable: As Hooley and Estanislao have shown, the non-agricultural sectors expanded faster than the agricultural sector. In 1934-38 Filipinos enjoyed the second highest levels of living in Asia, second only to Japan.

But the politicians perceived that economic dependence was not in keeping with political independence which was to come in 1946. Thus economic transition was programmed in

several legislations: the Tydings-McDuffie Act of 1934, the Tydings-Kocialkowski Act of 1939; which resulted from the recommendations of the JPCPA (Joint Preparatory Committee on Philippine Affairs) of 1938; and, in April 1946, the Philippine Trade Act of 1946 (the Bell Act).

That was the setting as an era came to a close and this is where postwar Philippines began.

The Economic Statistics

The Bell Act provided for eight years of free trade from 1946 to 1954, later extended to 1955 by Executive Agreement in accordance with the Laurel-Langley Agreement of December 1954. Those were to be followed by 18 years of declining trade preferences from 1956 to 1973.

Today the United States is the largest trading partner of the Philippines, accounting for 33-35 percent of Philippine foreign trade. It is not the largest source of imports; that is Japan and the United States is second. But it is by far the largest export market. More significant is that, ever since 1980, when the Philippines ceased being mainly a primary products exporter, the United States has been not only the largest buyer of the Philippine primary products exports but also the biggest buyer of Philippine manufactures and semi-manufactures.

Americans still own the largest part of foreign investment in the Philippines, despite the large Japanese investments in this country in recent years.

In services--banking and finance, and telecommunications, not to mention TV, movies, computers, music — the Americans play the biggest role among foreigners. The largest foreign banks are American—Citibank and Bank of America: They are likely to remain so despite the entry of liberalized foreign banks.

Postwar American Economic Policy toward the Philippines

The main part of my discussion concerns postwar American economic policy toward the Philippines. I shall cite samples of what I consider benign policies, as well as not so favorable or pleasant aspects. On balance, to anticipate my conclusion, in my estimation American economic policy towards the Philippines has been singularly sympathetic, generous and, as a result, enlightened.

Benign Policies

The first example to be taken up is the Philippine Trade Act of 1946, popularly known as the Bell Act. This was a replacement of the Tydings-McDuffie Independence Act of 1934, as modified by the Tydings-Kocialkowski Act of the Technical Committee set up by the Philippine government in exile in 1943. The government of President Osmena sought perpetual free trade between the United States and the Philippines. This the Americans could not consider, following the Cordell Hull policy of 1934 calling for removal of any preferential trade agreements between the United States and

any other country. The Philippines then proposed twenty years of free trade and then an adjustment period of another twenty years. The final arrangement in the Bell Act was eight years of free trade and twenty years of trade adjustment.

The upshot is that, in fact, in eight years, that is, by 1954, the Philippine economy was substantially rehabilitated and was ready to stand on its own.

The “parity provision” of the Bell Act has been assailed time and again. This provision required an amendment of the 1935 Philippine Constitution to allow Americans and American corporations the same rights as Filipinos to operate public utilities and exploit Philippine natural resources. But in retrospect and laying aside emotions, that parity provision has not wrought the damage to the Philippines that its opponents so stridently forecast. Quite the contrary, in my judgment, has been its effect. One illustration may buttress my point.

In 1945 the facilities of the Manila Electric Company (Meralco) had been destroyed and Manila did not have electric power. And by July 4, 1946, under the terms of the Philippine Constitution, the Americans would have had to relinquish ownership and control. Yet, as narrated to me by my friend, Russell Swattley, a few days after they entered Manila and still in their military uniforms, the American executives of Meralco surveyed the damage and heedless of the legal risks, placed their orders for equipment with General Electric in the United States. As a result the Philippines was ahead of the line in the postwar scramble for electric generating machinery. That was the American attitude. Meralco was the only public utility in the country, whether American-owned, government-owned,

or Filipino-owned that built ahead of demand. Because of Meralco, Manila was able to industrialize starting in the 1950's. Even if only for Meralco, I say that "parity" was worth it. But in addition there were the mines, notably Atlas. In its time, despite relatively low grade ore, Atlas was one of the top five copper mines in the world and a pioneer copper producer, copied, for example, by the Bougainville copper mines in Papua, New Guinea. As for damaging effects, I do not see anything major. Judge Hausserman, for example, never returned to the Philippines to rehabilitate his Benguet gold company, though Jan H. Marsman did with ItoganSuyoc.

Another controversial section was the so-called currency provision which required the approval of the President of the United States for any change in the par value of the peso or any restrictions proviso. In the first place, the Philippines was bound to a similar requirement when it signed the articles of agreement of the International Monetary Fund in 1944; permission from the IMF also had to be obtained. Furthermore, in the crisis of December, 1949, President Truman readily gave his consent.

Laurel-Langley Agreement

Because of agitation on the Philippine side, in 1954 negotiations took place for revisions in the Bell Act. The late Senator Puyat, who was chairman of the economic panel on the Philippine side, recounted on his return some sidelights in the negotiations. Mr. James Langley went to Senator Laurel at his hotel and shared cocktails with the Senator. The two gentlemen hit it off well. And so the Americans bent over backwards to

accommodate the Filipinos. Thus the transition provisions on the imposition of the tariffs were not, on the surface, strictly reciprocal. The Philippines, which wanted to protect its fledgeling industries, was permitted a more rapid application of tariffs, while the schedule for the United States was more gradual.

There was an embarrassing sequence of events with regards to the parity provision, but that story belongs over a round of beer.

In the end, the adjustment provisions of the Bell Act and the Laurel-Langley agreement brought about the desired results. Philippine trade became more dispersed. By 1972 (close to the end of the adjustment period) the Hirschman Concentration Index for imports was down to 40, which, by Hirschman's standards, is considered acceptable diversification. That for exports was down 54, and falling steadily.