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Two major factors shaped the nature of the economic relationship between the Philippines and the United States in the period prior to and during the Commonwealth government. One was the disadvantaged position of the islands with regard to American tariff policies. Formulated on the grounds that the United States had the sovereign prerogative to institute tariff policies on the Philippines, Washington was influenced more by the pressure exerted on it by American agricultural interests than by the protests of Filipino exporters. The Philippine Commonwealth government had no reciprocal rights to impose tariffs on American goods. Secondly, the Philippine primary exports characterized by low income elasticity were sensitive to fluctuations in external demand for them, especially in the United States.

Manuel L. Quezon, as the first President of the interim Commonwealth government that was to lay the grounds for independence, saw his principal responsibility as securing the economic base of the Philippines for the future. An economically weak Philippines would have been a sound argument for the United States to delay independence, whilst an economy heavily dependent on the vagaries of the American market would erode the substance of political freedom. Quezon adopted a three-pronged approach: the first was to seek amendments to those terms of the American tariff policy that were considered prejudicial to Philippine interests; the second was to strengthen the basic framework of Philippine agriculture, industry and infrastructural facilities; and the third was to encourage measures aimed at self-sufficiency in the domestic economy. As it would not be possible to examine equally all these aspects of Quezon's economic program, the scope of

the present paper is confined to a discussion of the "protectionist" elements in Philippine-United States relations.

### TARIFF BURDENS

The adverse effects on the Philippine economy of the American tariff policy were crucial to Quezon's handling of the Philippine independence issue. Ever since the passage of the Payne-Aldrich Act of 1909, quotas had been imposed on the export to the United States of Philippine sugar and tobacco.<sup>1</sup> Quezon feared even at that stage that powerful American companies would use their capital to control the processed agriculture based export industries,<sup>2</sup> or, where such factories were non-American owned, that American capital would be used to dominate the marketing of export products. Under the Act the Philippines had to abolish export duties on goods shipped to the United States.<sup>3</sup> The limitations placed upon the amount of sugar and tobacco which could be imported free of duty into the United States were later removed by the Underwood-Simmons Tariff Act of 1913,<sup>4</sup> leading to greater sugar production and the construction of sugar centrals.<sup>5</sup> In fact, sugar exports to the United States rose by 450 percent, coconut oil exports (including copra) by 223 percent and cordage by over 450 percent.<sup>6</sup> The Philippine economy was not

1. For details on the Act, see United States Tariff Commission, *Colonial Tariff Policies*, Washington, Government Printing Office, 1922, p. 591. For a study on the economic policies, trade and economic development, see Shirley Jenkins, *American Economic Policy in the Philippines* (Stanford: Stanford University Press, 1954); Pedro Abelarde, *American Tariff Policy Towards the Philippines* (Morningside Heights: King's Crown Press, 1947) and A.V. Hartendorp, *A Short History of Industry and Trade in the Philippines* (Manila: American Chamber of Commerce of the Philippines, 1958).

2. B.S. Salamanca, *Philippine Panorama*, 21 August 1983, p. 7. For views of the Philippine Assembly Committee, see "Minutes of the Meeting between the Select Committee of the Philippine Assembly and the Philippine Commission," First Philippine Legislature held in Baguio City on 29 March 1909, in *Historical Bulletin* 26 (January-December 1982): 190-224.

3. "Minutes of the Meeting Between the Select Committee of the Philippine Assembly and the Philippine Commission," *Historical Bulletin* 26 (January-December 1982): 191-93.

4. *Statutes at Large*, 63rd Congress, The Underwood-Simmons Act, 1913, pp. 192-193.

5. Sugar centrals were established and a Sugar Centrals Act (No. 2479) was approved on 5 February 1915 and later amended by Act No. 2577 to create a Sugar Central Board. See Frederick T. Merrill, "The Outlook for Philippine Independence," *Foreign Policy Reports*, 15 September 1939, enclosure in Harry B. Hawes to Manuel Roxas, 19 September 1939, *Manuel Roxas Papers*.

6. Jenkins, *American Economic Policy*, p. 34.

merely an export-based economy but its umbilical cord was tied to the United States as sales to other foreign countries declined.

That it was the American tariff policy that was largely responsible for such an unhealthy economic dependence on the United States became clear to Quezon when the market situation in the United States changed in the wake of the Great Depression in the early 1930s. The enormous increase in Philippine exports to the American market irked American business interests, particularly those of the general farm groups and sugar producers. With help from the Cuban sugar lobby, they began to protest against the volume of Philippine exports to the United States. At first they failed to secure from their government legislation to impose quotas and duties on Philippine products; but as American agricultural prices fell, the American agricultural lobbies called for the exclusion of the Philippines from the American free trade bloc.

The desperate agricultural situation in the United States particularly the drop in farm income, became the primary factor for the Hare-Hawes-Cutting Bill being placed before Congress in 1933. The bill, in its economic provisions, prescribed a ten-year transitional period of free trade for the imposition of quotas on Philippine products. Despite President Herbert Hoover's veto of the bill in January 1933, the American Congress repassed the bill. It had been decisively influenced by the economic depression of the time to seek measures to protect American products from overseas competition. To protect the American sugar market, Congress slashed insular quotas to build up domestic beet. The action of Congress threatened the Philippine agricultural industry. The Philippine sugar industry entered a period of chaos when the United States Agriculture Department rejected trade agreements reached with the Philippines on sugar in September 1933.<sup>7</sup> As a result, the Philippines expected to lose half a million tons of its largest crop.

The economic relationship between the Philippines and the United States was redefined in March 1934 by the Tydings-McDuffie Act. The Act divided the Commonwealth period of ten years into two equal halves. Free trade was to continue during the

7. Frank Murphy, Harry Hawes and members of the Philippine Legislature petitioned Congress against making the quota retroactive as well, but without success; Hawes to Senator Pat Harrison, 9 April 1933; Quezon to Murphy, 18 April 1933, *Quezon Papers*.

first five-year period from 15 November 1935 to 15 November 1940, but the quantities of Philippine products entering the United States were to be restricted as follows:<sup>8</sup>

|                                     |                     |
|-------------------------------------|---------------------|
| refined sugar                       | : 50,000 long tons  |
| unrefined sugar                     | : 800,000 long tons |
| coconut oil                         | : 200,000 long tons |
| hand fibers (including manila hemp) | : 3,000,000 pounds. |

Shipments in excess of these quotas were required to pay full United States' duties.<sup>9</sup> During the second period from 15 November 1940 to 4 July 1946, a system of graduated export taxes was to be established on products receiving preferential treatment. These taxes were to be collected by the government of the Philippines on items shipped to the United States. They were to begin at 5 percent of the United States duty on that item, and were to increase by that figure each year until the taxes reached 25 percent at the end of the ninth year.<sup>10</sup> Full taxes were to be paid after 4 July 1946, the date set for Philippine independence. The Act also provided for a conference between the United States and the Commonwealth of the Philippines at least one year before independence. It was intended to recommend the nature of future trade relations between the two countries.

It was stated that nothing in this proviso was to be construed as modifying or affecting the Act relating to the procedure leading up to Philippine independence.<sup>11</sup> What was ironic however was that no provision was made in the Independence Act for permitting or requiring the curtailment of imports of American goods into the Philippines during the Commonwealth period. Moreover, the Commonwealth government had no legal power to restrict imports of American goods. The provisions concerning tariffs with countries other than the United States were extended by one of the provisions appended to the Constitution adopted by the Commonwealth.

8. Section 6 of the Tydings-McDuffie Act, 1934.

9. Exports were allocated by the Commonwealth government to the producers or manufacturers on the basis of their exports to the United States in the preceding year (except in the case of sugar where the average for the years 1931, 1932 and 1933 was to be used as a basis for allocation). Allocations were not to be made until the Philippines reached its full tariff-free quota.

10. Section 6 of the Tydings-McDuffie Act, 1934.

11. Section 13 of the Tydings-McDuffie Act, 1934.

Still the economic provisions of the Tydings-McDuffie Act did not satisfy domestic American agricultural interests. They sought additional protection, through the Jones-Costigan Amendment to the Agricultural Adjustment Act of 1934<sup>12</sup> and the Revenue Act of 1934.<sup>13</sup>

Quezon attacked vehemently the economic provisions centered on sections 6 and 13 of the Tydings-McDuffie Act.<sup>14</sup> These stipulated that American goods should enter the Philippines free of duty as provided for in the existing tariff laws. The Philippine legislature was without power to impose any tariff upon American goods imported into the Philippines during the transitional period. It seemed hence unfair to the Filipinos that their goods entering the United States pending the complete independence of the Philippines were subject, under the act, to limitations and restrictions (in the form of quotas and export tax). The quota in the export of the principal products (such as sugar, coconut oil, cordage and abaca products) into the United States were to be effective following the inauguration of the Commonwealth.

The Filipinos did not accept that the graduate export tax on all articles that were to be sent to the United States from the Philippines was to take effect from the sixth year to the expiration of the ninth year of the Commonwealth period. The Filipinos also objected to restrictions imposed by the Americans on sending surplus Philippine products to other markets of the world.

In objecting to the economic provisions of the Act, Quezon proposed amongst others, two solutions. The first was the elimination of the progressive export tax on Philippine exports to the United States after the fifth year of the establishment of the Commonwealth. The second was that the terms of the trade relations between the two countries be fixed for a number of years after independence.

12. The Jones-Costigan Act signed on 9 May 1934 substituted the duty-free quota on sugar with restricted shipments of Philippine sugar to the United States under an absolute quota. See United States Tariff Commission, *United States-Philippine Trade with Special Reference to the Philippine Independence Act and other recent legislation*, (Washington: Government Printing Press, 1939), pp. 14-21.

13. It became effective on 10 May 1934 and provided for a processing tax of 3 cents per pound on coconut oil coming to the United States and extracted from Philippine copra either in the islands or in the United States. See *United States Congressional Record*, 73rd Congress, 2nd session, 1934, LXXVI, Part VIII, pp. 6380-92.

14. Speech of President Quezon, *The Manila Tribune*, 23 December 1934, no pagination.

On 14 June 1935, the American Congress passed the Cordage Act that modified the trade provisions of the Tydings-McDuffie Act. The duty-free quota on Philippine cordage of 3 million pounds provided for in the Tydings-McDuffie Act was increased to an absolute quota of 6 million pounds. In addition, the Cordage Act limited shipments of cordage from 1 May 1935<sup>15</sup> (whereas the restrictions fixed by the Tydings-McDuffie Act would not have become applicable until 15 November 1935 when the Commonwealth government was to be inaugurated).

The concern of the nationalists over the provisions of the Tydings-McDuffie Act is understandable. Exports duties were now to be assessed and levied against most Philippine primary products shipped to the United States. After 4 July 1946 when independence was to be granted, the situation would be even worse as all Philippine products would be subject to the full imposition of United States tariff laws. The fear in the Philippines was based on the projection of the export figures for 1946 and thereafter. It was estimated that by 1946 the export value of Philippine products would amount to about ₱215,000,000. If the American trade restrictions were to be fully applied against the Philippines, the islands would lose the American market on which they had been dependent and would have to divert exports to other outlets, and these other markets would not be easy to secure. The difficulties of access to the American or other markets would have a significant effect upon the ability to import from abroad what the Philippines would need. If exports could not finance imports, argued one newspaper, other sources of payments would have to be found for imports that were considered necessary to the maintenance of the standards of life in the islands.<sup>16</sup>

It was in part the realization of the plight of the Filipinos that led President Roosevelt to establish in April 1937 a Joint Preparatory Committee on Philippine Affairs (JPCPA) to study and report on changes to the existing Tariff Acts.<sup>17</sup> The Committee recommended that the period of gradual increase in duties should be

15. The arrangement was to be effective for a period of three years and extended for an additional three years if approved by the President of the Philippine Commonwealth.

16. *The Manila Daily Bulletin*, 28 August 1936, in *Victor Buencamino Papers*, p. 173.

17. The body created on 14 April 1937 was composed of six Americans and six Filipinos. The JPCPA produced a four-volume report; see *JPCPA Report*, 20 May 1938, (Washington: Government Printing Office, 1938).

continued from 4 July 1946 to 1 January 1961. On trade relations between the two countries, the Committee recommended that the export taxes prescribed by the Tydings-McDuffie Act should not be imposed upon shipments of coconut oil, cigars, scrap tobacco and pearl buttons.<sup>18</sup> It proposed instead that these commodities be assigned duty-free quotas, to be decreased by 5 percent each year until the granting of independence. Shipments within the quota limits were to be exempted from export taxes, and shipments in excess were to be assessed at the full United States tariff. On the matter of other Philippine products, the Committee recommended as follows. The limitations on sugar under the Independence Act were to be continued, except that the 50,000 ton-quota for refined sugar might be filled by raw sugar if the producers wished to do so. The absolute quota on cordage was to be made merely duty-free quota. Abaca and copra were to be on the duty-free list.

The Committee also took into account that an inevitable consequence of the abrupt elimination of all Philippine preferences in the American market on 4 July 1946 would be that a number of important Philippine enterprises would be forced to liquidate much more rapidly than new enterprises could develop to replace them. Thus it proposed that instead of the abrupt imposition of full American duties upon all Philippine products after independence on 4 July 1946, American duties be progressively increased by 5 percent a year; these were to begin at 25 percent of the full American duties in 1946 and reach 100 percent in 1961.<sup>19</sup> This was, as the other changes proposed by the Committee, intended to strengthen Philippine infant industries. However, American domestic industrialists were still reluctant to give competitive advantages in the American market to Philippine products.<sup>20</sup>

Quezon, aware that the recommendations of the JPCPA would be tabled before the United States Congress for its action, found

18. The considerations of the Committee were as follows: that the Tydings-McDuffie Independence Act was a definitive mandate of the United States Congress; that the preferential trade relations were to be terminated as soon as the Philippines had a reasonable opportunity to adjust its national economy; that subsequent trade between the two countries was to be regulated on a non-preferential basis; that there was need for certainty as to the nature of the policies of the United States and the Philippines with regard to their future economic relationship; see *JPCPA Report*, Vol. I, pp. 11-13.

19. Paul V. McNutt, "Memorandum for the President Relative to the Report of the JPCPA," Manila, 30 June 1938 (Mimeographed.)

20. Jenkins, *American Economic Policy*, p. 37.

the time opportune to drive home certain crucial points. Quezon was anxious to impress upon the Filipinos that he would safeguard their livelihood. Equally he wanted to assure himself that the Commonwealth government that he headed would not have to struggle against inequities and be economically tied to the United States. Quezon decided to send a mission to Washington, headed by Sergio Osmeña, following the JPCPA report. On 17 October 1938 Osmeña left Manila at the head of a small group, which included former Speaker Antonio de las Alas as a member, Benito Razon and Jose C. Reyes as technical advisers and Amador Buena-seda as Secretary. The task of the Osmeña mission was largely to secure the best obtainable economic terms for the Independence Act.<sup>21</sup>

When the Senate Committee on Territories and Insular Affairs held public hearings between 16 February to 15 March 1939 on the JPCPA recommendations, Osmeña defined the attitude of the Commonwealth government. He endorsed them but suggested a few changes. He emphasized the need to enable a number of Philippine industries to survive, and to provide a period, after independence, for business interests in both the United States and the Islands to have an opportunity for adjustment or liquidation. He pointed out that the Tydings-McDuffie Act provided that at least one year prior to the date fixed for independence, there would be a conference between representatives of the United States and the Philippine governments to formulate recommendations on the future trade relations between the two countries. Osmeña did not believe that the Act necessarily foreclosed the question of the maintenance of mutual trade preferences between the two countries. He then cited the assurance of President Roosevelt that where "imperfections and inequalities existed these would be corrected after proper hearing and in fairness to both peoples."<sup>22</sup>

21. For an account of the activities of this mission in the United States, see Philippine Commonwealth, *Report of the Special Mission to the United States*, Manila, Bureau of Printing, 1939.

22. Osmeña was supported by former Senator Harry Hawes, legal adviser to the Philippine Commonwealth and the United States representative of the Philippine Sugar Association; J.J. Underwood of the Seattle Chamber of Commerce, J.B. MacDaniel of the Cordage Institute, New York City; Cheswell M. Micou and E.P. Thomas of the National Foreign Trade Council Incorporated, New York; and John W. Hausserman, an American investor in the Islands. They stressed the mutual benefits derived by both the United States and the Philippines as a result of the free trade arrangement and advocated continued preferential trade between the two countries. Hawes also underscored America's moral obligation toward the Philippines. See United States Congress, Senate

There was a division of opinion in the United States on the provisions regarding trade preference for the post-independence period. Isolationists both in the Committee and among the general members in Congress opposed any proposal that, in their opinion, tended directly or indirectly to prolong American responsibility in the Philippines.<sup>23</sup> As a result of the division of opinion in the Senate, the original bill was withdrawn in favour of a compromise solution that purported to save the dislocation of some Philippine industries at least until 1946.<sup>24</sup> The new bill, popularly known as the Philippine Economic Adjustment Act was signed by President Roosevelt on 7 August 1939.

Since the economic provisions of the Tydings-McDuffie Act had been incorporated into the Philippine organic law, the Philippine Economic Adjustment Act (which amended it) required corresponding amendments to the Philippine Constitution. The Philippine National Assembly approved the amendments and provided for a plebiscite on them on 24 October 1939. President Quezon explained that the need for a plebiscite was because the Congress of the United States had made the effectiveness of its proposed measures dependent upon the affirmative vote of the people in such a plebiscite. Hence, the only question to be submitted to vote was whether the people approved the changes proposed to the Tydings-McDuffie Act on the trade relations between the United States and the Philippines from 1941 until 1946.<sup>25</sup> The plebiscite expressed itself favourably on the acceptance of the amendments, and these were incorporated into the Philippine Constitution.

The Tydings-Kocialkowski Act, which Osmeña brought home, removed the increase in export tax which would have been applied from 1940 on Philippine coconut oil, cigars, embroideries and pearl buttons exported to the United States. Instead, there was to be

Committee on Territories and Insular Affairs, *Hearings on Complete Independence of the Philippine Islands*, 76th Congress, 1st Session, 1939, pp. 61-80; and *Testimony of the Hon. Harry B. Hawes Before the Committee on Territories and Insular Affairs of the United States Senate*, 14-15 March 1939, Washington, Government Printing Office 1939, pp. 11-15.

23. *Report of the Special Mission to the United States, op. cit.*, pp. 26-28.

24. *New York Times*, 10 May 1939, p. 35.

25. President Quezon had to explain the issues carefully as many critics felt that the plebiscite also had to do with other proposed amendments to the Constitution. In particular there had been much public discussion on proposed changes relating to the term of office of the President and the creation of the Senate which had been approved at the last session of the National Assembly. *The Manila Tribune*, 12 October 1939 in *Victor Buencamino Papers*, p. 164.

substituted a declining duty-free quota for each product.<sup>26</sup> Osmeña urged the producers of exports to do their part. He felt that due to the protection which Philippine exports had enjoyed in this market, Filipino producers had not hitherto been called upon to confront the necessity of reducing their cost of production to meet any competition in the open market. Osmeña advised producers that they would now have to begin adjusting their costs to take account of market rivalry.<sup>27</sup> Osmeña was given a warm welcome for at least being able to bring home the new legislation in 1939; Quezon however still entertained apprehensions over the contents of the Tydings-Kocalkowski Act. Quezon's apprehension became a reality two weeks later when the Second World War began in Europe. With it, the Philippines lost any early hope of American attention to resolve its economic problems.<sup>28</sup>

#### DOMESTIC ECONOMIC GROWTH

Quezon did not however merely depend upon amendments to the tariff relations with the United States in order to confront the multi-faceted nature of his country's economic problems. Simultaneous with negotiations on tariff policies, Quezon embarked upon a program of promoting economic development at home. As this paper is largely concerned with "protectionist" economic policies, it would not be possible to dwell at any length on all the economic development measures undertaken. However, what needs to be stressed, by way of introduction to the final part of this paper, is the impetus that Quezon developed for ensuring

26. The beginning quotas were 200,000,000 cigars; 4,500,000 pounds of scrap tobacco; 200,000 long tons of coconut oil, 850,000 gross of pearl or shell buttons. These quotas were for 1940 and were to be reduced at the rate of 5% a year up to 1945. For the period from 1 January 1946 to 3 July 1946, the eve of Philippine independence, the quota was to decrease by one-half of the preceding year's quota. The taxable value of Philippine embroideries from cloth of United States origin was to be computed with an allowance for the cost, insurance and freight to the Philippines of the American cloth. Cordage was assured of a continuing annual quota of 6,000,000 pounds a year until 1946.

27. Speech of Osmeña at a Convocation of the University of the Philippines, 12 December 1939, *Quezon Papers*. See also Osmeña's overlarge expectations in his speech entitled "Economic Adjustment and Philippine Economy," 23 June 1940, Manila, Bureau of Printing, 1941. For a study of the Philippine economy in the 1930s see also Amado A. Castro, *The Philippines: A Study in Economic Dependence* (Ph.D. dissertation, Harvard University, 1954).

28. Broadcast to the United States, 17 November 1939, *The Manila Daily Bulletin*, 19 November 1940. See also *Philippine Magazine* 30 (1940): 403.

domestic economic growth.

An important thrust in the direction was the establishment of basic industries (such as those of textiles and the preservation of food-products) not only to provide employment but also to bring the country closer to economic sufficiency. Quezon urged the first National Assembly to create a National Economic Council.<sup>29</sup> Its members were instructed not to believe in the economic philosophy of laissez-faire but to favour government leadership in production activities in the planning of the national economy.<sup>30</sup> Quezon was of the opinion that the government was in the best position to provide the degree of economic stimulation that was needed to meet the problems of independent nationhood. He realized that the Philippine economy had to be adjusted during the ten-year transitional period if it was not to face a possible collapse from the full weight of the American tariff against Philippine goods entering the United States. During the span of ten years, the Philippine Commonwealth had to be able to take its place in the community of nations and stand on its own feet in economic as much as in political terms. It had to seek markets for its products, elsewhere with little prospect that tariff bargains would be accepted by the President of the United States (as required under the Tydings-McDuffie Act). The Commonwealth had to build up local industries to manufacture those necessities now being purchased and financed by export incomes. But such new industries could not be adequately safeguarded from the competition of American products.

To overcome the heavy dependence on the United States for Philippine sugar and tobacco exports, Quezon embarked on a policy of agricultural diversification. Cotton, onions and rubber too received attention.<sup>31</sup> Quezon's agricultural adjustment measures were undertaken largely because the special attention paid to the cultivation of export crops like sugar, copra, tobacco and abaca had produced an agricultural problem in the Philippines that endangered economic stability. The limitation placed by the American Congress on Philippines' export crops entering the

29. *Messages of the President*, Vol. I, Manila, 1936, pp. 79, 81.

30. *Ibid.*

31. *Philippine Statistical Review* 2 (1935): 310. For further details on Quezon's agricultural diversification and economic development programmes, see Aruna Gopinath, "The Philippines 1935-41: A Historical Study in Quezonian Leadership", (Ph.D. dissertation, University of the Philippines, March 1984), pp. 318-44.

United States (principally sugar, tobacco, coconut oil and cordage) created the problem of how Filipinos could handle the surpluses of these crops. Just as the lowering of the tariff rates had encouraged the rapid development of these crops, the restrictions now imposed made it difficult for surpluses in the future to be exported; Philippine crops could not hope to compete in those world markets that protected themselves with high duties.

The solution sought by Quezon was to ensure stability in the establishment and development of small industries to supply the home demand. He advocated the establishment of small industries that would produce such items as cotton spinning, soap making and food products meant essentially for the domestic market. The expectation was that the progressive development of domestic-oriented small industries would reduce the imports from abroad of such items. The savings in import costs would adequately compensate, in part, for the loss of Philippine exports. Industrialization and the production of the bulk of the country's agricultural requirements therefore became the methods by which the Philippines could afford a reduction in exports, counterbalance imports, and still achieve a sound trade status.

Quezon's government had also to overcome at least three other difficulties before any extensive industrialization could take place. Firstly, it was necessary to develop more adequate sources of power. Since coal or oil did not exist in adequate quantities and under conditions which could be used to supply power for an industrialization program, the Commonwealth government planned to develop water power. Secondly, the government had to take the lead in research and the development of some industries before private capital would show an interest in any extensive program of industrialization. Thirdly, better transportation and communication facilities were sorely needed. The government attempted to do as much as it could to provide the vital infrastructure for economic development to proceed.

#### ECONOMIC SELF-SUFFICIENCY

A third area that the Commonwealth government felt compelled to examine was the stranglehold exercised over the economy by resident foreigners. They included in particular the Americans, Chinese and Japanese who had come to exert a tremendous

influence over the country's foreign trade. Before the Second World War, the Chinese controlled 75 to 82 percent of the retail trade, operated the credit facilities, financed the production of rice, tobacco, hemp and copra. They also invested in logging, timber, manufacturing, banking and real estate enterprises in the Philippines.<sup>32</sup> The Japanese too followed the Chinese pattern by establishing self-contained communities in the country. By the 1930s, the Japanese communities in Manila and Davao had grown so strong that they could lobby for the favourable treatment of Japanese nationals arriving in the Philippines.

Aliens came in increasing numbers into the country, and they were, from a Filipino viewpoint, primarily interested in the exploitation of the country's national resources rather than in assimilating themselves into Philippine society. Consequently, in May 1939 the National Assembly passed the Anti-Dummy Law which punished Filipinos who allowed themselves to be used as "dummies" or fronts by alien businessmen and investors.<sup>33</sup> The Assembly also passed in May 1940 an immigration law which limited to 500 the number of "quota immigrants" permitted annually to enter the Philippines from any country. The law, passed by a vote of 67 to 1, was a direct reaction to the apprehensions of the political and social consequences that would follow upon the unchecked immigration of large numbers of aliens.

The government also attempted to wrest control of the retail trade from the Chinese by encouraging Filipinos to engage in retail merchandising; credit facilities were to be obtained from corporations such as the National Trading Corporation. It was partly to break the monopolistic position hitherto enjoyed by foreign retailers that Quezon established a National Economic Protectionism Association (NEPA). The new body enabled Filipino participation in retail trade to increase from about 15 percent in 1935 to 37 percent in 1949. It was also a move to expand the domestic market through increased consumption of local products. Quezon's action was intended in part to foster a national economic con-

32. T.A. Agoncillo, and M.C. Guerrero, *History of the Filipino People*, p. 415. Milagro Guerrero in "A Survey of Japanese Trade and Investments in the Philippines 1900-1941" *Philippine Social Sciences and Humanities Review*, March 1969, gives a comprehensive account of the various sectors of the economy that had been dominated by Japanese traders and investors.

33. T.A. Agoncillo and M.C. Guerrero, *History of the Filipino People*, p. 415. For the economic problem posed by the Japanese see Grant K. Goodman, *Davao: A Case Study in Japanese-Philippine Relations*, Kansas, 1967.

sciousness. In this way he hoped that the Philippines would be less dependent on American goods. This philosophy was the guiding principle in the formation of NEPA.

The idea of "economic nationalism" was not new. As early as 1930 there was formed an organization known as the *Ang Bagong Katipunan* under the leadership of Manuel Roxas, Speaker of the House of Representatives. It was a step towards a national economic movement, though it did not come under government auspices. It was the sole creation of the Chamber of Commerce and its officials appealed directly to the people.<sup>34</sup> The aims of the *Ang Bagong Katipunan* were oriented toward economic self-sufficiency, to produce locally what was needed and to encourage the development of home industries. The sentiment that was actively propagated to consumers was the need to patronize Filipinos who were engaged in business, to buy from abroad only those commodities that were not locally manufactured, and to show preference only to those articles that originated from countries which were buying Filipino products.<sup>35</sup>

The Quezon government was in a sense repeating in 1931 what the *Ang Bagong Katipunan* had done when it initiated efforts at persuading Filipinos to develop a preference for the purchase of products grown or produced in their own country. In launching an educational campaign of this nature, the government hoped to expand the market for goods produced by Philippine home-industries and for those produced by small locally-owned factories. The educational campaign was indeed a necessary prerequisite to the success of the industrialization drive.

The first effort at popularizing local products was the inauguration of a floating exhibition sponsored by the Bureau of Commerce of the Department of Agriculture and Commerce. Philippine manufacturers were invited to exhibit their wares which were loaded on a ship and taken to approximately thirty ports throughout the islands. In 1933 this was supplemented by a "Made in the

34. As early as 1782, a society named *La Sociedad Economica de las Islas Filipinas* was organized for the purpose of enhancing the well-being of the peoples by means of the development of agriculture and commerce and the diffusion of information on allied sciences. The society was organized under the auspices of the government. See Bonito Razon, "The Necessity of Economic Protectionism", In *The NEPA and our National Economy* (Manila, Oriental Commercial Co. Inc., 1939), pp. 34-35.

35. Decalogue of *Ang Bagong Katipunan*, Section on Economic Nationalism, *Manuel Roxas Papers*, 16 Aug. 1940.

Philippines Products Week.”

Quezon renewed and expanded on such ideas. In 1936 the Manila Trading Center served more than four hundred small manufacturers and merchants by distributing their products. The Bureau of Commerce exhibited Philippine-made products in the Manila Carnival and at eleven provincial and municipal fairs and expositions. The bureau also attempted to increase the number and usefulness of the provincial trading centers.

Quezon also hoped to revive national economic consciousness through the concept “Key to Economic Nationalism” or KENA in 1938.<sup>36</sup> It was aimed at promoting Filipino participation in domestic trade and commerce. It also proposed to redirect the purchasing power of the Filipinos toward the conservation of Philippine wealth. For this purpose KENA urged the Filipinos not only to patronize home-made products but also to protect Filipino distributors and retailers.<sup>37</sup>

Quezon further stressed that one of the aims of his administration was to grant Filipinos every facility that they needed to acquire an increasing share in business activities. He argued that the policy was prompted by more cogent reasons than “merely a narrow or emotional nationalism.”<sup>38</sup> Quezon stressed that the only sound basis for a national economy was productive enterprise, and that certain social and economic objectives were best accomplished by direct government action. The Philippine Constitution granted specific authority to the State, in the interest of national welfare and defence, to establish and operate industries and means of transportation and communication; the constitution also provided, upon payment of just compensation, the transfer to government of utilities and other private enterprises.<sup>39</sup> This did not however amount to the nationalism of business. He said:

. . . my political and social philosophy is opposed to a government monopoly of economic enterprise except, perhaps, in the case of public utilities, if and when circumstances demand it. Anything that hurts business cannot but have harmful reactions in the government and the people. It is with this knowledge that I have adopted as a basic policy of my administration

36. For further details, see Francisco Astilla, Chairman of KENA, to Manuel Roxas, *Manuel Roxas Papers*, 29 July 1938.

37. Dioscoro Retiro to Manuel Roxas, *Manuel Roxas Papers*, 10 Aug. 1938.

38. M.L. Quezon, “The Policy of the Commonwealth,” *The NEPA and Our National Economy*, p. 5.

39. *Ibid.*

the affording of the assistance of the government to legitimate business. It is my purpose to persevere in this policy.<sup>40</sup>

The National Economic Protectionism Association, referred to earlier, was in part the Quezon government's method of encouraging the readjustment and strengthening of the national economy, so that the system could withstand the shock of the impending economic changes with independence. NEPA was not inspired by antagonism or hostility to foreign interests. It had been set up to merely achieve in the Philippines what other nations had achieved or were trying to achieve, namely the ideal of practical economic self-sufficiency.<sup>41</sup> This was as politically desirable as it was economically sound for it provided a primary method of ensuring Filipinos the means of livelihood and the capacity to meet their basic social requirements. It was in that sense that the objectives of NEPA became integral to the nationalist movement in the Philippines. It was also treated as a vital factor in the national defence of the country. A nation with a high degree of economic self-sufficiency was less easily vulnerable to foreign attack because it would possess the resources needed for military preparation.

Though the campaign for economic self-sufficiency placed emphasis on patronizing local products and business enterprises, there was much that remained to be done to make it a success. A monumental effort had to be undertaken to enable the country to produce the products that were currently being imported from abroad and equally important to the success of the campaign was the need to ensure that such manufactured articles suited local conditions and were of good quality. To awaken the people to the necessity of utilizing their own products, Quezon felt that the Filipinos had to be persuaded to appreciate that the protection of local efforts and industries was necessary to improve the lot of the Filipino labourers and increase the country's economic self-sufficiency. Only then would there be the assurance that domestic manufacturers would indeed feel stimulated to initiate the gigantic task of laying the material foundation of an independent Philippines.<sup>42</sup>

40. Ibid.

41. Quezon's speech entitled "Commercial Policies and Relationship of the Country," *Quezon Papers*, 8 August 1939.

42. S. Osmeña, "Nationalism Must Forge Ahead," *The NEPA and Our National Economy*, p. 19.

“Protectionism” did not necessarily mean an undue sacrifice on the part of the people practising it. Rather, it was a case of land, labour and capital being profitably employed. It did not also mean a dole bounty, or subsidy for inefficiency in production and management. It meant instead that industries already established needed additional impetus to adopt the newer methods of production that were in vogue in the highly industrialized nations. It meant, too, ensuring for infant industries a period of adjustment to enable home manufacturers to compete successfully with outside suppliers. In the last analysis, protectionism meant that as industries attained the full efficiency of production and management competition, price and quality would be restored so that, with or without protection, the industries concerned, if called on, could withstand or survive outside competition.

Other countries had adopted, for the promotion of economic nationalism, measures such as protective tariffs, differential transportation charges, bounties on exports, ship subsidies, discouragement of foreign enterprises and denationalization of capital, and import quotas. Quezon urged through NEPA, a practical love for things that were Philippine in nature. He felt that through this movement, the Filipino mentality would be trained to prefer native products and manufacturers, to employ Filipino labour and to have an abiding faith and confidence in Filipino business and businessmen. Quezon argued that “protectionism within limits” was practical patriotism of the highest type. His policy was not intended to establish any one economic system, but to function as part and parcel of a program of national development based upon the increased vocational efficiency of the people.

Quezon hoped that his attempts toward economic development would pave the way toward seeking an early independence from the United States. Economic viability was crucial to the quest for independence from American rule. Despite his plea for early independence, he found however that the United States government was reluctant to grant a date for independence earlier than it had proposed. The United States government was of the view that the transition period should run its full course. Any further hopes that Quezon had for immediate independence for his country were dashed when, on December 1941, Japanese forces overran the Philippines.