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SHINZO HAYASE

INTRODUCTION

Before World War II, one-half of abaca (Manila hemp) produced in the Philippines was cultivated by Japanese. How was it that the Japanese, whose attempts to develop economic relations with European colonies in Southeast Asia in the first half of the twentieth century were restricted by the policies of the colonial governments, were nevertheless able to dominate the abaca industry in the Philippines? The aim of this article is to make clear a part of American colonial policy by examining the development of the abaca industry in the Philippines, 1898-1941.

THE ABACA TRADE AND AMERICAN CORDAGE
MANUFACTURERS

With the development of a cash economy in the Philippines in the nineteenth century, the importance of abaca also rapidly increased. Abaca became the most important cordage fiber on the world market by the mid-nineteenth century. The Philippines came to enjoy a natural monopoly of abaca production. The United States and the United Kingdom together took 70 to 90 percent of the total exports of raw abaca, comprising 20 to 30 percent or more of the total value of exports from the Philippines until 1880.

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Shortly after the American occupation of the Philippines in 1898, the United States became involved in the abaca trade as a colonialist. The first policy was to shut out the United Kingdom for there was a longstanding rivalry between the United States and the United Kingdom as the principal shippers of abaca worldwide. After the American Civil War (1861-65), Britain gained the ascendancy in the Manila trade. The United States had to begin to buy abaca via London and it was landed in American ports on British ships. In 1875 Britain outstripped the United States in abaca importation for the first time. In February 1901 in an effort to redress the trade balance, the first cargo of hemp to cross the Pacific left the Philippines for San Francisco.¹ However, the shipping costs from the Philippines to the east coast of the United States were more than via London:

In buying their hemp in London, the American cordage manufacturers would have to pay the freight rate of around \$0.46 on a hundred pounds of hemp from Manila to London plus the rate of \$0.20 on the same quantity from London to the Atlantic seaboard and in addition the \$0.35 rebate or thereabout on a hundred pounds of hemp – or a total cost of around \$1.05. Under the Frye bill the freight rate on a hundred pounds of hemp direct from Manila either via the Pacific coast thence to the Atlantic seaboard or through the strait of Magellan or the Suez Canal would be at least \$1.46.²

In September 1901 the Philippine Commission passed a tariff act, No. 230, which imposed an export tax of 75 cents per 100 kilos on hemp. In March 1902 the U.S. Congress passed another act, “temporarily to provide revenue for the Philippine Islands and for other purposes.” This new act repealed the export duties imposed by the Act No. 230 on exports to the United States, but export duties on Philippine products shipped to foreign countries remained extant.³ As a result, Philippine abaca sent to the United States via foreign countries for use and consumption was still taxed at the rate of 75 cents per 100 kilos. Ironically, this amount of tax collected in the Philippines was refunded to the American importers. Furthermore, not only abaca shipped to the United States via foreign countries, but all abaca products from the Philip-

1. *The Manila Times*, 21 February 1901, p. 1.

2. Pedro E. Abelarde, *American Tariff Policy Towards the Philippines, 1898-1946* (New York: King's Crown Press, 1947), p. 51.

3. James H. Blount, *The American Occupation of the Philippines, 1898-1912* (New York and London: G.P. Putnam's Sons, 1912), p. 605.

piners were subject to export duties. James Blount, a United States Army Officer, explained the reason for this:

Under the Act of 1902, the Manila authorities have always collected an export tax on hemp coming to the United States, just as they do on hemp going from Manila to foreign countries, exactly as if the law abolishing the export tax on hemp coming to the United States had never been passed. Later, on proof that the hemp was *in fact* carried to the United States and used and consumed therein, they refund the export tax. This is on the idea that they cannot tell where the hemp is *going to* until they know where it went to, nor where it is *going to be* "used and consumed" until they know where it *was in fact* finally "used and consumed." Of course the small farmer is in no position to follow his bale of hemp into the markets of the world and show, if it happens to go to the United States, that it did in fact go there and that it was there "used and consumed," and, finally obtaining the proof of this, submit it to the Manila Government and get his little export tax on his bale of hemp refunded. Only the big buyer's agents at Manila are in a position to do this. So the hemp crop is bought and moved under conditions which are the same as if *all* hemp were subject to an export tax. And only the big fish get the benefit. For instance, the International Harvester Company has its hemp buyers at Manila.⁴

Under the tariff rebate system the American abaca importers were refunded over \$4 million between 1902 and 1910. The so-called abaca scandal received wide notoriety with the publication of a book in 1912 detailing the inequities of the tariff rebates.⁵ Finally, it was repealed in 1913. Before 1913 the export tax on abaca, which was supposed to be one of the primary sources of revenue for the Philippine colonial government, had gone exclusively into the pockets of the rich and powerful American cordage manufacturers. The Philippine Commission tried to abolish this "infamous" act several times. The secretary of the Commission wrote the following letter in 1912:

The Commission in its Reports for the years 1904, 1905, 1906, 1907, and 1908 recommended that the provision relating to the refund to American importers of export duties on Hemp, etc. be repealed. This recommendation has not been made since. Do your records throw any light upon the reasons for discontinuing this recommendation?⁶

4. *Ibid.*, p. 606-7.

5. *Ibid.*

6. Worcester's Philippine Collection, Document and Papers, "Letter from Geo. C. Schweickert to Stanley," 30 September 1912.

The reason was simple. The American cordage manufacturers were so powerful they could interfere behind the scenes in the administration and policy of the colony.⁷ At that time, abaca was a strategic war material. During World War I, the cordage industry was classified as "essential" and was called upon to supply the Allies as well as the United States with cordage. The Emergency Fleet required 4,000 bales monthly, and the army, the navy and the railways each required 3,200 bales monthly. It was estimated that between 75 million and 85 million pounds of cordage were furnished by the United States cordage manufacturers for the war effort. Millions of pounds of abaca were sold to the war-time manufacturers as their industries boomed.⁸

Moreover, the American cordage manufacturers asked repeatedly for tariff protection against the "menace" of Philippine-made cordage. Abaca had entered the United States duty-free since 1890, while export duties were imposed on cordage, cables and other abaca products. As a result, approximately 95 percent of the abaca produced in the Philippines was exported in the raw form. The remainder was used by local cordage and twine manufacturers.

THE ABACA INDUSTRY AND AMERICAN PLANTERS

Every agricultural industry consists of three distinct but related processes, namely, the agricultural, the manufacturing and the commercial. The American cordage world succeeded in controlling two of the three phases: the manufacturing and the commercial. However, they did not dominate the agricultural phase.

In the nineteenth century the Bikol region of Southern Luzon was the main abaca producing center. However, the Bikol abaca planters did not become efficient enough as producers for the demand of the modern world economy. The abaca producers in the Bikol region were, on the whole, too small and too poor to become politically powerful like sugar producers in the Philippines, and gradually declined.

7. Renato Constantino, *The Philippines: A Past Revisited* (Quezon City: Tala Publishing Services, 1975), p. 303.

8. *U.S. National Archives, Records of the Bureau of Insular Affairs, 1898-35*, (henceforth *USNA RG350*) 845-565, "An Appeal for Hemp," pp. 14-15; U.S. Department of States, *Joint Preparatory Committee on Philippine Affairs, Report of May 20, 1938* (Washington D.C.: Government Printing Office, 1938), III, pp. 917-18.

Davao has ideal conditions geographically and climatically for the large scale development of abaca as a cash crop. Shortly after the United States assumed control of the Philippines, Americans became involved in the abaca industry in Davao. As a result of the support of colonial administrators, especially the governors of the Moro Province, the abaca industry run by Americans made slow but steady progress. By 1905 the number of American abaca planters in Davao had grown to twenty, enough to organize the Davao Planters' Association. The area under cultivation increased from 2,499 hectares in 1902 to 16,410 in 1910 and the production rose from 308 tons to 8,592. However, it seems that the abaca industry coordinated by Americans reached a peak in these years. Between 1910 and 1919 no further progress was made in the industry in Davao. The activity of the Davao Planters' Association was hindered as no further increase in the number of American planters occurred. The main problems were chronic investment and labor shortages.

Most of the American planters were involved in small partnerships of no more than two or three persons. The planters themselves did not have much money and their partners were sometimes less than reliable. American government intervention, American enterprise and American capital were all necessary for the future development and welfare of the Davao American abaca plantations. However, very little "real American capital" was ever provided to the American planters in Davao. It was estimated at no more than \$4,000 to \$5,000 by 1909.⁹ By 1918 they had given up:

We cannot depend on American Capital in view of the conditions brought about by the War which has opened great fields of productive investment in the United States, and the immense possibilities of trade expansion in South America, which are engrossing the mind of American Capitalists.¹⁰

The most important reason why there was little American capital invested in Davao for abaca was the Philippine land laws. The American colonial government limited landholding to 16 hectares for individual applicants for public land and to 1,024 hectares for

9. Hamilton M. Wright, *A Handbook of the Philippines*, 3rd ed. (Chicago, 1909), pp. 194-95.

10. *U.S.N.A. Records of the Military Intelligence Division, War Department General Staff, 1917-41*, 1766-593, Juan Posadas, Jr., "Memorandum to the Honourable Governor of Mindanao & Sulu on Davao Agriculture Conditions," 11 May 1918, p. 3.

corporations. However, these statutory limitations were never considered to be satisfactory from the standpoint of the Philippine Commission. Up to 1913 the Commission continued to press Congress to liberalize the land act in order to encourage more rapid economic development in the Philippines through American capital investment. Worcester felt that 4,050 hectares was the minimum amount of land upon which a corporation could safely afford to establish an up-to-date plantation equipped with modern machinery and implements.¹¹ Forbes wrote the following in his diary on 14 November 1909:

We have recommended that the land laws be liberalized, and that corporations be allowed to buy 6000 hectares (15,000 acres) of land. The present limit of 2500 acres was a device of the sugar people to prevent the proper development of the Islands, fearing they would become formidable as a sugar producer in competition with existing lines of trade.¹²

However, neither the President nor the Congress responded favorably to the insistent recommendations of the American administrators in the Philippines for the liberalization of the land laws. In 1914 the Philippine Assembly reconfirmed the limitation of 16 hectares for individuals and 1,024 hectares for corporations.

These restrictions were maintained along party lines by American Democrats who were opposed in principle to the Philippine policy of the Republican administration. The Democrats were supported in their efforts by a powerful lobby of American beet sugar interests, which looked with increasing alarm upon possible competition from a modern Philippine sugar industry employing cheap labor. Additional support came from Anti-Imperialist League. They fought the entrenchment of American plantation capital in the Philippines since it operated against the financial interests and well being of Filipinos. However, it was the powerful bloc representing American agricultural interests which was most successful in minimizing the risk of agricultural competition. On the other hand, since the Philippine Commission wanted to develop a plantation economy characterized by vast landholdings, no legislation was enacted to reduce the size of the landholdings currently offered.¹³

11. Karl J. Pelzer, *Pioneer Settlement in the Asiatic Tropics* (New York: American Geographical Society, 1948), p. 106.

12. William Cameron Forbes, *The Philippine Islands* (Boston & New York: Houghton Mifflin Co., 1928), I, p. 324, footnote 2.

13. Forbes (1928), p. 324, Pelzer (1948), p. 105, Constantino (1975), p. 300.

Thus, a large amount of American capital was not invested in the abaca industry in the Philippines, but if the American planters had utilized the cheap Filipino labor properly, they might have succeeded in establishing a colonial plantation business.

Initially the planters expected to use hill people from around Davao as the principal source of their labor supply. But the planters soon learned that it was difficult to persuade hill people to come down to the coast for any length of time. They were timid and not used to disciplined hard work measured by the clock. They knew nothing about the value of time as money. Even when they had worked on a plantation for quite some time, the majority of them would occasionally take a week or a month off without prior notice to hunt in the mountains or trade with neighboring tribes.¹⁴

Consequently, the planters tried to import labor from other parts of the Philippines, especially the Visayas, and from overseas. The Davao planters applied pressure on the colonial government for assistance in this matter, and succeeded in receiving the support and cooperation of colonial administrators. However, the importation of labor did not prove to be a success, because of maltreatment of workers at the hands of the planters, strong competition from the Hawaiian sugar planters, the bad reputation of Davao, and so on. Above all, Davao was not an attractive enough place for them to leave their hometown at that time.

Thus, the abaca industry run by Americans did not succeed, but the American cordage manufacturers needed to ensure a steady supply of cheap and high quality hemp from the Philippines. Finally, they found that the Japanese were the most efficient producers of abaca.

AMERICAN COLONIAL POLICY ON JAPANESE INVESTMENT IN DAVAO

The Japanese abaca industry in Davao was commenced in 1904. As a result of the serious labor shortage in the Philippines in the early American colonial period, more than 5,000 Japanese entered the Philippines in 1903 and 1904 to work on the Benguet road

14. *The Far Eastern Review*, May 1906, p. 394; *The Mindanao Herald*, 1 February 1908, p. 1.

construction and other colonial projects. However, when the Benguet road construction was completed, the streets of Manila were full of Japanese laborers from Benguet who were unemployed and unable to return to Japan. Several hundred Japanese unwillingly went down to Davao under the leadership of Ohta Kyozauro to seek work and a new future on European abaca plantations. Ohta himself led the third contingent of seventy Japanese laborers in July 1905, and he opened the Ohta Shoten (store) shortly after they arrived. Initially, the Japanese were only poor laborers on European plantations. Moreover, they were not considered desirable laborers by the American and European planters, because the Japanese always demanded a higher wage for stripping and they tended not to stay in any one place for too long. Ohta learned that the Japanese could not take advantage on the Davao frontier without their own lands.

In January 1906 Ohta began to develop his own plantation. Until August of that year, he cleared unoccupied "public land" located on the outskirts of the towns of Bago and Daliao, and planted about 35,000 plants with the express permission of District Governor Bolton and the municipal president of Davao.¹⁵ However, after Ohta finished the first clearing, the new District Governor, Walker, ordered Ohta to stop. Individual aliens were not meant to develop public or tribal lands under the Public Land Act No. 926 of 1903. As the contrasting views of Bolton and Walker indicated, opinions were divided on an appropriate agricultural policy on the frontier, and particularly on the role that the Japanese might play in the abaca industry there. This difference of opinion was exemplified in the views of the Governors of the Moro Province, Wood and Bliss. Wood supported Japanese involvement, and was even prepared to accept some official misconducts such as ignoring the Public Land Act of 1903, for the sake of the development of the frontier and the abaca industry.¹⁶

However, Bliss was quite unequivocal:

These Japanese retain their home citizenship and are here purely as aliens. As a result they are not desirable residents. I believe that it will prove to the ultimate interest of the Filipino people if some restriction can be

15. *Annual Report of the Governor of the Moro Province*, 1911, p. 17-18.

16. *Wood Papers*, 40, "Letter to Bliss from Wood," 25 January 1907, pp. 1-2. The same letter is also in *Bliss Papers*, 60.

placed upon schemes for Japanese colonization under the guise of corporations.¹⁷

This position was popular in some quarters, and a law officer even suggested to the Chief of the Bureau of Insular Affairs, how the activity of Japanese laborers could be restricted in the eyes of the law.¹⁸ However, Bliss's position was not accepted in practice. Governor Smith refused to sponsor the restrictive legislation, stating:

It seems to me that the only way to meet this situation is by refusing to extend the provisions of the land act to the Moro Province. Any legislation which would be discriminatory of course could not be justified.¹⁹

Hence, all companies incorporated in the Philippines, irrespective of nationality, were eligible to lease and own land in Davao. The Ohta Development Company was founded in 1907.

The next anti-Japanese movement occurred during World War I. The number of Japanese on the Davao frontier was demographically insignificant up until 1913. However, the foundation of the Furukawa Plantation Company with the support of a Japanese *zaibatsu* cartel, and a boom in investment in the *Nanyo* including the Davao Gulf region during and after World War I, led to significant change in Davao. By the close of 1918 the number of Japanese plantations had risen to 71, and the Japanese population in Davao rose to about 10,000.

With Japan's emergence as a modern world power, Filipinos, especially the press became ever more nervous about the extent of Japanese investment in the Philippines. The vocal opposition played on people's nationalist sentiments using the threat of the Japanese menace to discourage any further Japanese investment or settlement. The newspapers in the Philippines issued stern warnings with sensational banner headlines. As a result of a concerted press campaign the new public land act — to prevent the acquisition of property in the Philippines by aliens — was passed on 8 February 1918. Under this act only corporations with 61

17. *USNA RG350*, 6144-4, "1st Indorsement of Government of the Moro Province," 29 November 1907.

18. *USNA RG350*, 6144-5, "Memorandum for the Chief of Bureau of Insular Affairs," 18 January 1908.

19. *Bliss Papers*, 88, "1st Indorsement of Government of the Philippines," 27 January 1908.

percent of their capital stock belonging to citizens of the United States or the Philippines were allowed to acquire agricultural land. It was obvious that one of the principal aims of this act was to exclude Japanese corporations from the Philippines.

The new public land bill was forwarded to Washington with the strong endorsement of Governor General Harrison. In May 1918, he also sent a cablegram to the Secretary of War stressing the significance of the new legislation for arresting Japanese development in Davao:

Referring to telegram from your office of the 3rd inst., situation in Davao is rapidly growing worse owing inability to control ownership public land by foreigners and consequent immigration of Japanese which has increased probably 300 percent during past year. Immigrants are locating most desirable lands and will soon form a colony which may be very difficult to handle. Approval by the President proposed law enacted by last legislature will materially help situation. Believe the Japanese Government can have no legitimate protest as this act is based on similar laws in force in Japan, although this act is not nearly as radical. Urge President's approval and cable advice at earliest possible date.²⁰

The Secretary of War recommended approval of the bill to President Wilson,²¹ but the Secretary of State was reluctant to support it as drafted. The State Department carefully examined the act and drew the following conclusions in June 1918:

As it is highly advisable, in view of the existing status of international affairs, to avert any controversy in respect to this matter, particularly with Japan, it is believed that the interests of the United States require that at least those sections of the Act (as indicated above) which *may* give rise to controversy with foreign countries should be disapproved. Indeed, because of the prominent position which those sections occupy in the Act, and on account of the relation which they sustain to other portions of the Act, and the confusion which might result from a disapproval of some of the provisions and the approval of others, I am disposed to recommend that the Act be disapproved in its entirety. The main reason for this recommendation is that it would obviate the necessity of admitting that these particular sections of the Act were violative of treaties, as the Act could be

20. *USNA General Records of the Department of State, State Decimal File* (henceforth *USNA RG59*), 1910-29, 811.52/2, "Extract from Cablegram from the Governor General of the Philippine Islands on May 10, 1918."

21. *USNA RG59*, 1910-29, 811b.52/3, "Letter to the Secretary of State from the Secretary of War," 7 May 1918.

disapproved *in toto* on pure grounds of expediency without reference to treaty stipulations – a procedure which I greatly prefer at the present time.²²

As a result of this confidential advice, President Wilson sent the bill back to the Philippines for revision in the fall of 1918.²³

The Philippine Legislature carefully eliminated all the objectionable sections pointed out in the State Department's document and on 8 March 1919 passed the bill as an act "to Amend and Compile the Laws Relative to Lands of the Public Domain, and for other purposes." Now there was no plausible reason for the United States Government to reject the land bill. Acting Governor General Yeater affixed his signature to the revised bill on 7 April 1919 and President Wilson passed it on 29 November 1919.

When the new public land law came into effect on 1 July 1919, many Japanese corporations that had invested large sums of money were forced out of business, abandoning their capital assets in the process. Obviously, the amended land law was quite unsatisfactory from the Japanese viewpoint. The Japanese government requested to modify the amended land law. Two supplementary land laws were passed in 1920 and 1921. However, strangely, these land laws were more favorable to the Japanese than they requested.

In this context it is worth examining Governor General Harrison's volte-face between 1918 and 1920. When the new public land bill was sent to Washington in 1918, Harrison sent a cablegram to the Secretary of War urging the President's approval. He judged the Japanese development situation in Davao to be "rapidly growing worse." Two years later, however, he wrote to the Philippine Legislature in the following vein:

You will please observe by reference to the annexed leases that a very considerable amount of money has been invested by Japanese planters in good faith in the development of lands occupied by them under the law as it then existed and to which they cannot now secure execution of the lease [. . .] this matter to you as one of equity and wish to point out the extreme hardship which will fall upon these planters unless the relief petitioned for be granted by you. I therefore recommend most earnestly that

22. *USNA RG59*, 1910-29, 811b.52/3, "Confidential Letter to the Secretary of War from the Secretary of State," 26 June 1918, p. 5; "Extract from B.I.A. Cable of June 29, 1918, to the Governor General of the P.I.

23. *The Manila Times*, 8 April 1919, p. 8.

you grant the necessary permission for the execution of these leases as an act of equity and proper consideration for the industrious and enterprising planters who have already so greatly developed these plantations in Davao.²⁴

American policy with particular reference to Japanese investment in the Philippines was decided when the first new public land bill was discussed in Washington in 1918. Harrison, no longer acting on his own initiative, followed this policy line in 1920. The American government was determined to take no action on Davao which might be construed by the Japanese as unfriendly.

There were several reasons why the Japanese abaca industry in Davao had developed under the Stars and Stripes. Among others, the most important one was the support of powerful American cordage manufacturers. The United States tried to transplant Philippine abaca from Davao to the Panama Canal Zone in 1925 to reduce costs and introduce modern machinery plantation management.²⁵ The United States hastened to abandon its "exclusive monopoly" over the production of abaca in one of its colonies. What this meant in fact was that the United States did not mind the removal of most of the barriers surrounding the abaca monopoly in the Philippines in order to ensure a readily available supply of the raw material for American domestic manufacture. However, after the failure of the above trial, they found that the development of abaca production by the Japanese in Davao was of great benefit to them. They lobbied congressmen in Washington to support and maintain the development of Davao Japanese abaca production. This policy of noninterference and tacit support was not abandoned until the outbreak of the Pacific War.

Once the necessity of the Japanese developing Davao was tacitly understood and recognized by American colonialists, it became easier for Filipino politicians and local Filipinos to assist them. Manuel Quezon had given his unqualified assistance to the Japanese during the struggle over the land problems. Quezon became the target of increasing criticism in Philippine newspapers for his formerly pro-Japanese views, but he, perhaps, knew better than any other Filipino that ultimately American colonial policy

24. *USNA RG350*, 6144-83A, "Governor General Harrison to the Philippine Legislature," 4 February 1920, pp. 1-2.

25. "How Edwards Got Manila Hemp to Panama," *The American Chamber of Commerce Journal*, VI, 10 (October 1926): 5.

towards the Japanese in the Philippines was as important as his own personal influence, if not more so. In 1939 President Quezon, discussing the situation of Davao, described the thriving Japanese settlement as an American colonial creation:

The residents of Davao know that the question of the Japanese Colony in Davao took place under the American administration; that the man who brought Ohta to Davao was Carpenter; that it was Governor Forbes who sympathized with the policy of developing Mindanao even with the help of foreigners. The situation created in Davao has been created not only under the American flag but by American administrators.²⁶

CONCLUSION

The Davao frontier was closely linked to the world economy and global affairs. Abaca dominated the cordage market until improvements were made in artificial fibres in the second half of this century. Abaca was, therefore, a strategic war material, and this was a major reason why Americans and Japanese became interested in the industry in the first place. It also explains why the American government was prepared to shape colonial policy at the behest of American cordage manufacturers who were concerned to ensure a steady supply of cheap, high quality hemp from the Philippines. The Japanese were to prove the most efficient producers of abaca, succeeding where Europeans had failed. They were able to enjoy the benefits of favorable colonial legislation designed to protect the interests of the American cordage industry.

26. *Quezon Papers*, 28 June 1939, quoted in Grant K. Goodman, *Davao: A Case Study in Japanese-Philippine Relations* (Center for East Asian Studies, The University of Kansas, 1967), pp. 93-94.