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Current Philippine Economics

● *As authentically and ably reported to the U.S. Tariff Commission by the Commission's technologists, Dr. Frank Waring and Dr. Ben Dorfman after extended and detailed observations in the Islands*

To the Reader. *For the second time it has seemed advisable to devote practically the* Journal's *entire space to publication of an outstanding document on Philippine commerce. The first occasion was the publication of Mason & Regidor's* Commercial Progress in the Philippine Islands *that reviewed the Islands' ocean commerce up to the American period. The present occasion is the advent of the Waring-Dorfman report on Philippine-American commerce that must be the basis of all deliberations on this subject either by the White House or Congress. For this reason, no reader can afford to be without the report and we are happy to make it available to all.*—Ed.

PART I. THE PHILIPPINES AND THEIR TRADE RELATIONS

1. THE PHILIPPINES—A DESCRIPTION

Physical Characteristics.

The Philippine Islands are situated about 500 miles from the coast of Asia between 116° and 127° east longitude and between 4°41′ and 21°25′ north latitude. The archipelago extends north and south for more than 1,000 miles; the northernmost island is within 100 miles of Formosa, and the islands in the south reach almost to the coast of Borneo. The coast line of the Philippines, because of its irregularity and the large number of islands, totals 20,260 miles, or nearly twice that of continental United States. The islands in the archipelago number 7,083 and have a total land area of 114,400 square miles, an area greater than that of New England and the State of New York combined. Of the 7,083 islands, only 463 have an area of more than 1 square mile each, and only 11 have an area of more than 1,000 square miles. This latter group comprises about 95 percent of the total land area, while the 2 largest islands, Luzon and Mindanao, account for approximately two-thirds, having areas of about 41,000 square miles and 37,000 square miles, respectively.

The Islands are generally mountainous, although they have a wide range of topography, varying from the lowlands, only a foot or two above sea level, to the summit of Mount Apo in Mindanao, with an elevation of 9,690 feet. Fertile coastal plains are well distributed throughout the archipelago, and there are four large valleys, the central plain and Cagayan Valley in Luzon and the Agusan and Cotabato valleys in Mindanao. In addition, certain uplands and plateaus are suitable for the growing of various tropical and semitropical crops.

Climate.—The Islands, being located in the Torrid Zone, have on the whole a warm and humid climate. The slight changes in season are due primarily to the north and south movement of the trade-wind belt in the Pacific. Although the temperature in the lowlands varies little from place to place, there are marked variations in the highlands. At San Fernando on the west coast of Luzon, for example, the climate is tropical, while at Baguio, only a few miles distant in the mountains, it resembles that found in parts of the North Temperate Zone.

The annual rainfall for the Philippines as a group averages about 95 inches, though in some parts the average is as high as 157 inches. The heaviest rainfall occurs in Baguio (located about 160 miles north of Manila) which reported 259 inches for the year 1935, of which 92 inches fell in the month of August. The mean annual temperature for the Philippines is 80.4°F. The hottest months are April and May; January is the coolest. The mean annual humidity varies between 77 and 86 percent; for Manila it is 80 percent.

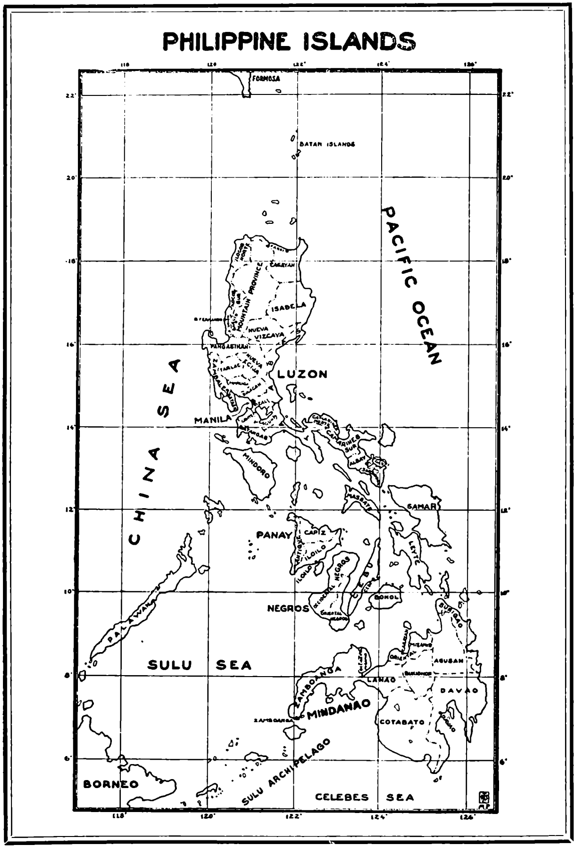
Some of the islands are located in the typhoon area of the Pacific. Tropical hurricanes usually occur in the fall and occasionally do considerable damage to crops and other property. Luzon is the island most frequently visited by such storms. Mindanao is south of the typhoon area.

Natural resources.—The total land area of the Philippines is approximately 73,215,000 acres. About 57 percent of this area consists of forest lands and about 43 percent of agricultural and other lands. Nearly 85 percent of the total land area still remains a part of the public domain, to be administered or disposed of by the Philippine Government. The remainder is privately owned or leased.

The Philippine Government owns 97.5 percent of the country's forest lands. Approximately 81 percent of the total forest area is classified as being of commercial value. The Philippine Bureau of Forestry estimates the existing stand of timber to contain almost 465 billion board feet. A wide variety of hardwoods is found in the Islands. These provide the raw material for an important domestic and export industry. Stands of timber are well distributed throughout the archipelago but Mindanao contains more commercial forest than any other island.

Land available for agriculture amounts to 29,257,000 acres, or 40 percent of the total area. Of the agricultural land, only 9,928,000 acres or about one-third is under actual cultivation. Approximately 50 percent of the cultivated land is on the island of Luzon, primarily in the central plain and Cagayan Valley, although substantial areas are under cultivation along the northwest coast and in southern Luzon. The Visayan Islands account for approximately 30 percent of the total cultivated area in the Philippines.[1] The remaining 20 percent is distributed among the other islands in the archipelago. The Province of Davao in Mindanao

[1] The Visayan Islands are located in the center of the archipelago and include the islands of Samar, Masbate, Leyte, Bohol, Cebu, Negros, and Panay.



occupies a prominent position in this latter group.

In addition to forest and agricultural resources, the Islands have substantial mineral deposits among which gold is of chief commercial importance. Most of the deposits of gold are found on the island of Luzon where both lode and placer mining are carried on. The largest lode claims are situated in the Mountain Province of northern Luzon, particularly in the Benguet district. Placer mining is being developed in southern Luzon in the Province of Camarines Norte. Gold has also been discovered in the Provinces of Zambales and Bulacan and on the islands of Masbate and Mindanao. In recent years gold mining has become one of the major industries of the Islands. Production in 1934 totaled $11,851,000 and in 1935 reached $16,012,500. Some silver is produced as a byproduct in the mining of gold.

Deposits of chromite exist on Luzon in the provinces of Camarines Sur and Zambales. Claims are being developed in both areas and one company in 1935 expected that it would export 25,000 tons annually, beginning in 1936. Iron ore has been located on the islands of Luzon (Camarines Norte and Zambales), Mindanao (Surigao Province), and Samar. One company exported 305,000 tons of ore in 1935 and planned to ship 450,000 tons in 1936. The Philippines also possess deposits of copper, but their inaccessibility has operated to retard their exploitation. Manganese ore and coal are also found in the Islands, but commercial exploitation on a large scale has not been undertaken. In 1935 and 1936 there was marked activity in the prospecting and leasing of oil lands; however, no wells have as yet been developed. Cement is produced by two companies, one on Luzon and one on Cebu. They manufactured 640,000 barrels in 1935, primarily for the insular market. Other minerals are known to exist in the Islands, but thus far they have not proved to be of commercial significance.

Population[2]

Racial types.—Three general racial types—pygmy, Indonesian, and Malay—inhabit the Philippine Islands. The pygmies were probably the aboriginals, but at present there are relatively few of them in the islands—60,000 it is estimated—and these are living in rather inaccessible places throughout the Islands.[3] They are a timid and generally submissive people who may be described as tribal, primitive, and pagan. The Indonesians, who were probably the earliest invaders of the Islands, appear to be related to the tall races of southern Asia. They are settled principally in the islands of Luzon and Mindanao and number approximately 200,000.[4] The Indonesians are also a pagan, tribal people, though less primitive than the pygmies.

The major portion of the population in the Philippines is Malayan in type. Brown-yellow in color and shorter than the Indonesians, they are descendants of the second group which invaded the Islands. On the basis of their religious belief, the Filipinos of Malay stock may be divided into three groups—pagans,

[2] For a more detailed discussion of the tribal people of the Philippines, see Beyer, H. Otley, The Non-Christian People of the Philippines, Census of the Philippine Islands, 1918, vol. II, pp. 907-957.

[3] The pygmy population of the Philippines was 56,000 according to the census of 1918.

[4] According to the census of 1918, there were 172,000

Mohammedans, and Christians. Several pagan tribes of semicivilized Malays, numbering about 200,000, inhabit the mountainous regions of northern Luzon.[5] The Moros, or Malays who are adherents of the Mohammedan religion, are concentrated chiefly in Mindanao and in the Sulu Archipelago. They are the most numerous of the "non-Christian tribes" and are estimated to number approximately 500,000.[6]

The Filipinos of Malay extraction who are adherents of the Christian religion constitute over 90 percent of the total population. They are the dominant people in the Islands, and from their number are derived most of the agricultural and industrial laborers, the business and professional men, the educators, and the social and political leaders of the country. The members of this group are the ones generally referred to when the term "Filipino" is used; however, even they may be segregated into various subdivisions based primarily on differences in dialects. Because of the number of islands, their topography, and the love of the Filipino for his native soil, these sectional differences have been perpetuated. In recent years, however, improved methods of transportation and communication have begun to resolve these barriers.

Language and education.—It is claimed that 87 dialects are spoken in the Islands, 26 of which are reported to be recorded in printed literature. Three dialects, however, are by far the most common. In addition, Spanish is spoken by many of the older generation, especially in the rural provinces; while English is used by many of the younger generation. Both English and Spanish are spoken in the courts and in the National Assembly.

Literacy in the Islands is estimated at 50 percent. The public school system of the Philippines provides what are known as the primary, intermediate, and secondary grades. The primary grades embrace 4 years; the intermediate schools, 3 years; and the secondary schools, corresponding to high schools in the United States, 4 years. Public-school instruction is given in English. The enrollment for the school years 1934-35 and 1935-36 is given below.

TABLE 1.—*Philippine public-school enrollment, in school years, 1934–35 and 1935–1936*[1]

Grade	Number of schools		Number of students		Percentage distribution of enrolled students, by grade	
	1934–35	1935–36	1934–35	1935–36	1934–35	1935–36
Primary	6,310	6,437	902,937	957,740	80.25	79.75
Intermediate	1,250	1,279	182,665	189,042	15.22	15.74
Secondary	117	114	54,279	54,216	4.53	4.51
	7,677	7,830	1,199,881	1,200,998	100.00	100.00

[1]The Philippine Statistical Review, vol. 2, no. 1, 1935, pp. 44-50; and vol. 3, no. 1, 1936, pp. 66-72.

The number of teachers and supervisors employed in 1936 totaled 27,855, or the equivalent on the average of 1 teacher for every 43 pupils. During the school year 1935-36 there were 99,392 students enrolled in private schools, and 6,190 in the University of the Philippines. This latter is supported by the Government and is composed of 20 different schools and colleges. According to Filipino educational authorities only 40 percent of the children of school age in the Philippines are actually in attendance, and the majority of these do not continue their studies beyond the primary division or fourth grade.

Distribution of population.—The total population in the Philippines was 7,635,426 according to the census of 1903 and 10,314,310 according to the census of 1918. The population in 1935 has been estimated to be 13,099,405.[7] On the basis of these figures, the average density of population per square mile was 67 in 1903, 90 in 1918, and 115 in 1935. The population, however, is unevenly distributed throughout the provinces and ranges (1935) from a density of 628 per square mile in Cebu and 576 in Iloilo to 15 in the Province of Agusan, Mindanao, and 13.5 in the Province of Nueva Vizcaya, Luzon. The Provinces of Pampanga and Pangasinan in the central plain of Luzon have a population density of 361 compared with 34 for the entire island of Mindanao. The Province of La Union on the northwest coast of Luzon has a population averaging 442 per square mile while the Province of Isabela, located directly east in the Cagayan Valley, has only 36. The Filipinos as a people have settled chiefly in areas along the seacoast, rather than in the fertile valleys of the interior.

Manila, the capital of the Commonwealth of the Philippines, is the largest city in the Islands, with a population estimated at 353,418 for 1935. The city of Cebu is second, with 82,032 inhabitants. Though not so large, other municipalities are nevertheless commercially important; among these are Iloilo on the island of Panay, Batangas and Legaspi on Luzon, and Zamboanga and Davao on Mindanao. A large number of municipalities have populations of more than 20,000. The number of people living in such municipalities was estimated to be 4,500,000 in 1935, or approximately one-third of the total population.

According to the census of 1918, the foreign population numbered 65,149, of which 44,239 were Chinese, 8,294 were Japanese, 5,829 Europeans, and 5,808 Americans. The Europeans were largely Spanish and English. Estimates for 1935 give the following figures: Chinese 100,000, Japanese 18,000, Europeans 6,000, and Americans 8,000.

HISTORY[8]

The discovery of the Philippines by Magellan in 1521 marks the beginning of modern Philippine history. Prior to that time the record is incomplete. After 1521 several ill-fated Spanish expeditions were dispatched from Mexico, but it was not until 1565 that a permanent Spanish colony was established in Cebu under the leadership of Miguel Lopez de Legaspi. Later the Spanish extended their rule throughout the Visayas and northward to Luzon. Manila was taken and the construction of the Spanish walled city begun in 1571.

For over 3 centuries, from 1565 to 1898, the Spanish ruled the Islands with only occasional interruptions caused by rebellions of the Filipinos and attempts by the Japanese, Chinese, Portuguese, Dutch, and English to obtain a foothold in the Archipelago. During most of this period the Philippines were governed through the Viceroy of Mexico, but in 1821, when the Mexican war of independence began, control of the Philippines was transferred to Madrid. A Spanish captain general was not only the chief military officer but also the head of the civil government. During the period of Spanish control, steps were taken to introduce occidental culture in the Islands. Roads were constructed; a common religion was introduced; and a centralized government was established. These developments helped to foster a spirit of unity among the Filipino people. The foreign trade of the Philippines also increased, particularly after the port of Manila was opened to ships of all nations in 1837.

In 1896, the Filipinos rebelled, seeking their freedom from Spain and from the domination of the friars. The execution of Rizal, a liberal Filipino leader and now their national hero, gave them a further incentive. A temporary peace was concluded in 1898, but conditions were still unsettled when the Spanish-American War opened another chapter in Philippine history.

The American occupation began with the surrender of Manila to Admiral Dewey in 1898. A provisional military government was set up by the Americans, but undisputed control was not immediately established because of the Filipino insurrection. In 1899 the first Philippine Commission, generally known as the Schurman Commission, was appointed by President McKinley to study conditions in the newly acquired territory and to recommend a course of action. In 1900 the second Philippine Commission, or Taft Commission, was appointed to assume the necessary legislative functions as well as part of the executive duties. Later, the President of the United States appointed William Howard Taft the first civil governor of the Philippine Islands. He was inaugurated on July 4, 1901. The legislative functions were retained by the Civil Commission until 1907, when the first elective Philippine Assembly was convened, after which time the legislative authority was divided between the two bodies. The Philippine Commission was abolished by the Jones Act in 1916, and the Philippine Senate was created in its stead, thus placing the legislative function completely in the hands of elected representatives of the Filipino people. The Governor General, however, remained the chief executive officer of the Insular Government. This form of government continued in effect until November 15, 1935, when the "Commonwealth of the Philippines" was inaugurated under the authority of the Independence Act passed by Congress in the previous year.

Under the new law many changes in the form of the Philippine Government have taken place. The legislative function resides in one elective body known as the National Assembly. The chief executive officer is the President of the Commonwealth, who is also elected by popular vote. The Filipino people through these representatives have complete control over their internal affairs except that "The United States, may, by Presidential proclamation, exercise the right to intervene for the preservation of the government of the Commonwealth of the

[5]According to the census of 1918, there were 170,599.
[6]According to the census of 1918, there were 423,299.
[7]Philippine Statistical Review, vol. 2, no. 2, 1935, pp. 112-124.
[8]For a more detailed account of Philippine history prior to American occupation, see Forbes, W. Cameron, The Philippine Islands, Houghton Mifflin Co., New York, 1928, pp. 30–60.

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The American Chamber of Commerce

OF THE

PHILIPPINE ISLANDS

(Member Chamber of Commerce of the United States)

Philippine Islands and for the maintenance of the government as provided in the constitution thereof, and for the protection of life, property, and individual liberty and for the discharge of government obligations under and in accordance with the provisions of the constitution."[9] In addition, the decisions of the courts of the Commonwealth are subject to review by the Supreme Court of the United States.

The United States also retains control of foreign affairs; and no act passed by the National Assembly affecting currency, coinage, imports, exports, or immigration may become law until approved by the President of the United States. During the Commonwealth period the sovereign power of the United States is represented by the High Commissioner. He is appointed by the President and is his personal representative in the Philippines. According to the provisions of the Independence Act, this form of government is to continue until July 4, 1946, at which time the Philippines are to become an independent republic.

PHILIPPINE ECOONOMY

According to the census of 1918, 40.4 percent of the gainfully employed population, above 10 years of age, were engaged in agricultural pursuits, 13.4 percent in manufacturing and industry, 6.6 percent in trade and transportation, 28.8 percent in domestic and personal service (presumably this group includes housewives), and 10.7 percent in professional service.[10] The last group, composed primarily of teachers, lawyers, and doctors, constitutes an unusually large proportion of the population as compared with that found in other countries. The proportion of the population employed in each of these various classifications has undoubtedly changed since 1918 and, though no more recent figures are available, it appears likely that the proportion engaged in manufacturing and commerce has increased in importance.

The extractive industries, embracing agriculture, mining, lumbering, and fishing, are the basic factors in Philippine economy. Of the total agricultural area under cultivation in 1934 over 9,870,000 acres, or 99 percent, was devoted to the production of seven principal crops, rice, coconuts, corn, abaca, sugarcane, bananas, and tobacco. From the statistics given below, it will be noted that rice occupied first place with 49.9 percent of the total area while sugarcane occupied only 7.6 percent. Rice, however, was far exceeded by sugar in the value of the crop produced. The seven crops accounted for 95 percent of the total value of a gricultural production.

Three crops—rice, corn, and bananas—are consumed almost entirely within the Islands. Together with fish they constitute the essentials of the native diet. Sugar, coconuts, abaca, and tobacco find their principal markets abroad, either as raw material or in the form of manufactured or semimanufactured products. In 1934 the four major export crops constituted approximately 58 percent of the total value of agricultural products, and in each instance they found their principal market in the United States.

The ownership of agricultural land in the Philippines is widely diffused and characterized by relatively small holdings. This is due in part to the early tendency of the people to clear and claim only such land as they could cultivate, and in part to the division of estates through death and inheritance. The people have been opposed to large estates because of the abuses which they associate with them. Some of the large landholders have kept their tenants perpetually in debt by charging exorbitant interest rates on advances, and by purchasing tenants' crops on quasi-confiscatory terms. As a result of these conditions, the recently adopted Philippine Constitution contains the following provision which had previously been a part of the Philippine Law:

> No private corporation or association may acquire, lease, or hold public agricultural lands in excess of one thousand and twenty-four hectares (2,530 acres), nor may any individual acquire such lands by purchase in excess of one hundred and forty-four hectares (356 acres), or by lease in excess of one thousand and twenty-four hectares (2,530 acres), or by homestead in excess of twenty-four hectares (59 acres). Lands adapted to grazing, not exceeding two thousand hectares (4,942 acres), may be leased to an individual, private corporation, or association.[11]

The agricultural population is consequently composed primarily of peasant proprietors or small share tenants. Hired laborers are engaged on only about 10 percent of the cultivated land.

While this system has been instrumental in creating a large class of peasant proprietors, it is doubtful that it has promoted the national welfare to the extent commonly supposed. It does not permit the economies of large-scale production, nor can scientific methods of agricultural production be easily introduced among a large number of peasant proprietors and tenants. Because of this condition, the agricultural products are often inferior in quality and lacking in uniformity. In addition, the yield

TABLE 2.—*Land area under cultivation in the Philippines and crop values for the year ending June 30, 1934, by principal crops*[1]

Crop	Acres	Percent of total area	Crop value	Percent of total value
Rice	4,952,320	49.9	$52,372,130	29.9
Coconuts	1,502,720	15.1	13,573,325	7.7
Corn	1,332,480	13.4	5,679,660	3.2
Abaca	923,520	9.3	5,456,650	3.1
Sugarcane	755,840	7.6	81,392,155	46.4
Bananas	266,880	2.7	6,751,040	3.9
Tobacco	136,960	1.4	1,432,100	.8
Other	57,280	.6	8,634,915	5.0
Total	9,928,000	100.0	175,291,975	100.0

[1] The Philippine Statistical Review, vol. 2, no. 2, 1935. The year ending June 30, 1934, was the last year before restrictions were imposed on the poduction of Philippine sugar by the Jones-Costigan Act.

[9] Public Law No. 127, 73d Cong., sec. 2 (a), (14). Tydings-McDuffie Act.

[10] Census of the Philippine Islands, 1918, vol. 2, pp. 75-79.

[11] Constitution of the Philippines, art. XII, sec. 2. 1 hectare equals 2.471 acres.

per acre is frequently lower and the cost of production higher than appear necessary.

Mention has already been made of the mining industry in the Philippines. Gold is the only mineral extracted on a large scale at the present time. Some work, however, is being done in the development and exploitation of chromite and iron deposits. The gold mining industry has been expanding since 1930. It employed approximately 20,000 men in 1935. In that year gold became the third ranking item among Philippine exports.

The lumbering industry is well distributed throughout the Islands. In 1935 there were 90 sawmills operating in the Philippines, and approximately 35,000 people were engaged in lumbering and allied industries. Exports totaled 143,169,000 board feet in 1935, of which nearly two-thirds were logs and one-third lumber; the value of these exports equaled $2,511,000. Japan is the principal export market for logs and the United States for lumber, largely cabinet woods. Although the exports are important because of their quality and value, the domestic market consumes about 80 percent of total production.

Fishing is conducted largely for home consumption and provides one of the important foods in the diet of the Filipinos. A large proportion of the people living along the seashore, rivers, or lakes are fishermen who employ primitive methods and equipment. Commercial fishing has not been highly developed. A few Japanese and one American firm are engaged in this business. Although imports of fish, principally canned fish, totaled $1,360,000 in 1935, only two fish canneries have been established in the Philippines and both of them pack primarily for the export market.

The principal manufacturing industries of the Philippines obtain their raw materials largely from agricultural crops grown in the Islands. Conspicuous examples are such manufactures as centrifugal and refined sugar, coconut oil, copra cake and meal, desiccated coconut, rope, cigars, and fiber hats. Most of these products find their principal market in the United States where they are admitted free of duty. The United States purchased 80 percent of all Philippine exports in 1935 and an even larger proportion of the exports of manufactured products. The Philippine market consumes only a very small part of the total production of these latter. The embroidery industry is also an export industry. The cloth and thread are obtained in the United States; the embroidering is done in the islands and the finished product is returned to the United States. Another export industry of some importance is the manufacture of pearl buttons. This industry obtains its raw material from shells gathered in waters surrounding the Islands. The finished product is marketed primarily in the United States. Some Philippine manufacturers, however, produce almost entirely for insular consumption, supplying such goods as milled rice, leather and rubber shoes, cigarettes, liquors, soap, margarine, cutlery, furniture, shirts, and native materials, particularly dress goods. Many of these industries are not large, and some are conducted principally in the home. In the aggregate, however, they provide employment for substantial amounts of capital and labor.

Laborers in the manufacturing industries consist almost entirely of Filipinos. The technical and executive positions, however, are filled in part by other nationals, principally Americans, Spaniards, and Englishmen. Filipinos furnish a substantial portion of the capital employed in manufacturing; Americans and Spaniards probably supply the largest amounts secured from investors of other nationalities.

In commerce, participation by Filipinos is not as large as it is in either agriculture or manufactures. As a people, the Filipinos have not been attracted by trade and in that field they have been not particularly successful in competition with some of the other races in the Islands. The Chinese, who have become the principal merchants, are located in nearly every city, town, and village. They not only carry on a regular cash merchandise business but sell on credit, recovering their advances by acquiring their customers' harvested crops. In many cases the interest rate is exceedingly high, and the crop is purchased at prices well below the market. In recent years the Japanese have also entered retail trade with their bazars in the principal towns and cities. Although they do not generally extend credit as do the Chinese, they have been able to expand their sales because of the low prices at which their merchandise is sold. The Japanese have been especially successful in the retail cotton and rayon textile trade. Approximately 80 percent of the wholesale trade in Japanese rayon, however, is handled by Indian dealers in the Philippines. The general importing and exporting business in the Islands is carried on primarily by Americans, Spaniards, Englishmen, Chinese, and Japanese.

In transportation, English and American investors until recently were predominant. The Manila Railroad Co., constructed with English capital, operates in central and southern Luzon. It is now owned and controlled by the Philippine Government, but a small bond issue is still held abroad. The Philippine Railway Co. is controlled by an American corporation and operates two small lines, one on the island of Panay and the other on the island of Cebu. Motor trucks and busses are now playing an important part in Philippine transportation. The operating companies are financed largely by American capital.

Eleven banks served the Philippines in 1935; two of these, the Philippine National Bank and the Postal Savings Bank, are government owned and controlled. The others represent private American, English, Japanese, and Philippine capital. A large number of British and American insurance companies have agencies in the Islands, although the list of local companies is steadily increasing. Probably the share of Philippine participation in finance is greater than in either trade or transportation.

Philippine overseas trade.—The total foreign trade of the Philippines (inclusive of trade with the United States) rose from $34,000,000 in 1899, the first year of American occupation, to a peak of $312,000,000 in 1929.[12] Because of the decline in commodity prices which began in 1930 and the general depressed condition of world commerce which prevailed at that time, the foreign trade of the Philippines declined to $173,000,000 in 1933. It recovered slightly in 1934, reaching $194,000,000, but dropped to $180,000,000 in 1935, primarily because of the limitation on shipments of sugar to the United States.

Since 1914, with the exception of 1919 and 1921, the annual value of Philippine exports has exceeded the value of imports. The foreign credits which have arisen from the excess of exports have been employed principally to service the Philippine bonds held by foreign investors, to pay the dividends on foreign capital invested in the Philippines, and to pay for the services rendered by foreign steamship and insurance companies. The excess of Philippine exports over imports was $38,400,000 in 1933, $26,800,000 in 1934, and $8,700,000 in 1935.

Philippine exports consist principally of raw materials and semimanufactured products, and the imports consist principally of manufactured and semimanufactured goods. The Islands sell raw sugar, copra, abaca, tobacco, and timber, and such processed or manufactured goods as coconut oil, copra cake and meal, cigars, rope, embroideries, straw hats, cabinet woods, pearl buttons, and semirefined gold bullion. In exchange for these products, they receive a variety of manufactured articles, including iron and steel products, cotton and rayon textiles, mineral oil, machinery and parts, automobiles and trucks including parts and tires, tobacco products, meat and dairy products, wheat flour, paper and paper products, chemicals, fertilizer, fish and fish products, and leather and its products. The Islands also import some vegetables, fruits, and nuts. Some of the articles imported could undoubtedly be produced in the Philippines, but up to the present time it has not been found profitable to do so.

Since the American occupation, Philippine trade with the United States has increased rapidly. At the beginning of the century it amounted to approximately $5,000,000 and accounted for 9 percent of Philippine imports and 13 percent of Philippine exports. By 1929 the total trade of the Philippines with the United States amounted to $217,000,000. At that time the United States accounted for 63 percent of Philippine imports and 76 percent of Philippine exports. Although the value of Philippine trade declined during the subsequent years of depression, the proportion of the total carried on with the United States increased. In 1932 about 65 percent of all Philippine imports came from the United States, while 87 percent of all exports were shipped to the American market; in 1935 the corresponding figures were 64 percent and 80 percent.

The principal commodities which have been shipped from the Philippines to the United States in recent years are, in the order of their respective values, sugar, coconut products, gold, abaca and cordage, tobacco, and embroideries. The principal Philippine imports from the United States have been iron and steel products, cotton textiles, mineral oils, automobiles and parts, meat and dairy products, paper and paper products, tobacco, wheat flour, chemicals, fertilizer, and electrical machinery and appliances. The Philippines have generally sold more goods to the United States than they have purchased from the United States. Their credit trade balance with the United States amounted to $47,800,000 in 1933, $42,500,000 in 1934, and $20,770,000 in 1935.

The Philippines have regularly had a debit trade balance with the rest of the world as a whole, exclusive of the United States. This

[12] Exports and imports combined.

situation has likewise prevailed in respect to their trade with most of the individual countries in the Orient, except Hong Kong and Siam. The excess of Philippine imports from all countries in the Orient, inclusive of Australia, equaled $11,400,000 in 1934 and $12,600,000 in 1935. Philippine imports from these countries equaled 24.3 percent of total imports in 1935; exports to them were 8.7 percent of total exports in that year.

In Philippine trade with the Far East, Japan is the most important country—in fact, it occupies a position second only to the United States in the total foreign trade of the Islands. Imports from Japan were 8.4 percent of total imports in 1933, 12.4 percent in 1934, and 14.2 percent in 1935. Exports to Japan constituted 2.8 percent of total exports in 1933, 3.9 percent in 1934, and 5.7 percent in 1935. The Philippines purchase from Japan principally cotton and rayon textiles, certain iron and steel products, paper products, chemicals, and fish and fish products, and sell to Japan chiefly abaca, timber, and tobacco.

From the Netherlands Indies the Philippines receive a part of their mineral oil and tobacco, and from Australia meat and wheat flour. China supplies cotton textiles, silks, linen, rugs, vegetables, and meat and dairy products. French Indo-China ships rice. Philippine exports to these countries consist principally of tobacco, timber and lumber, abaca, and rope.

Europe constitutes the third important area for Philippine trade, accounting generally for about 10 percent of the total trade of the Islands. During the years 1933-35 the Philippine imports from Europe were nearly as large as their exports to Europe. Germany, Switzerland, and Belgium usually sell more to the Philippines than they buy, whereas the reverse condition prevails with respect to the trade of the Philippines with Spain, Great Britain, and France. Purchases by the Philippines from European countries are composed of a wide variety of manufactured products. Great Britain supplies certain types of textiles; Germany and Belgium provide iron and steel products; Sweden, electrical machinery; Switzerland, dairy products; and Germany and France, chemicals and drugs. These commodities represent only a few of the more important items imported from European countries by the Islands. Philippine exports to Europe consist chiefly of tobacco, copra, abaca, lumber, and straw hats.

The relative position of the important areas participating in the foreign trade of the Philippines for the year 1935 is given below:

Country	Percent of Philippine imports	Percent of Philippine exports	Trade balance[1]
United States	64.0	80.1	+$20,770,000
Oriental countries	24.3	8.7	—12,625,000
European countries	10.1	9.9	+667,000
Other areas	1.6	1.3	—90,000
Total	100.0	100.0	+8,722,000

[1] + indicates an excess of exports, a credit balance; — indicates an excess of imports, a debit balance.

2. PHILIPPINE-UNITED STATES TRADE RELATIONS[1]

History of Trade Relations

American occupation of the Philippines was not immediately accompanied by any tariff changes affecting Philippine-United States trade. From August 13, 1898, to March 8, 1902, products from the United States entering the Philippines, and products from the Philippines entering the United States, were treated in each case on the same terms as similar goods imported from foreign countries.[2]

The United States Revenue Act of March 8, 1902, granted to imports of dutiable goods grown or produced in the Philippines when entering the United States, a reduction of 25 percent from the rates specified in the United States tariff. Products of the United States entering the Philippines were not accorded any preferential tariff treatment at that time.[3]

The Revenue Act of 1902 also postponed the application of the United States coastwise shipping laws to the Philippine trade, thus permitting vessels of any flag to carry goods between the United States and the Islands.[4]

Reciprocal free trade, subject to minor restrictions, was first instituted between the United States and the Philippines by the provisions of the United States Tariff Act and the Philippine Tariff Act, both dated August 5, 1909. The former imposed restrictions upon the annual quantities of Philippine sugar and tobacco products which might enter the United States duty-free; and it limited the maximum content of non-Philippine or non-American materials which might be embodied in Philippine manufactures if they were to be admissible duty free into the United States to 20 percent of their total value.[5] Both the United States and Philippine Tariff Acts specifically exempted rice from duty-free treatment in either country; and they conditioned duty-free trade in other commodities to those receiving no draw-back of customs duty upon leaving the Philippines or the United States. The Philippine Tariff Act further provided that export duties would be abolished on shipments made to the United States.

The United States Tariff Act of October 3, 1913, modified only slightly the reciprocal free-trade relations between the Islands and the United States. The quantity limitations upon duty-free sugar and tobacco products specified in the previous act were removed, inasmuch as they had never been even closely approximated. The provision that rice should not move duty free between the Islands and the United States was also eliminated; and all Philippine exports, irrespective of destination, were exempt from export duties. Congress did not pass a new Philippine tariff act at this time, but amended the Philippine Act of 1909 by provisions contained in the United States Tariff Act of 1913. The significant amendments were those mentioned above.

Until 1934, trade relations between the United States and the Islands continued on substantially the same tariff basis as they were when the United States Tariff Act of 1913 first became effective. The United States Tariff Acts of September 21, 1922, and June 17, 1930, introduced no modifications of importance. The Philippine Tariff Act of 1909 has never been superseded, and it has been modified only slightly by subsequent United States legislation and by several acts of the Philippine Legislature. With few exceptions, present Philippine tariff schedules and rates are the same as those which were in force in 1909. Since many of the Philippine duties are specific, their ad valorem equivalents have changed considerably with the marked price shifts which have occurred since 1909.

Commencing in 1934, Congress passed several laws which have modified the trade relations between the United States and Philippines and which, unless altered, will modify them much more markedly in the future.

The Philippine Independence Act, also known as the Tydings-McDuffie Act, prescribes "tariff quotas" with respect to certain major Philippine products entering the United States; i. e., only limited quantities of these products may enter free of duty, any larger shipments being subject to the regular United States duties.[6] It also provides that after November 15, 1940, all Philippine products shipped to the United States which are not free of duty when imported into the United States from other countries, shall be subject to progressive Philippine export taxes equal to specified percentages of United States import duties. This provision applies to the items which are subject to tariff quotas as well as to those which are not subject to them. Commencing July 4, 1946, all products from the Philippines entering the United States, in the absence of additional legislation, are to be accorded the same tariff treatment extended similar goods originating in other countries.

Shortly after the enactment of the Independence Act, but before it became effective, Congress passed the Jones-Costigan Act, the Revenue Act of 1934, and the Cordage Act of 1935. The

[1] Throughout this report, the terms "imports" and "exports" are used to designate shipments between the United States and the Philippines. This is done only for convenience. Technically these terms are incorrect, inasmuch as the Philippines and the United States are not as yet "foreign" to each other.

[2] Supplies for the use of the U. S. Army and Navy and the Philippine Government were admitted free of duty, irrespective of their origin, in the beginning of American occupation. After Aug. 5, 1900, these exemptions were accorded only to goods imported from the United States and its possessions.

[3] Any concessions to American goods would have had to be extended to Spanish goods, since the United States agreed in Article IV of the Treaty of Paris to "admit Spanish ships and merchandise to the * * * Islands on the same terms as ships and merchandise of the United States" for a 10-year period dating from Apr. 11, 1899.

[4] The United States coastwise shipping laws have never been applied to the Philippines. Under section 21 of the Merchant Marine Act of June 5, 1920, these laws can still be extended to the Philippines by Executive action.

[5] This percentage of maximum admissible foreign content in duty-free goods was originally suggested by the Connecticut Tobacco Growers' Association to be applicable to wrapper tobacco. The Association wanted to prevent the use of other than American wrapper tobacco on cigars permitted duty-free entrance into the United States. The limitation, however, was enacted to be applicable to all classes of Philippine exports to the United States which were not admissible free of duty when entered from other countries.

[6] The Tydings-McDuffie Act (House bill 8573) was approved by the President on March 24, 1934, was accepted by the Philippine Legislature on May 1, 1935, and became effective on November 15, 1935.

first of these laws, which was passed on May 9, 1934, authorized the imposition of "absolute" limits on the amounts of sugar which might be imported into the United States from the Philippines.[7] The Revenue Act of 1934, effective as of May 10, 1934, provided among other things, for a processing tax of 3 cents per pound on coconut oil expressed from Philippine copra either in the Islands or in the United States, which tax was to be remitted to the Philippine Treasury.[8] This revenue act was modified in some particulars by the Revenue Acts of 1935 and 1936. The Cordage Act of June 14, 1935, doubled the cordage quota provided for in the Independence Act, but changed it from a duty-free to an "absolute" quota. The Cordage Act is to remain in force for 3 years from May 1, 1935, but may be extended for 3 or more years by Presidential proclamation, pending final and complete withdrawal of American sovereignty.

With respect to internal revenue taxes, American goods entering the Philippines enjoy no preferential position over like goods produced in the Philippines or imported from other countries; and Philippine goods entering the United States, with the recent exception of copra and coconut oil, occupy a similar nonpreferential tax status in the United States. All United States internal revenue collected on Philippine products consumed in the United States, with the exception of the coconut oil excise taxes (which up to the present time have been the subject of litigation), have been regularly remitted to the Philippine Treasury since the passage of the United States Tariff Act of 1909. The Philippines, however, make no similar remittances to the United States.

Congress has never taken any steps implying tariff assimilation of the Philippines. Philippine tariff classifications, rates of duty, and methods of determining dutiable values differ widely from those employed by the United States. Provisions for "flexible", antidumping, countervailing, or contingent duties, such as are found in the United States tariffs, have never been incorporated in Philippine tariffs. The Islands, moreover, have always been permitted to retain all of their tariff revenue for their own use. Congress divested itself of the responsibility of import tariff legislation for the Philippines under the provisions of the Jones Law (Philippine Organic Act of Aug. 29, 1916). Although this act reserved to Congress the sole right to legislate respecting tariff relations between the United States and the Philippines, it empowered the Philippine Legislature to enact all other tariff legislation for the Islands, subject to final approval or veto by the President of the United States. Control over Philippine tariff legislation, under the provisions of the Philippine Independence Act, will remain unaltered until July 4, 1946, when full legal control will revert to the independent Philippine Government.[9]

Economic Provisions of Independence Act

Quotas, export taxes, and duties.—The economic provisions of the Independence Act relate primarily to present and future trade relations between the United States and the Philippines, and to the Philippine public debt. It is convenient to consider these provisions with respect to three time intervals: (1) The first 5 years, or the first half, of the Commonwealth period, dating from November 15, 1935, to November 15, 1940; (2) the second 5 years, or the second half, of the Commonwealth period, dating from November 15, 1940, to July 4, 1946; and (3) the period after independence is attained, commencing July 4, 1946.[10]

During the first 5-year period, free trade between the United States and the Philippines is to continue on the same basis as heretofore, except that limitations are placed upon the maximum amounts of sugar, coconut oil, and cordage which are permitted to enter the United States duty-free. Any shipments in excess of the quotas, according to the act, are to be assessed the full United States duties. The effects of this provision with respect to all three commodities, however, have been variously modified by subsequent United States legislation. These modifications will be discussed in later chapters dealing with each of the particular commodities in question.

During the second 5 years of the Commonwealth, the same duty-free quotas will continue to be applicable with respect to the sugar, coconut oil, and cordage shipped to the United States. But in addition, the Philippines will be obliged to assess progressively increasing export taxes against these and all other exports to the United States which are not admissible into the United States free of duty when imported from other countries. These export taxes, the proceeds of which will go to the Philippine Treasury, will amount to 5 percent of the prevailing United States duties during the sixth year of the Commonwealth period and will be increased by an additional 5 percent each succeeding year until in the tenth or last year they will amount to 25 percent of the then existing United States duties.[11]

No provision is made in the Independence Act for permitting or requiring the curtailment of imports of American goods into the Philippines during the Commonwealth period. The Islands, moreover, have no legal power to restrict their imports of American goods during this period by means of quotas or tariffs.

After the Islands obtain their complete independence on July 4, 1946, they will no longer be required to levy export taxes upon shipments to the United States. At that time, on a basis of present legislation, the full United States duties will be collected on all Philippine goods arriving in the United States; and presumably the full Philippine duties will be collected on all United States goods arriving in the Philippines.[12]

Public debt.—The Independence Act provides that "pending the final and complete withdrawal of the sovereignty of the United States over the Philippine Islands * * * the public debt of the Philippine Islands and its subordinate branches shall not exceed limits now or hereafter fixed by the Congress of the United States; and no loans shall be contracted in foreign countries without the approval of the President of the United States." The debt limits existing at the time of the inauguration of the Philippine Commonwealth were those provided for by the Jones law as amended to that date.[13]

The Independence Act stipulates that the

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[7] Imports beyond these limits were forbidden. The quotas stipulated in the Independence Act merely limited the amounts which would be permitted to enter the United States free of duty. On May 9, 1934, the President of the United States proclaimed that the United States duty on sugar from foreign countries other than Cuba would be reduced on June 8, 1934, from 2.5 cents to 1.875 cents per pound on 96° sugar. This automatically reduced the duty on Cuban sugar from 2 cents to 1.5 cents per pound. On Sept. 3, 1934, when the United States-Cuban Trade Agreement became effective, the duty on Cuban 96° sugar was lowered to 0.9 cent per pound, but no changes were made in the rates applicable to other foreign sugar.

[8] Owing to litigation, no remittances under this act have thus far (January 1937) been made to the Philippines.

[9] The foregoing paragraphs are based in part on the United States Tariff Commission's 1931 report on United States-Philippine Tariff and Trade Relations.

[10] The so-called second half of the Commonwealth period is actually in excess of 5 years by over 7-1/2 months.

[11] Actually the 25-percent duty will be applicable for more than 1 year—Nov. 15, 1944, to July 4, 1946.

[12] No existing legislation specifically provides that United States products will become subject to full Philippine duties after independence. It may be assumed, however, that the Islands will not exempt American goods from duty if at that time Philippine goods become subject to United States duties.

[13] The Jones law provided that the entire indebtedness of the Philippine Government, exclusive of those obligations known as friar land bonds, "shall not exceed at any one time 10 per centum of the aggregate tax valuation of its property." Limitations were also placed upon the permissible indebtedness of Manila, other municipalities, and the provinces.

Commonwealth Government shall assume all of the debts and obligations of the preceding Philippine Government and the subdivisions thereof; and that the Independent Philippine Government, when it comes into existence, shall in turn assume all of the debts and obligations of the Commonwealth Government. The act empowers the President of the United States "to suspend the taking effect * * * of any law * * * of the Commonwealth of the Philippine Islands which in his judgment will result in a failure of the * * * Commonwealth * * * to meet its bonded indebtedness and interest thereon." The act further provides that "If the * * * Commonwealth * * * fails to pay any of its bonded or other indebtedness or the interest thereon * * * the President * * * may thereupon direct the High Commissioner to take over the customs offices and * * * administer the same, and apply * * * revenue received therefrom as may be necessary for the payment of such overdue indebtedness."

Repayment of the Philippine debt is further safeguarded by another provision in the act. It stipulates that the export taxes, referred to in a preceding paragraph, shall be applied solely for this purpose so long as any debt remains undischarged during the Commonwealth period.

The Independence Act specifically exempts the United States from any obligation to meet the interest or principal on any Philippine bonds issued subsequent to the Philippine acceptance of the Independence Act. And Philippine bonds thereafter issued are not to be exempt from taxation in the United States.

Currency.—The Independence Act makes no changes in the Philippine monetary system. During the Commonwealth period, moreover, no acts of the Philippine Government affecting Philippine currency or coinage may become law until approved by the President of the United States.[14] During this period, the President of the United States is authorized to suspend the operation of any act of the Philippine Government which to him seems likely to impair the reserves protecting the currency of the Philippine Islands.

TRADE RELATIONS AFTER INDEPENDENCE

Trade conference.—Although the Independence Act indicates what the nature of United States-Philippine economic relations will be after Philippine independence, it also stipulates that "at least one year to the date fixed * * * for the independence of the Philippine Islands, there shall be held a conference of representatives of * * * the United States and * * * the Philippine Islands * * * for the purpose of formulating recommendations as to future trade relations between * * * United States and * * * the Philippine Islands." With a view to giving early consideration to future trade relations, President Roosevelt announced on April 10, 1935, that he would call a trade conference "at as early a date as practicable after the inauguration of the Comonwealth Government." No date has thus far (January 1937) been announced for the holding of the conference. Both the United States and the Philippine Governments, however, have in the meantime appointed "Interdepartmental Committees" to prepare the basic data for the use of their respective representatives at the conference. These committees have cooperated with one another in the preparation of data with a view to minimizing the amount of controversial material which need be considered at the conference.

The primary objective of the trade conference, according to the Independence Act, will be to consider the trade relations which are to exist between the United States and the Philippines subsequent to Philippine independence, i. e., after July 4, 1946. This may necessitate considering also the trade relations which are to exist between the United States and the Philippines for the remainder of the Commonwealth period. The Philippines regard a consideration of this latter matter as absolutely essential.[15] The President, in his message to Congress on March 2, 1934, urging the passage of the Independence Act, stated:

> * * * Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearing and in fairness to both people.
>
> May I emphasize that while we desire to grant complete independence at the earliest proper moment, to effect this result without allowing sufficient time for necessary political and economic adjustments would be a definite injustice to the people of the Philippine Islands themselves little short of a denial of independence itself.

It may be observed that under existing law any recommendation which the forthcoming trade conference might make to alter the trade provisions of the Independence Act would require congressional action to be made effective.

In determining upon its future trade relations with the Philippines, the United States must consider not only its own economic interests, but also its political and military interests and its international engagements. It must consider further its obligations to the Philippines, inasmuch as it is largely responsible for having fashioned the type of economy which now exists in the Philippines. But if the United States should consider modifying the economic provisions of the Independence Act, certain legal questions must be considered.

"Most-favored-nation" treaties.—The United States is a party to a number of commercial agreements with foreign nations pledging that their products will receive in the ports of the United States the same treatment accorded similar products from the most-favored-nation, excepting only Cuba. As these agreements now stand, it would not be possible for the United States to extend preferential tariff treatment to Philippine products after the Philippines become independent. The commercial treaties of the United States, however, are all subject to termination not later than 1941. The United States, therefore, could probably renew the agreements on condition that the various foreign governments recognize that the independent Philippines would be exempt from the provisions of the "most-favored-nation" clause. The precedent established in respect of Cuba suggests that foreign governments might not object to such a modification of their commercial agreements.

Treaty and agreement with Cuba.—The United States Commercial Convention of 1902 with Cuba provides for the extension of tariff concessions to dutiable products of Cuban origin which shall be preferential in respect of the lowest rates assessed against like articles originating in any other foreign country.[16] The 1902 convention has been superseded by the United States-Cuban reciprocal trade agreement of 1934, which contains a similar provision. It stipulates that dutiable products of Cuban origin shall "be granted an exclusive and preferential reduction in duty of not less than 20 per centum, such percentage of reduction being applied to the lowest rate of duty now or hereafter payable on the like article the growth, produce, or manufacture of any other foreign country." The Philippine Islands are specifically mentioned as being exempt from at least some of the provisions of the 1934 agreement. The agreement does not make clear whether or not the United States would be obliged to base Cuban preferential rates on Philippine preferential rates, when and if extended, after the Philippines should become a "foreign country."

The obligations of the United States to Cuba might have to be clarified should the United States desire to extend preferential tariff treatment to products of Philippine origin. The Cuban Trade Agreement is subject to termination in 1937, in anticipation of which, negotiations could be entered into for a revision. In the event of expiration or denunciation of the present Cuban Trade Agreement, the Convention of 1902 would automatically resume operation, but in 1 year this also could be terminated. Before the Philippine Commonwealth period expires, therefore, the United States could remove all legal impediments to extending preferential tariff treatment to Philippine products without simultaneously being required to increase the preferences accorded Cuban products.

Reciprocal Trade Agreements Act.—With the possible exceptions of the agreements with Cuba and Belgium, the reciprocal trade agreements which the United States has recently entered into with a number of foreign countries, under authority of the Trade Agreements Act of 1934, are clearly not applicable to present or future United States-Philippine commerce.[17] The Colombian Trade Agreement, for example, provides:[18]

> * * * this Agreement shall not apply * * * to the advantages now or hereafter accorded by the United States of America to the commerce of the Republic of Cuba, or to commerce between the United States of America and the Panama Canal Zone, the Philippine Islands, or any territory or possession of the United States of America, or tc the commerce of the territories and possessions of the United States of America with one another. The provisions of this paragraph which except from the operation of this Agreement the commerce between the United States of America and the Philippine Islands and

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[14] The Seventy-third Congress of the United States, in Public Act No. 419, authorized a credit of $23,862,750.78 in favor of the Philippines on account of the devaluation of the United States dollar. This was intended to cover the "profit" on the Philippine currency reserves on deposit in the United States. The remittance has not thus far (January 1937) been made. The Adams bill (S. 3486), moreover, sought to repeal the above act. The Senate passed this bill by a vote of 56 to 11, but the House Committee on Insular Affairs failed to report it to the House.

The Adams bill (S. 892) was reintroduced in the first session of the Seventy-fifth Congress.

[15] Resident Commissioner Quintin Paredes, in his report of July 1, 1936 (released publicly on Sept. 11, 1936) to President Quezon, recommended that the Philippine Government should attempt to adjust the following at the Trade Conference:

(*a*) The economic provisions of the [Independence] Act.
(*b*) Tariff autonomy for the Islands.
(*c*) Definition of the War and State Departments.
(*d*) The immigration and treatment of the Filipinos in the United States.
(*e*) Definition of the duties of the High Commissioner.
(*f*) The possibility of sending Filipinos to the United States Military and Naval Academies.
(*g*) The indemnity to which the Philippines is entitled on account of the devaluation of the dollar, etc.

Manila Daily Bulletin, Sept. 12, 1936.

[16] The Cuban Commercial Convention was proclaimed by the President of the United States on Dec. 17, 1903.

[17] The Trade Agreements Act, entitled "An Act to amend the Tariff Act of 1930", was approved on June 12, 1934.

[18] Art. VII of the Colombian Trade Agreement, signed Sept. 13, 1935, became effective May 20, 1936.

the commerce of the territories and possessions of the United States of America with one another shall apply in respect to advantages now or hereafter accorded by the United States of America or any territory or possession of the United States of America to the Philippine Islands, notwithstanding any change that may take place in the political status of the Philippine Islands.

The Reciprocal Trade Agreements Act itself does not empower the President of the United States to negotiate a trade agreement with the present Philippine Government, even though such an agreement were not to become effective until after Philippine independence. During the Commonwealth period, the Philippines may not be regarded as a foreign country within the meaning of the act.

3. TREND AND CHARACTER OF PHILIPPINE-UNITED STATES TRADE

Trade Trend

Although the trade of the Philippines prior to 1898 was retarded as a result of Spanish restrictions, it developed rapidly after American occupation and particularly with the United States, as is shown in table 3 and chart I. Of the total value of the combined import and export trade of the Philippines, the United States accounted for 11 percent in 1900, 41 percent in 1910, 65 percent in 1920, and 72 percent in 1935[1].

Exports from the Philippines to the United States have advanced more rapidly than have imports from the United States into the islands. The Philippines purchased annually from the United States on the average 9 percent of their total imports in the period 1899-1901, 42 percent in 1909-14, and 64 percent in 1930-33. Since 1927 they have never purchased from the United States less than 62 percent of their total annual imports, and since 1932, not less than 64 percent. They sold to the United States on an average 18 percent of their total annual exports in the years 1899-1901, 35 percent in 1905-09, 73 percent in 1923-28, 82 percent in 1930-32, and 83 percent during 1933-35.

Sales by the Philippines to the United States have generally been greater in value than their purchases from the United States. This condition was reversed for only a few years following the establishment of United States-Philippine free trade in 1909, and for 2 years during the World War period. Even prior to American occupation, the Philippines maintained a credit trade balance with the United States.

The United States as a Market for Philippine Products.

During 1935, Philippine exports to the United States were valued at $74,935,537. This constituted about 80 percent of the value of their aggregate exports to all countries. In the preceding year their exports to the United States amounted to $91,643,594 or 83 percent of the total to all countries.

Sugar has been much the most important export to the United States for a number of years. It accounted for almost $33,000,000 of 44 percent of the total exports from the Islands to the United States for 1935. Because of

[1]The relative participation of the United States in the import trade of the Philippines for the period prior to July 1, 1910, is not strictly comparable with that for the period following. Importations for the account of the U. S. Government services were first included in Philippine imports on that date.

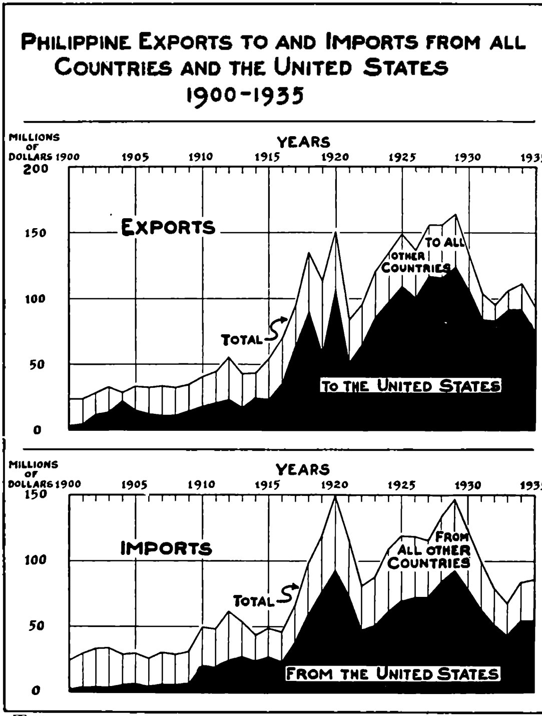
Table 3.—*Trade of the Philippine Islands with all countries and with continental United States, 1899-1935*

[General exports and imports, excluding gold and silver ore, bullion, and coin]
[Values in thousands of dollars: i. e., 000 omitted]

Year or average	Philippine exports: To all countries	Philippine exports: To continental United States	Philippine exports: Percent to United States	Philippine imports: From all countries	Philippine imports: From continental United States	Philippine imports: Percent from United States	Excess of exports (+), excess of imports (-): Trade with all countries	Excess of exports (+), excess of imports (-): Trade with continental United States
Average 1899-1901 (3 years)	20,780	3,814	18	24,740	2,347	9	- 3,960	+ 1,467
Average 1902-June 30, 1909 (7½ years)	31,598	11,883	38	30,279	4,759	16	+ 1,319	+ 7,124
Average July 1909-1914 (5½ years)[1]	46,653	20,030	43	49,892	20,834	42	- 3,239	- 804
Average 1915-1918 (4 years)	88,637	52,921	60	64,801	36,422	56	+23,836	+16,499
Average 1919-1922 (4 years)	111,985	69,084	62	116,028	72,412	62	- 4,043	- 3,328
1923	120,753	85,047	70	87,500	50,353	58	+33,253	+ 4,694
1024	135,345	97,314	72	108,011	60,399	56	+27,334	+ 6,915
1925	148,877	109,045	73	119,733	69,298	58	+29,144	+39,747
1926	136,884	100,003	73	119,299	71,576	60	+17,585	+28,427
1927	155,574	116,038	75	115,851	71,478	62	+39,723	+44,560
1928	155,055	115,586	75	134,657	83,858	62	+20,398	+31,728
1929	164,447	124,465	76	147,160	92,593	63	+17,287	+31,872
1930	133,167	105,342	79	123,093	78,183	64	+10,074	+27,159
1931	103,972	83,422	80	99,179	62,140	63	+ 4,793	+21,282
1932	95,338	82,648	87	79,395	51,298	65	+15,943	+31,350
1933	105,771	91,313	86	67,361	43,540	65	+31,090	+47,773
1934	110,404	91,844	83	83,607	54,376	65	+26,797	+37,468
1935	94,246	74,936	80	85,524	54,367	64	+ 8,722	+20,569

[1]Beginning July 1, 1910, figures include importations into the Philippines for account of U. S. Government services.
Sources: Annual Reports, Insular Collector of Customs. Peso values have been converted into dollar values at the ratio—1 peso = U. S. $0.50.

Chart I



SOURCE: INSULAR COLLECTOR OF CUSTOMS

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excess shipments made in 1934, the sugar shipments from the Philippines to the United States were considerably smaller in 1935 than in the immediately preceding years[2]. Shipments to the United States in 1934, for example, amounted to approximately $65,000,000 or over 71 percent of the total exports from the Philippines to the United States. Practically all of the Philippine exports of sugar products, with the exception of small quantities of molasses, syrup and alcohol, are sold in the United States.

The United States provides both absolutely and relatively a smaller market for Philippine coconut products than for sugar products. Nevertheless, practically all of the coconut oil and desiccated coconut and about two-thirds of the copra shipped from the Islands are generally sold in the United States. And as much as 40 percent of the total copra cake and meal has recently been sold in this market. The Islands in recent years have exported a somewhat smaller share of their total exports of abaca (manila hemp) and a somewhat larger share of their exports of crdage to the United States than was generally the case in the years prior to 1931. In 1935, they shipped to the United States 33 percent of their total hemp exports and 54 percent of their total cordage exports. The annual values of Philippine exports of tobacco products to the United States have fluctuated only within small limits between 1929 and 1935. These exports, however, have constituted an increasing share of the total exports of tobacco products from the Philippines to all countries, inasmuch as these latter fell steadily during this period until 1935, when they rose again. In that year, 55 percent of the total exports of tobacco products from the Islands went to the United States.

Other important Philippine exports for which the United States provides a relatively large market are embroideries, timber and lumber, hats, cutch, pearl buttons, and canned pineapple. With the exceptions of hats, and timber and lumber, practically all of the exports of these commodities from the Philippines are regularly shipped to the United States. Generally 50 percent or more of the hats are shipped to the United States, and 35 percent or more of the timver and lumber.

The above-mentioned Philippine products in 1935 accounted for 98 percent of the total exports from the Islands to the United States, and for 95 percent of their total exports to all countries. The remaining exports consisted of a wide variety of miscellaneous products.

The United States purchased from the Philippines during 1935 goods valued at $96,972-956, or 4.8 percent of the United States total imports.[3] In that year, the Philippines ranked seventh in importance among United States suppliers. Of the United States total imports of the following specified commodities from all countries, the Philippines supplied approximately 95 percent of the coconut products, 85 percent of the tobacco manufactures, 39 percent of the sugar (Hawaiian and Puerto Rican production being included with that of continental United States), 75 percent of the sawed cabinet woods, 15 percent of the straw hats, and 77 percent of the cotton embroideries.

The following trends are discernible from an examination of Philippine export statistics:

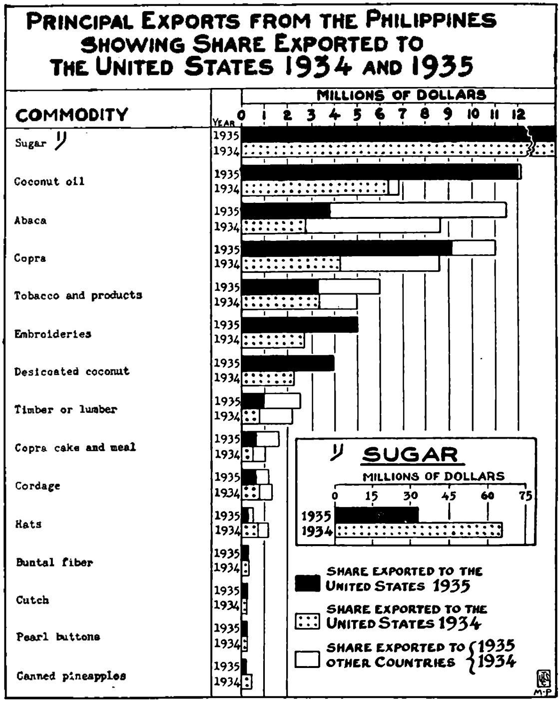
(1) From the beginning of American occupation until 1929, the Philippines steadily increased the value of their exports to the United States. The exports then declined until 1932, rose for the next 2 years, and declined sharply again in 1935. In terms of their exports to all markets, the Philippines steadily increased the annual share sold to the United States from the beginning of American occupation until 1932. Thereafter the annual share declined somewhat, particularly for 1935. Both the relative and absolute declines in exports to the United States for 1935 were due largely to the sharply curtailed sugar shipments for that year.

(2) Sugar has increased both absolutely and relatively among the Philippine exports to the United States. As late as 1928, it constituted only 40 percent of the total exports from the Philippines to the United States, whereas in 1934 it accounted for 71 percent of the total.

(3) Besides sugar, several other important Philippine exports which receive substantial protection in the United States markets have increased in relative importance among the shipments from the Islands to the United States in recent years. Among these are desiccated coconut oil, and cordage.

Chart II and table 4 show exports to the United States by principal commodities in 1934 and 1935.

Chart II



SOURCE: INSULAR COLLECTOR OF CUSTOMS

THE PHILIPPINES AS A MARKET FOR UNITED STATES PRODUCTS.

Imports into the United States from the Philippines in 1935 amounted to $54,366,500. This constituted nearly 64 percent of the value of the total purchases by the Islands from all countries. In the preceding year, the imports from the United States amounted to $54,375,-

[2] This is explained in detail on p. 54 of the sugar section of this report.

[3] Preliminary 1935 general imports, Foreign Commerce and Navigation of the United States. This figure does not correspond with that given elsewhere for Philippine exports to the United States, inasmuch as this latter was obtained from Philippine statistics.

TABLE 4.—*Values of principal Philippine exports to the world and amounts thereof exported to the United States, 1934 and 1935*

Commodity	1935 Total	1935 To the United States	1934 Total	1934 To the United States
Sugar	$32,990,680	$32,949,717	$65,454,580	$65,444,993
Coconut oil	12,154,003	12,004,053	6,794,871	6,396,557
Abaca	11,473,967	3,811,010	8,661,568	2,695,896
Copra	10,987,330	9,106,010	8,605,125	3,900,060
Tobacco and products	6,001,829	3,288,565	4,996,556	3,363,856
Embroideries	4,996,280	4,989,318	2,666,421	2,659,122
Desiccated coconut	3,962,315	3,941,938	2,254,540	2,253,236
Timber or lumber	2,511,760	972,487	2,171,400	774,941
Copra cake and meal	1,639,424	617,680	1,051,120	447,310
Cordage	1,161,815	628,959	1,335,047	785,328
Hats	474,821	240,125	1,141,872	697,584
Buntal fiber	278,337		302,334	490
Cutch	267,375	267,375	252,841	252,841
Pearl buttons	237,397	237,397	242,838	242,774
Canned pineapple	157,398	157,398	409,244	409,244
All other commodities	4,950,949	1,724,051	4,063,278	1,519,362
Total	94,245,680	74,935,537	110,403,635	91,843,594

Source: Annual Reports, Insular Collector of Customs.

678 or 65 percent of the total imports into the Islands.

The chief import from the United States in 1935 consisted of iron and steel products. Their value amounted to $8,516,040 or about 16 percent of the total imports from the United States. These imports also represented about 77 percent of the aggregate imports of iron and steel products into the Islands from all countries. The second most important import from the United States consisted of cotton goods. Their value totaled $6,767,471 during 1935, or 44 percent of the imports of such materials from all countries. Mineral oil ranked third in importance, and the United States supplied 87 percent of the total imported from all countries; tobacco products ranked fourth, with the United States supplying almost 99 percent of the total. Automobiles and parts (exclusive of rubber tires) were next, the imports from the United States accounting for over 99 percent of the total from all countries. Electrical machinery and apparatus, chemicals and drugs, dairy products, rubber and manufactures thereof, and unprinted paper ranked next, the United States supplying 86 percent, 67 percent, 53 percent, 88 percent, and 66 percent, respectively, of the totals of these imports from all countries.

Other important Philippine imports of which the United States was a major supplier in 1935 were wheat flour, fertilizer, leather and its manufactures, fruits and nuts, silk manufactures, meat products, fish products, and vegetables. The United States supplied in each case 40 percent or more of the total imports of these goods from all countries.

The above-mentioned articles, in 1935, accounted for 83 percent of the total imports into the Philippines from the United States and for 78 percent of their total imports from all countries.

Chart III and table 5 show imports into the Philippines from the United States by principal commodities in 1934 and 1935.

The Philippines ranked twelfth among the principal export markets for United States goods in 1935, exports to the Islands in that year being valued at $52,560,041, or 2.3 percent of the total exported to all countries.[4] On a basis of the United States Foreign Commerce and Navigation's group classifications of commodities, the Philippines ranked in 1935 as follows among the world customers of the United States:[5] They occupied fifth place as buyers of animal and vegetable products, except fibers and wood (groups 00, 0, 1, and 2 combined), of which they purchased $13,820,955 for the year. These goods are composed largely of manufactured or processed farm products. As buyers of textiles (group 3), of which they purchased $7,948,179, the Islands ranked eleventh. They were the fifteenth most important buyer of wood and paper products (group 4), of which they purchased $1,709,842; the twelfth, of nonmetallic metals (group 5), $6,014,637; the eighth, of metals and manufactures, except machinery and vehicles (group 6), $6,258,671; the sixteenth, of machinery and vehicles (group 7), $9,360,707; the fourth, of chemicals and related products (group 8), $4,787,984; and seventh, of miscellaneous products (group 9), $2,659,066.

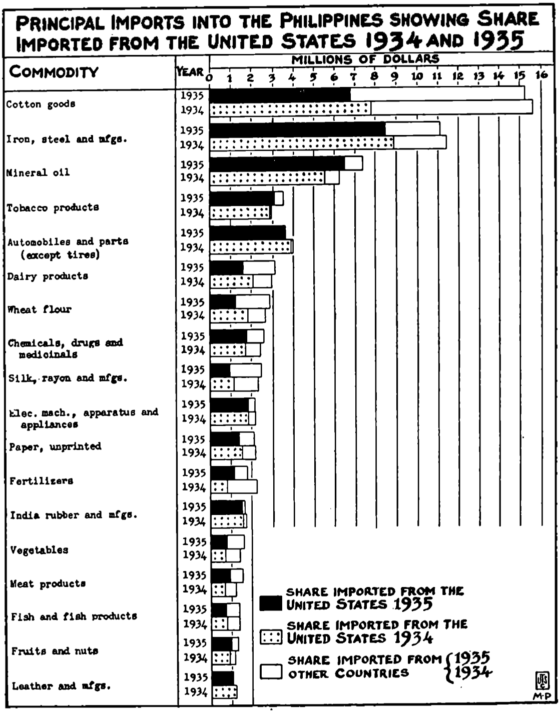
In 1935, the Philippines ranked first among the export markets of the United States for galvanized iron and steel sheets, cigarettes, canned milk and cream, ready mixed paints, soap, and a number of other products of minor importance; and they ranked second for cotton clogh (colored, bleached, and unbleached), wheat flour, and canned fish.

The following trends are discernible from an analysis of Philippine import and United States

[4] This figure is taken from United States statistics of exports to the Philippines and therefore does not correspond with the previously cited value of Philippine imports from the United States taken from Philippine statistics.

[5] Source: United States Commerce and Navigation, 1935.

CHART III



SOURCE: INSULAR COLECTOR OF CUSTOMS

TABLE 5.—*Values of principal Philippine imports from the world and amounts thereof imported from the United States, 1934 and 1935*

Commodity	1935 Total	1935 From the United States	1934 Total	1934 From the United States
Cotton goods	$15,299,921	$6,767,471	$15,621,460	$7,822,554
Iron and steel and manufactures	11,068,419	8,516,040	11,411,504	8,887,434
Mineral oil	7,442,514	6,486,532	6,223,722	5,500,688
Tobacco products	3,750,280	3,696,087	2,926,901	2,857,329
Automobiles and parts	3,600,224	3,581,046	3,977,655	3,880,779
Dairy products	3,076,362	1,625,290	2,911,344	2,083,209
Wheat flour	2,855,627	1,222,345	2,623,694	1,816,910
Chemicals, drugs, dyes, and medicines	2,577,318	1,724,789	2,417,182	1,695,221
Silk, rayon, and manufactures	2,425,700	970,566	2,301,825	1,176,220
Electrical machinery, apparatus and appliances	2,153,668	1,857,808	2,170,099	1,877,939
Paper, unprinted	2,122,078	1,395,877	2,192,210	1,543,766
Fertilizers	1,810,096	1,146,399	2,254,491	746,421
India rubber and manufactures	1,664,242	1,464,752	1,720,441	1,601,083
Vegetables	1,639,239	767,822	1,405,149	720,873
Meat products	1,576,550	940,432	1,204,357	686,911
Fish and fish products	1,360,835	704,552	1,351,423	840,609
Fruits and nuts	1,322,508	990,956	1,156,978	888,594
Leather and manufactures	1,063,691	1,011,594	1,209,983	1,133,027
All other	18,694,578	9,496,142	18,526,692	8,616,111
Total	85,523,850	51,366,500	83,607,110	54,375,678

Source: Annual Reports, Insular Collector of Customs.

export statistics:

(1) The Philippines annually increased the value of their purchases from the United States from the beginning of American occupation until the end of 1929. Their purchases then declined until 1933, rose again in 1934, and receded slightly in 1935. In terms of their total purchases from all countries, the Philippines steadily increased the share obtained from the United States from the beginning of American occupation through 1934, the share declining slightly for 1935.

(2) During recent years, the Philippines have become an increasingly important outlet for American machinery, automobiles, and other selected manufactures; but they have become a decreasingly important outlet for American textiles, wheat flour, and a number of minor specialties. The Philippines no longer rank as the largest buyer of United States cotton textiles.

RECENT JAPANESE COMPETITION.

The increase in sales of Japanese goods in the Philippines, though substantial, has not been as large as is sometimes represented, nor has it been accompanied by a corresponding decline in the total sales of American goods. The general misconceptions concerning these matters have their bases largely in the use of Philippine statistics compiled in terms of "dutiable values", and in the making of misleading comparisons.

Prior to December 21, 1932, the Philippine Bureau of Customs, in determining dutiable values of imports, converted foreign invoice values into values in pesos at rates which closely approximated market rates of exchange. When the Philippine Parity Act became effective on that date, the customs thenceforth converted foreign invoice values into values in pesos at the "parities of exchange" established in the act. The yen, for duty assessment purposes then became valued at approximately 1 peso, whereas the market rate in 1932 averaged 0.56 peso and in 1933 averaged 0.40 peso. The Philippine customs for a time reported imports on the basis of dutiable values rather than market values. This resulted in greatly overstating imports from Japan, which in 1933 were officially reported at the equivalent of $9,500,000, or 13 percent of total imports into the Philippines for the year. In 1935, when Philippine statistics based on market values first became available, the Philippine imports from Japan for 1933 were found to have been only $5,682,000, or 8-1/2 percent of the total imports into the Philippines. The correction neccessary for the 1934 trade figures was also large. The Philippine customs, although still assessing duties on the basis of the parities of exchange stipulated in the Parity Act, now reports imports on a basis of their market values. Many of the earlier statistics, however, still circulate and continue to create erroneous impressions.

The trade gains made by Japan in the Philippines have frequently been based on comparisons with sales in that market in 1932. That year is one in which sales of Japanese goods there (on a basis of corrected import statistics) were abnormally low because of the boycott carried on against their goods by the numerous Chinese shopkeepers scattered throughout the islands. Although Japan supplied almost twice as large a share of the aggregate imports into the Philippines in 1935 as in 1932, it supplied only 31 percent more in 1935 than for the average of the 2 years preceding 1932.

In most years from 1920 to the present the imports into the Philippines from Japan amounted to from 8 to 12 percent of the total imports. In 1928 the Islands imported 9-1/2 percent of the total from Japan but in the following year only 8 percent. Japan did not share in the increase in the total import trade of the Philippines for 1929. In 1930 however Japanese goods accounted for 10-1/2 percent of the total imports into the Philippines and in 1931, for 11 percent of the total. In 1932, when the Chinese boycott was at its height, Japan supplied slightly less than 8 percent of the imports into the Islands.

In 1932 Japanese firms commenced to expand their retail outlets in the Philippines. This, in conjunction with the marked depreciation of the yen and the waning of the boycott, greatly assisted in increasing Japanese sales in the Islands. In 1933 Japanese goods accounted for 8-1/2 percent of the total imports into the Philippines; in 1934 they accounted for 12-1/2 percent; and in 1935, for over 14 percent.

The increase in the value of the sales of Japanese goods in the Philippines during the period 1930-35 was accompanied by a decrease in the sales of a number of individual American products, but not by an appreciable decrease in the relative value of United States aggregate sales in the islands. Japan supplied a larger percentage of the total imports into the Philippines in 1935 than in any preceding year, but the United States also supplied a larger percentage in 1935 than it had on the average for the preceding decade (1925-34), when its relative participation in the Philippine import trade was higher than in any previous period. The share of the United States in the market declined slightly between 1934 and 1935, but its 1934 share was the highest on record.

In terms of value, the rising importance of Japan as a supplier of Philippine imports in recent years has been accompanied by the declining importance of countries other than the United States. As depicted in chart IV, the position of the United States as a supplier in 1935 as compared with 1930 was practically unaltered, whereas that of all the other suppliers combined, except Japan, had declined by substantially the same degree that the participation of Japan had risen. The trade statistics for 1935 indicated that the increased participation of Japan in that year as compared with 1934 was accompanied by a greater decline in the share of the United States than in that of the remaining suppliers considered as a group.

Because of the relatively large decline in the prices of Japanese goods in terms of pesos at the end of 1931, the increase in the values of Japanese sales in the Philippines after 1932 was undoubtedly accompanied by an even larger increase in the volume of such sales. On a volume basis, the increase in Japanese sales from 1932 on, therefore, was probably accompanied by a decline in the relative volume of American and other sales. As has been pointed out in the case of certain particular commodities, notably textiles, the increase in Japanese sales resulted in a substantial decrease in the American sales on both a value and volume basis.

Chart IV and table 6 show the relative participation of the United States, Japan, and other countries in the import trade of the Philippines.

CHART IV

SHARE OF UNITED STATES, JAPAN AND ALL OTHER COUNTRIES IN PHILIPPINE IMPORT TRADE 1930-1935

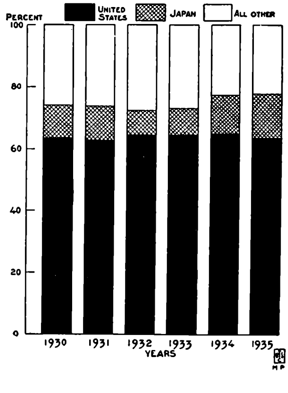


TABLE 6.—*Philippine import trade, by countries of origin, 1930-35*

[In thousands of dollars, i.e., 000 omitted]

Country	1930 Value	1930 Percent of total imports	1931 Value	1931 Percent of total imports	1932 Value	1932 Percent of total imports	1933 Value	1933 Percent of total imports	1934 Value	1934 Per cent of toal imports	1935 Value	1935 Percent of total import
United States	$78,183	63.5	$62,140	62.7	$51 298	64.6	$43,540	64.6	$54,376	65.0	$54,367	63.6
Japan	12,956	10.5	10,977	11.1	6,155	7.7	5,682	8.4	10,346	12.4	12,171	14.2
China	5,639	4.6	5,815	5.9	5,385	6.8	3,471	5.2	2,940	3.5	2,802	3.3
Germany	4,658	3.8	3,702	3.7	3,346	4.2	2,868	4.3	3,633	4.3	2,565	3.0
Netherland Indies	3,031	2.5	2,854	2.9	1,672	2.1	1,413	2.1	1,464	1.7	1,833	2.1
Great Britain and Ireland	4,659	3.8	3,025	3.0	2,835	3.6	2,167	3.2	2,164	2.6	1,785	2.1
British East Indies	3,385	2.7	1,909	1.9	1,860	2.3	1,500	2.2	1,897	2.3	1,689	2.0
Australia	1,400	1.1	1,542	1.6	1,104	1.4	1,124	1.7	1,057	1.3	1,470	1.7
Belgium	1,545	1.3	1,031	1.0	836	1.1	789	1.2	972	1.2	696	.8
All other countries	7,637	6.2	6,184	6.2	4,904	6.2	4,807	7.1	4,758	5.7	6,146	7.2
Total	123,093	100.0	99,179	100.0	79,395	100.0	67,361	100.0	83,607	100.0	85,524	100.0

Source: Annual Reports, Insular Collector of Customs. Pesos converted into dollars at the ratio 1 peso = 0.50.

PHILIPPINE BALANCE OF TRADE WITH UNITED STATES.

Both before and since the American occupation, the Philippines have almost invariably sold goods to the United States to a value in excess of their purchases from the United States. For only a few years following the inauguration of duty-free trade in 1909 and for a few scattered years during and after the World War were Philippine imports from the United States in excess of Philippine exports to the United States. Accompanying the customary credit balance of trade with the United States, the Philippines have generally had a debit balance of trade with the other countries of the world considered collectively.

The status of the balance of trade between the United States and the Philippines has frequently been regarded as an index of the profitableness of the trade to the one country or the other. The country having the credit balance has been considered the gainer, and the other country the loser. This inference however, is not warranted. In the trade of the United States with the Philippines the customary excess of imports over exports has simply given rise to a triangular (or a polyangular) trade in which the United States has paid for this excess of imports largely by exporting goods to other countries in greater value than it has imported from them. These countries in turn, either directly or through still other countries, have exported greater values of goods to the Philippines than they have imported from them. The status of the merchandise balance of trade between the Philippines and the United States, therefore, is of no significance per se in respect of the gains or losses arising to either country. Moreover, the trade balance of the Philippines with the United States not only affects and is affected by the trade balances with all other countries but it is influenced also by the extent to which gold shipments, service items, capital movements and other factors enter into the trade of the islands with the United States and with all other countries. In consequence, the Philippine balance of merchandise trade with the United States must be considered not only in its relation to the balance of merchandise trade with the world as a whole but in its relation to the balance of payments with the United States and with the world as a whole.

Philippine balance of payments.—A summary of the Philippne 1934 balance of payments with the world as a whole and with the United States is shown in table 7.[6] This table was compiled chiefly from official statistics, but where these were incomplete or were not available, estimates were employed. The resultant data therefore, are subject to considerable margins of error, particularly in the service, interest, and capital accounts.

In 1934 the Philippines exported to all countries products valued at $26,797,000 in excess of their purchases from all countries. To this sum may also be added the net value of the gold exported, since in the case of the Philippines a gold export may more properly be regarded in the nature of a merchandise export than as a residual "balancing" item. The excess of combined merchandise and gold exports from the Philippines for the year amounted to $38,820,000. This credit balance on commodity account was offset by a debit balance in the "invisible" accounts.

The Philippines paid out (estimated) $11,000,000 for ocean freight, against which there was no corresponding credit; and they paid out $3,232,000 more in (fire, marine, and life) insurance premiums than was remitted to them on insurance claims. Outgoing private remittances exceeded the incoming remittances by (estimated) $4,250,000. The outgoing remittances were made chiefly to China, the United States, and Spain by the nationals of these countries residing in the Islands. The incoming private remittances were made principally by Filipinos living in continental United States and in the Hawaiian Islands, by American missionary societies, and by foreign corporations (for the maintenance of their branch offices in the Islands). The United States Government remitted

[6] Data for 1935 were too incomplete to permit the compilation of a table. The year 1934, moreover, is to be regarded as a more representative recent year than 1935, inasmuch as in this latter year Philippine sugar exports were sharply curtailed, and sugar benefit payments were made to Philippine producers by the United States.

TABLE 7.—*Balance of payments of the Philippine Islands with the world and with the United States, 1934*[1]

[In thousands of dollars, i. e., 000 omitted

Item	With the world Credit	With the world Debit	With the United States Credit	With the United States Debit
1. Merchandise trade:[2]				
Exports	110,404	....	92,304	....
Imports	....	83,607	....	54,680
Total merchandise trade	110,404	83,607	92,304	54,680
2. Gold and silver:				
Exports[3]	12,038	....	12,038	....
Imports	....	15	....	8
Total gold and silver	12,038	15	12,038	8
3. Service items:				
Ocean freight paid[4]	....	11,000	....	4,000
Insurance claims—payments received	2,126	....	606	....
Insurance premiums paid	....	5,358	....	1,674
Remittances of Filipinos in United States and Hawaii; missionary remittances, funds for maintenance of business offices, etc.[4]	3,750	....	3,500	....
Remittances by foreigners in the Philippines[4]	....	8,000	....	2,000
Remittances by U. S. Veterans' Administration to Philippine Islands[4]	1,300	....	1,300	....
Disbursements in Philippine Islands for U. S. Government expenses	12,000	....	12,000	....
United States Internal Revenue remitted to Philippine Islands Treasury	444	....	444	....
Tourist expenditures of foreigners in Philippines[4]	1,250	....	1,000	....
Tourist expenditures of Filipinos abroad[4]	....	2,750	....	1,250
Total service items	20,870	27,108	18,850	8,924
4. Interest, dividends, etc.:				
Interest received	1,584	....	1,584	....
Interest paid	....	3,956	....	2,648
Dividends, etc., paid on direct invesments	....	6,281	....	5,181
Total interest, dividends, etc	1,584	10,237	1,584	7,829
5. Capital movements:				
Long-term repayments	....	2,447		2,447
Bond purchases by Philippine Islands Government and banks	....	1,613		1,613
Net increase in Philippine Islands short-term balances in United States	....	3,143	....	3,143
Total capital movements	....	7,203	....	7,203
6. Totals:				
Merchandise and gold (1 and 2)	122,442	83,622	104,342	54,688
All others (3, 4, and 5)	22,454	44,548	20,434	23,956
All items (1, 2, 3, 4, and 5)	144,896	128,170	124,776	78,644
7. Net balances	16,726	....	46,132	....

[1] Except where otherwise indicated, all figures are derived from official sources or are estimates based on official figures.
[2] Philippine-word and Philippine-United States merchandise statistics are from "Annual Report of Insular Collector of Customs."
[3] Shipments to United States are taken from Federal Reserve Bank figures. Shipments to the world are the combination of the Federal Reserve bank figures for the United States, plus the amounts shown in the Philippine Collector of Customs statistics as exports to countries other than the United States.
[4] Based on estimates supplied by J. Bartlett Richards, United States Trade Commissioner at Manila.

$1,300,000 for the account of its Veterans' Administration; it remitted $12,000,000 to cover its own general expenses in the Islands, chiefly for military and naval services; and it remitted $444,000 to cover the payment to the Philippine Treasury of excise taxes collected in the United States on certain products of Philippine origin, principally cigars. The tourist expenditures of Philippine residents traveling abroad, it is estimated, exceeded those of foreign residents traveling in the Philippine Islands by $1,500.-000. On the aggregate of the foregoing service items, the Philippines had an estimated debit balance of $6,238,000 for the year.

The Philippines received (estimated) $1,-584,000 in interest, earned chiefly on the foreign bank balances of the Philippine government, and foreign securities held by Philippine banks; and they paid out (estimated) $3,956,000 in interest chiefly on Insular Government bonds, Manila Railroad bonds, and Bishop of Manila bonds. The Philippines remitted in dividends (estimated) $6,281,000, most of which went to foreign holders of stocks in sugar, tobacco, merchandising and lumber companies and public utilities located in the Islands. A substantial fraction of the dividends were remitted to Spain for the account of Spanish-owned sugar and tobacco companies. On the interest and dividend account the Philippines had an estimated net debit balance of $8,653,000 for the year.

The Philippine Government floated no new bond issues abroad during the year, but it retired and repatriated some of its own government and railroad bonds held abroad. Philippine banks increased their portfolios of United States and repatriated Philippine securities. And both the Government and the banks increased their short term foreign bank balances. The Philippine net debit balance on capital account amounted to (estimated) $7,203,000 for the year.

The net balance of all of the accounts considered above is shown as a $16,726,000 credit in table 7. If it had ben possible to obtain full and accurate data for all of the accounts—which objective is never achieved in actual practice for any country—the net balance would have been zero.

The relation of the Philippine balance of payments with the United States to the Philippine balance of payments with all countries for 1934 is also shown in table 7. It will be noted that the Philippine excess of exports over imports was considerably larger in their trade with the United States than in that with the world as a whole. This meant that the Philippines had a debit merchandise balance with the remaining countries of the world considered in the aggregate. The Philippines shipped to the United States practically all of the gold they exported. If the gold be considered in the same category as the merchandise, these shipments still further increased the credit trade balance of the Islands with the United States—but did not alter their debit trade balance with the remaining countries of the world. In the "invisible" trade (items 3, 4, and 5), however, the Islands had a relatively small debit balance with the United States and a relatively large debit balance with the remaining countries of the world.

The "invisible" items in the balance of payments are based in some measure on estimates and are therefore subject to error. Nevertheless, they show fairly accurately how the invisible trade of the Islands with the United States is related to their invisible trade with the other countries of the world.

In 1934 the Philippines paid almost twice as much for non-American as for American ocean freight services; and, on a basis of premiums collected and claims paid, they did about three times as much business with non-American insurance companies as with American companies. In the latter case it is probable that the data overstate the net American participation in such business, inasmuch as some of the insurance premiums collected and claims paid were for the ultimate accounts of non-Americn companies in which the American firms reinsured.

About 90 percent of the total private remittances which the Philippines received came from the United States, whereas only about 30 percent of the outgoing private remittances went to the United States. Out-going private remittances to all countries amounted to more than twice as much as the in-coming remittances.

On the interest and dividend account, the Islands received all of their in-coming receipts from the United States, and remitted over three-fourths of their out-going payments to the United States. In their long-term borrowings and repayments, their purchases of securities, and their establishment of bank balances, they confined their dealings solely (on a basis of available data) to the United States.

The net credit balance (item 7) in the Philippine balance of payments with the United States represents not only errors and omissions but also an offset for the Philippine net debit balance of payments with countries of the world exclusive of the United States.

Table 8 shows in condensed form the Philippine balance of payments with the world and with the United States for each year during the decade 1925-34.

ECONOMIC ASPECTS OF DUTY-FREE TRADE.

The existing structure of the economy in the Philippines is very largely the result of the present economic dependence of the Islands on the American market, and that, in turn, is almost entirely the result of the free-trade relations which have existed between the two areas for the past quarter of a century. This relationship has created opportunities ior the Philippines to sell in the United States, free of duty, increased quantities of such products as sugar, coconut oil, tobacco products, cordage, embroideries, and pearl buttons, all of which are subject to duties when imported into the United States from foreign countries. In consequence of this relationship, the tendency has been for the Islands to develop those industries which produce commodities for sale in the American market at prices kept above world levels by the United States tariff and more recently, in the case of sugar, by quota restrictions. The resulting increase in the production of export commodities thus protected in the American market has, to some extent, operated to discourage the production both of export commodities not so protected and of commodities intended for Philippine consumption. On the other hand, the increased sale of goods in a preferential United States market has made it possible for the Philippines to buy more goods from the United States and from other countries than they would otherwise have been able to buy. But the dependence of the Islands on the American market has introduced an element of uncertainty into the situation by reason of the fact that the maintenance of their economy depends largely upon decisions made in the United States.

In contrast to the Philippines, the preferential free-trade arrangement between the United States and the Islands has not modified to any appreciable extent the economy of the United States. The discontinuance of this trade arrangement, therefore may not be expected substantially to affect that economy. This is largely due to the difference in the magnitude of the markets of the two countries. As a result of the preferential free-trade arrangement, however, exporters of certain United States products have obtained increased markets in the Philippines, not nly in consequence of the protection afforded American products by Philippine duties against imports from other countries but also in consequence of the increased volume of Philippine exports to the United States resulting from the similar protection accorded Philippine products in the United States market. It should be observed in this connection that the increased trade in both directions has also benefited American shipping interests; and it has given rise to profitable American investments in the Islands. Furthermore, the credits created by the excess of United States imports from the Islands over exports to them have ben an element in the multiangular trade which has made it possible for certain other countries to buy more from the United States than they have sold to it.

It should be borne in mind that in the absence of preferential free-trade relations between the Islands and the United States, both countries could doubtless conduct larger proportions of their total foreign trade with the remaining countries of the world (considered in the aggregate) than they now do. The United States, but probably not the Philippines, would no doubt increase even the absolute amount of its participation in such trade. For example, the United States might obtain a larger fraction of its sugar requirements from Cuba. This, then, would give rise to larger American exports to Cuba or to the other countries from which Cuba might increase her purchases. The Philippines, however, might find it impossible similarly to expand the aggregate value of their trade with the other countries of the world, considered collectively. Their import trade with these countries doubtless would decline, inasmuch as the present volume of that trade is sustained in part by the large excess of Philippine exports to the United States over imports from the United States. However, in the absence of preferential trade relations with the United States, the Philippines might, and no doubt would, increase the value of their trade with certain individual countries.

The Treasuries of both the Philippines and the United States forego customs revenue as a result of the free-trade relations which exist between the two countries. It seems clear, however, that the duties which the United States waives on imports from the Philippines represent fiscal losses for the United States to a much greater degree than is correspondingly the case in respect of the duties which the Philippines waive on imports from the United States. This is largely true because of the important place occupied by sugar in the trade between the two countries.

As a result of the present tariff and quota arrangements, sugar sold in 1935 in the United States market for approximately 2.24 cents per pound above the world price.[7] Since the Philippines are permitted to ship to the United States almost 1,000,000 tons of duty-free sugar per year, this privilege yields them, on the basis of 1935 prices, approximately $44,800,000 annually more than they would obtain if they sold an equivalent amount of sugar at the world price.[8] This sum may also be regarded as the approximate premium which the United States pays for Philippine sugar on the present duty-free quota basis as compared with what the cost to the United States would be if it purchased an equivalent amount of sugar at world prices.[9] Of this sum $18,000,000 would accrue to the United States Treasury if duty-free Philippine sugar were replaced by dutiable imports from Cuba and $37,500,000 if it were replaced by imports from other foreign countries. In neither case would the increase in Treasury revenues alter the price of sugar to the domestic consumers or producers.

There are no satisfactory indices for measuring the economic gains and losses which have accrued to the Philippines and to the United States, respectively, by virtue of their free-trade relations with each other. The annual amounts of duty each country nominally waives by permitting the other to send in goods duty-free are sometimes used for this purpose. The theoretically waived duties, however, neither reflect accurately the additional revenue which the respective governments could actually collect on the basis of present tariffs, nor indicate in what measure such additional revenue would be collected at the expense of the domestic consumers of the imported goods. Moreover, the tariff revenues which each country nominally forfeits may not be regarded as measuring the benefits accruing to the export interests of the other country. It seems clear, however, that the duties which the United States waives on imports from the Philippines represent both fiscal losses for the United States and price gains for Philippine producers to a much greater degree than is correspondingly the case in respect of the duties which the Philippines waive on imports from the United States. This is due, again, largely to the importance of sugar among the exports from the Philippines to the United States.

[7]The price spread on Oct. 1, 1936, amounted to 2.54 cents per pound.

[8]United States' total exports including reexports to the Philippines in 1935 amounted to $52,595,312.

[9]As has been indicated earlier, this would not represent the actual net value of the privilege to the Philippines. Losses by the Islands arising out of extending duty-free privileges to American goods would be a partial offset. It is improbable, moreover, that the Philippines would produce the present quantities of sugar for export if they did not have their present trade privileges in the United States market.

TABLE 8.—*Balance of payments of the Philippine Islands with the world and with the United States, 1925-34*[1]
[In thousands of dollars; i. e., 000 omitted]

	Merchandise trade [2]		Gold and silver movements[3]		Service items		Interest dividends, etc.		Capital movements		Total credits and debits	
	With world	With United States	With world	With United States	With world	With United States	With world	With United States	With world	With United States	With world	With United States
1925—Credit	148,877	109,577	2,014	1,939	17,790	15,626	2,343	2,343	3,578	3,578	174,602	133,063
Debit	119,733	70,154	639	537	23,678	8,164	8,234	6,226	9,417	9,417	161,701	94,498
Balance	+29,144	+39,423	+1,375	+1,402	-5,888	+7,462	-5,891	-3,883	-5,839	-5,839	+12,901	+38,565
1926—Credit	136,884	100,515	1,990	1,990	15,681	13,457	1,839	1,839	3,202	3,202	159,590	121,003
Debit	119,299	72,224	402	389	24,432	8,734	9,339	7,281	4,076	4,076	157,548	92,704
Balance	+17,585	+28,291	+1,588	+1,601	-8,751	+4,723	-7,500	-5,442	-874	-874	+2,048	+28,299
1927—Credit	155,574	116,496	1,677	1,667	16,148	13,969	2,491	2,491	5,046	5,046	180,936	139,669
Debit	115,851	72,196	281	281	25,649	9,428	10,209	8,011	5,329	5,329	157,319	95,245
Balance	+39,723	+44,300	+1,396	+1,386	-9,501	+4,541	-7,718	-5,520	-283	-283	+23,617	+44,424
1928—Credit	155,054	116,208	1,779	1,773	15,617	14,206	2,411	2,411	4,018	4,018	178,879	138,616
Debit	134,657	84,358	475	474	27,831	9,459	11,312	9,104	7,160	7,160	181,435	110,555
Balance	+20,397	+31,850	+1,304	+1,299	-12,214	+4,747	-8,901	-6,693	-3,142	-3,142	-2,556	+28,061
1929—Credit	164,447	124,983	3,462	3,282	17,912	16,342	2,711	2,711	10,549	10,549	199,081	157,847
Debit	147,160	93,248	477	426	27,530	9,068	11,022	8,814	3,083	3,083	189,272	114,639
Balance	+17,287	+31,735	+2,985	+2,836	-9,618	+7,274	-8,311	-6,103	+7,466	+7,466	+9,809	+43,208
1930—Credit	133,167	105,883	3,715	3,715	18,147	16,457	2,752	2,752	3,611	3,611	161,392	132,418
Debit	123,098	78,480	21	20	21,953	7,924	11,734	9,526	12,322	12,322	169,128	108,272
Balance	+10,069	+27,403	+3,694	+3,695	-3,806	+8,533	-8,982	-6,774	-8,711	-8,711	-7,736	+24,146
1931-Credit	103,972	83,939	3,740	3,740	18,737	16,971	2,584	2,584	6,164	6,164	135,197	113,398
Debit	99,179	62,374	102	85	20,416	6,549	9,823	7,715	9,893	9,893	139,413	86,616
Balance	+4,793	+21,565	+3,638	+3,655	-1,679	+10,422	-7,239	-5,131	-3,729	-3,729	-4,216	+26,782
1932—Credit	95,338	83,003	7,056	7,052	16,808	14,950	2,172	2,172	1,900	1,900	123,274	109,077
Debit	79,395	51,492	26	12	19,490	5,479	9,311	7,303	7,680	7,680	115,902	71,966
Balance	+15,943	+31,511	+7,030	+7,040	-2,682	+9,471	-7,139	-5,131	-5,780	-5,780	+7,372	+37,111
1933—Credit	105,771	91,729	6,023	6,023	15,306	13,855	1,639	1,639	575	575	129,314	113,821
Debit	67,361	43,786	16	5	18,463	4,749	9,594	7,586	10,106	10,106	105,540	16,232
Balance	+38,410	+47,943	+6,007	+6,018	-3,157	+9,106	-7,955	-5,947	-9,531	-9,531	+23,774	+47,589
1934—Credit	110,404	92,304	12,038	12,038	20,870	18,850	1,584	1,584	.....	......	144,896	124,776
Debit	83,607	54,680	15	8	27,108	8,924	10,237	7,829	7,203	7,203	128,170	78,644
Balance	+26,797	+37,624	+12,023	+12,030	-6,238	+9,926	-8,653	-6,245	-7,203	-7,203	+16,726	+46,132
Average balance 1925-34	+22,015	+34,165	+4,104	+4,096	-6,353	+7,620	-7,829	-5,687	-3,763	-3,763	+8,174	36,432

[1] From figures prepared principally in the Finance Division, Bureau of Foreign and Domestic Commerce.
[2] From Annual Reports, Insular Collector of Customs.
[3] Shipments to the United States were taken from the Federal Reserve figures for all years except 1925, for which year figures reported by the Philippine Collector of Customs are shown. Shipments, to the world, except for 1925, are the combination of Federal Reserve figures for the United States plus the amounts reported by the Philippine Collector of Customs as exports to countries other than the United States. The 1925 figure is that reported by the Philippine Collector of Customs.