THE PHILIPPINES AS AN AMERICAN INVESTMENT

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Yet Americans, especially those permanently residing in the Far East, are acutely aware that the Philippines lies far outside the scope of new United States defense plans—at least to date. The Burke-Wadsworth Military Service Bill includes the Philippines in the fields of service, but with that exception the Commonwealth appears not only far out on a limb, but on a limb which is now being sawed off at Guam. The gesture of making a small appropriation for harbor drainage at Guam seems to emphasize the isolation of the Philippines, rather than to provide any assurance that that area is included in any long-term defense preparations.

As far as the Philippines itself is concerned, there is nothing inconsistent in this general policy. The United States did not go into the islands on a permanent basis, but merely to establish a government designed, so it was proclaimed, "for the happiness, peace and prosperity of the people of the Philippine Islands." No special incentive was offered to Americans to invest in the country's development, beyond the natural advantages accruing to the citizens of the sovereign state. In fact, the land laws with their rigid restrictions on both private and corporation landholdings prevented agri-
cultural development, American or otherwise, on a large scale. And the penalty which American citizens have paid in double taxes, while other nationals have been taxed only in the Philippines and not by their home governments, has to some extent outweighed any other natural advantages which Americans might have been expected to enjoy. Moreover, the knowledge that the United States intended to withdraw at an early date from the islands heightened for Americans the risk of embarking on long-term business enterprises. Both leading political parties in the United States were committed to granting independence to the country whenever it should be deemed ready for it. Since 1934, by the terms of the Tydings-McDuffie Act, it has been an accepted fact that the United States would withdraw from the Commonwealth in July 1946.

Both United States government expenditures and American private investment in the Philippines have been made within the limitations of this unique policy. This helps to explain the comparatively meager outlay of some $1,060 million by the United States on account of the Philippines in the last 42 years. It helps to explain the small American investment of $200 million in the islands, and the relatively small volume of trade between the two countries since 1899. Whether the total return has been in any way commensurate, either for the sovereign nation or for individual Americans, is a matter of individual bookkeeping and individual point of view.

From the point of view of defense, it is one thing to add up columns of figures and discover what the islands have cost the United States under this heading; it is another thing to determine what the returns have been, or are likely to be in the next five years.

**Army Costs Comparatively Small**

We may estimate roughly that, of the total expenditure of $1,060 million since 1898, by far the greatest part, nearly $800 million, has been for the army. (In the same period, the total ordinary expenses of the United States War Department have amounted to some $30 billion.) Proportionately, the very large share of $185,321,000, which includes an $8 million item for the navy, is reckoned as the cost of pacification of the islands between May 1898 and June 30, 1902. Not to be overlooked is the longstanding argument over the relative strength of the army if the United States had not maintained forces in the Philippines. If we assume the standing army would have been kept at approximately the same strength in the United States, then the charge against the Philippines would be even smaller.

United States forces in the Philippines, reduced from over 71,000 American troops in 1900 at the height of the insurrection, to 11,000 or 12,000 in 1920, have numbered only 4,000 or 5,000 in recent years, plus a total of some 6,000 or 7,000 Philippine Scouts. (The Philippine Scouts are still part of the United States Army in the Philippines, their annual salary, paid by the United States, averaging about $1 million.) In the words of ex-Governor Cameron Forbes, "Since 1913, American troops have not been required except for garrison duty and as a moral force representing the sovereignty of the United States in the Orient."

Naval expenses have been quite insignificant, something over $100 million. This has been only a small part of the total outlay for the Asiatic fleet, whose presence in Far Eastern waters can hardly be attributed in any large measure to defense of the Philippines—although here again, as in the case of the army, there is division of opinion. The United States has maintained fortifications at Corregidor and Subic Bay, a naval yard at Cavite and a naval station at Olangapo, a minimum of army posts in Luzon and Zamboanga, and a hospital, in addition to Department Headquarters. By the terms of the Independence Act, all military and other reservations of the Government of the United States, except such naval reservations and fueling stations as may be reserved, are to be released to the government of the Philippines at the end of the ten-year Commonwealth period.

Now, when defense has taken on a more realistic meaning than it has had before during this century, at least where the Far East is concerned, it is plain that the small outlay in the Philippines has hardly prepared the United States, if the need should arise, to operate successfully from that base against an enemy armed to the hilt and equipped with modern war machinery. Only small assistance could be expected from the Filipinos, who have just recently embarked on their modest program for defense. The fortifications at Corregidor and Subic Bay might, under a crucial test, prove to be the Maginot Line of the Philippines, for the rest of the country is admittedly lacking in fortifications and even Manila itself is without anti-air defense. The naval yard at Cavite and the naval station at Olangapo provide inadequate facilities for a large battleship, much less an operating base for a fleet. Whatever symbolic value the United States army and navy in the Philippines may have had in the last twenty-five years, today symbols provide small comfort and scant protection.

**Toward the cost of civil government in the Philippines**, the point has been stressed many times that the United States' contribution has been almost negligible. In 1903, an appropriation of $3 million was made for relief, following a great cholera epidemic; and in the same year an item of some $350,000 was appropriated for the taking of the first census. Practically all other civil expenditures were met from the Insular Treasury. Expenses of the
former Bureau of Insular Affairs and of the High Commissioner’s office under the Commonwealth have totaled nearly $4 million. Here it should be noted that the salary and expenses of the former Governor General of the Philippine Islands were paid by the Insular Government, while the cost of the High Commissioner’s office is now a charge on the United States Government. In the expenses for the latter is included an appropriation made in 1936 of $750,000 for buildings, which are to be retained for the use of American representatives in the Philippines.

The United States Coast and Geodetic Survey has spent nearly $6.5 million, in addition to small amounts expended by the Commonwealth Government which has maintained a similar bureau cooperating with that of the United States. Expenses under public health have been over $1 million. The United States Department of Agriculture has spent altogether a few hundred thousand dollars, plus $16 million in benefit payments to Philippine sugarcane planters made by the A.A.A. in the period 1934-36. Returns on customs charges and services, and internal revenue duties on Philippine goods collected in the United States, have been made to the Philippine treasury, averaging roughly $500,000 annually. The only other large item in recent years has been the refund by the United States Treasury of the excise tax on coconut oil produced from Philippine copra, which in trust funds and actual payments totalled about $100 million by the end of June 1940. Included in the grand total of $1,060 million mentioned, is the sum of $20 million which the United States paid Spain under the terms of the Treaty of Paris (1898), Article III ceding the Philippine Islands to the United States.

Returns on the above expenditures, which will cease after 1946, can hardly be reckoned in cold cash. The guarantee of peace, the opportunity for the Filipino people to develop their own and their country’s resources, the assurance of protection to Americans residing in the islands and earning their livelihood there, the high standard of international health control, and the effect of all of these things upon general conditions in the Far East, cannot be neatly measured.

One measure of returns can be found in the field of commerce. Not only did the foreign trade of the Philippines expand greatly under American rule, but free trade with the United States threw the bulk of commerce into those channels. Between 1899 and 1939, the United States sold to the Philippines goods valued at over $1.7 billion, and bought from that source goods valued at $2.3 billion. The visible balance of trade has therefore been greatly in favor of the Philippines, but this has been returned to the United States in the form of service items, shipping and insurance, interest and dividends on invested capital and payment of loans. Shipments of gold to the United States between 1899 and the end of 1938, amounting to well over $100 million, plus small shipments of silver, have helped to keep the balance of trade favorable to the Philippines.

So much has been written in these pages and elsewhere about United States-Philippine trade relations, especially in the light of the Independence Act, that it is unnecessary here to enter into a detailed account of the provisions of that Act and their meaning for the whole trade of the two countries. Suffice it to say that, because of quotas on such leading items as sugar, coconut oil, tobacco and cordage, plus export taxes on sugar and other important commodities, coming into the American market, the vital industries in the Commonwealth are facing dark days. For our present purposes, we are limiting our concern to the effect which these provisions will have upon the American share of the trade and of the industries thus affected.

The United States buys less than 5% of its imports from the Philippines, but the leading items in the trade are those which are now being gradually forced from the American market. Leading Imports This country can secure identical goods or satisfactory substitutes elsewhere, as in fact it shows every intention of doing by the terms of the Independence Act. If the United States reduces its purchases, the Commonwealth, and later the independent Philippine state, must perforce reduce its imports of American goods and turn to less expensive products. Small as the Philippine market is, taking only 2% or 3% of United States total exports, it is now an important one for certain individual American industries, such as cotton textiles, cigarettes, rubber goods, steel sheets, wheat flour, dairy products, fertilizers, and two dozen others, for most of whose products it is the principal foreign buyer. Some of these things the Philippines can produce, and plans to do so; others it can secure from Japan, which is only too eager to encourage a broader two-way trade with the islands. This course of events is regarded as inevitable, unless some kind of preferential trade agreement can be worked out at the conference to be called in 1944. It seems likely that, under normal conditions, the United States would have less difficulty in replacing its imports from the Philippines than in finding another market for the goods it now sends to that country. Here is an annual item of some $60 to $100 million to be considered in the total balance.

What the United States has waived in duty on Philippine goods since 1909, when free trade was instituted (except for a few minor exceptions removed in 1913), would present a figure for politicians to lose sleep over. For instance, if duty had been charged in 1930, four of the principal imports from the Philippines, coconut and tobacco products, sugar and cordage, would have paid
over $110 million in duty. However, toying with computations like these is hardly realistic, since without free trade the amount and nature of the commerce between the two countries would have been quite different. For instance, the United States would probably have purchased little Philippine sugar in recent years, and the Philippines would have been able to purchase far less from the United States.

In this connection, it is interesting to note that many important American industries felt it worth their while to appear before or present briefs to the Joint Preparatory Committee on Philippine Affairs in 1937, asking for some kind of preferential trade agreement with the Philippines so that their exports to that market might be continued and protected from Japanese competition, which was foreseen in a majority of cases. These companies were selling a wide range of goods to the Commonwealth, including fertilizers, leather, canned fish and other canned foods including milk, cotton goods, paper, plywood, rubber goods, motorcycles, automobiles, office machines and wheat flour. How to balance the loss which these industries are facing in the disappearance of their largest market against the gain which sugar and farm groups are looking forward to as a result of the operation of the Independence Act, which will shut out competitive or so-called competitive products from the Philippines, is a task which calls for more imagination and acumen than the writer possesses.

American shipping services have benefited from the relationship between the Philippines and the United States. Between 1926 and 1931, for instance, American vessels carried from 44% to 49% of the total value of goods entering and leaving Philippine ports. Their share has dropped since, reaching a low of 25% in 1937 and a still lower point, 16%, in 1938. Comparable figures are not available for all years, but in 1934, when American ships were carrying 32% of the trade, over $4 million in freight on goods going to the United States was paid to ships under American registry. The decrease already indicated in this field of American enterprise will probably continue, unless some form of preferential trade between the United States and the Philippines is established. Not only does Japan stand to profit by increased trade; her share of the carrying trade, which is already substantial, will likewise increase proportionately. There is of course the possibility that the attainment of a greater degree of self-sufficiency within the Philippines will serve to reduce foreign commerce to some extent, and a small beginning is being made in building up a Philippine merchant marine, a movement which is being spurred by the war.

In terms of total investments, both direct and portfolio, the American share in the Philippines, estimated by the United States Tariff Commission at $200 million in 1935, represented a little over one fourth of American investments in the Far East, or slightly over 1% of total foreign investments of the United States. Of this total, some $36 million, or nearly 20%, consisted of investments in bonds issued by various Philippine political entities, private companies, and religious organizations; the remainder, direct investments in industries. Of the portfolio investments, $31 million were in Philippine government bonds; nearly $2 million in bonds of the Manila railroad; $2.7 million in notes of religious institutions; and the remainder in corporate bonds issued by sugar centrals.

For purposes of comparison, according to estimates in "America's Stake in International Investments" by Cleona Lewis (Brookings Institution, 1938), American portfolio investments in the Philippines, exclusive of repatriations and market purchases, are as follows for the specified years (in million dollars and in percentages of total American portfolio investments abroad):

- 1908, $21.7, or 2.20%;
- 1914, $26.3, or 2.78%;
- 1919, $40.1, or 1.40%;
- 1924, $88.4, or 1.81%;
- 1929, $100.2, or 1.23%;
- 1935, $88.8, or 1.26%.

In the last year, 1935, the total cash receipts on the principal and income accounts of American long-term investments in the Philippines amounted to nearly $6.5 million.

Comparable figures for later years are not available. However, it was estimated by the United States Department of Commerce that some $42.8 million of Philippine bonds were held in the United States at the end of 1938, of which $38.1 were government. This may be compared with figures given in the Third Annual Report of the President of the Philippines, which give the Philippine bonded debt at the end of 1938 as $74.5 million, of which $33.8 was covered by sinking funds. Most of the outstanding debt of $40.7 was held in the United States. Total cash receipts in the United States on American portfolio investments in the Philippines in 1938 amounted to over $4 million.

The greater part of this investment is comparatively safe, for the Constitution of the Philippines provides that where bonds have been issued under authority of an Act of Congress of the United States by the Philippine Islands, the Government of the Philippines will make adequate provision for the necessary funds for the payment of interest and principal, and such obligations are to be a first lien on all taxes collected. Further safeguard is provided by the terms of the Independence Act, by which the export taxes collected on goods shipped to the United States in the last five years of the Commonwealth must be applied to retirement of the public debt.

In banking, American capital in 1938 controlled...
slightly less than 10% of the country’s banking resources, represented by a Manila branch of a New York bank with resources of over $11.8 million, and a local bank and trust company, with resources of $5.3 million controlled by capital of resident American citizens.

The analysis of direct American investments made by the Tariff Commission in 1935 gave the American net investment in Philippine industries as $163.5 million, with total fixed assets placed at $111.2 million, on the basis of depreciated book value in most cases. The net investment is larger by reason of including inventory and accounts receivable; also, by including under mining the appraised value of ore reserves ($37.9 million) controlled by capital stock in the value of $7.4 million owned by Americans. The main items in the net investment, besides mining, are, in millions of dollars: public utilities, $31.85; sugar centrals, controlling interest, $20.4; plantations, $19.7; general merchandising, $15; truck and bus and other transportation, $6; lumber, $6; coconut products, $5.5; and lesser investments in general manufactures, engineering, embroidery, and so on.

A year later an estimate of direct American investments made by the American Trade Commissioner in Manila gave the American share of total investments in 172 business enterprises (apart from mining) as $86.6 million, of which $33.3 represented land and buildings and $53.3 machinery, equipment, and so on. This, and later figures published in the Bulletin of Philippine Statistics, give a high figure for American investments in public utilities, $52 million. The latter includes investment in the Philippine Railway, which was omitted from the Tariff Commission totals because the outstanding bonds of $8.5 million are of very uncertain value.

Discrepancies in these estimates are accounted for partly by the fact that the larger sums include investments of Americans resident in the Philippines. For instance, American capital comprises over two thirds of the total invested in bus transportation, and the greater part of this was contributed by American residents. Investments by residents, of course, represent not an outflow of capital from the United States but an accumulation of earnings in the Philippines, invested and reinvested in local industries. If the private property of these residents were likewise included, the total would be larger.

As for possibilities of recovery on direct investments, the American Trade Commissioner in 1936 considered it probable that investments in sugar would have been regained, with a good return on the investment, before 1946. It seemed that the fixed investment in coconut oil plants could hardly be written off, but the possibility of transferring machinery to the United States would reduce losses somewhat. Investments in coconut, hemp and rubber lands, estimated at some $4 million, could hardly be liquidated. A pineapple plantation in Mindanao, valued at $1 million in land, machinery and growing crops, expected to liquidate in 1946 as a matter of policy. There has been a rumor that the National Development Company might take over this enterprise. How much of the Philippine embroidery business could continue was considered doubtful; $3 million of the $4 million investment in this is American. Lower wages might enable the business to continue for some time. A year ago, plans were being considered for moving some of the shop machinery to China, where lower wages were thought to promise a future for the business. No developments along this line have been reported. The prospects for mining are still considered good, and the rich dividends that have been already returned by the large American-controlled mines suggest that few tears will be shed over original investments. Reserves, in all but a few cases, promise comparatively long life for the mines. One shadow that hangs over this promising industry is the fear of increasing taxes, as other big revenue producers such as sugar dwindle in importance.

The prospect of general decrease in living standards and increasing taxes and government regulations augurs ill for the returns on investments in public utilities. Among those in which American capital predominates will be shed over original investments. Reserves, in all but a few cases, promise comparatively long life for the mines. One shadow that hangs over this promising industry is the fear of increasing taxes, as other big revenue producers such as sugar dwindle in importance.

The recent improvements in the largest American hotel in Manila, and the erection of one of the finest office buildings and department stores in the Far East by an American in 1939, are signs that all American enterprise is not preparing to withdraw.

With no complete details available for late years, however, it is a safe guess that there has been some reduction in the total of American investments, as some American business is withdrawing slowly from the islands and new private United States investments can hardly be expected to make up for such withdrawals. A
slight measure of the decrease of American investment is given in the latest figures for annual investments in the City of Manila. The American share has fallen steadily from nearly $4 million in 1935 to less than $100,000 in the first half of 1939.

An important point is that all of these American investments, small though they are in comparison with total American investments abroad, are of vital importance in Philippine economy. A 1932 estimate of the Bureau of Insular Affairs gave the American investment figure as about half of the total capital investment in the Philippines, exclusive of investments by governmental agencies. In 1935, in three of the leading industries, American capital represented 10.5% of the total in the sugar industry, 6.2% in coconuts, and 4.8% in abaca, the major part of American interest being in mills, refineries, etc., and only a small part in land, where Filipino investment naturally predominates. In 1937, $4.2 million of the total $6 million invested in bus transportation was the investment of United States citizens; Americans controlled in 1938 nearly 44% of public service enterprises, including transportation, electric plants, ice plants, telephones, water systems, and gas; their investment represented 42% of the total in the sawmill industry; and their stocks controlled about 60% of the total gold reserve of the islands.

There are certain borderline American interests in the Philippines which, though small in the aggregate, are of immense importance to the individuals concerned. Of the 8,639 Americans listed in the Philippines in the 1939 census, the majority are dependent upon earnings rather than dividends for their livelihood. There are few Haussermanns, Gaches, and Ponds in the American community. In 1936, there were over 1,000 American employees in enterprises largely controlled by American capital, drawing an aggregate annual salary of over $4 million. In 1938 there were nearly 300 American missionaries. (The value of land and buildings of Protestant churches in the Philippines was estimated at about $1 million.) About 800 of the Americans are veterans under the jurisdiction of the United States Veterans Administration. Those dependent on Philippine and other sources, rather than American, for their livelihood include a number of higher-bracket technical advisers to various departments of the Commonwealth Government, and lesser employees in a variety of enterprises. There are 61 retired American teachers, receiving annual pensions averaging over $1,000 from the Commonwealth Government. In the public school system are 88 American teachers, their salaries averaging at least $100 monthly. There are professional men, doctors, dentists, engineers, lawyers, in most of the larger towns and cities. Some of the doctors came out in real missionary spirit, as did some of the teachers, but most of them came to make a living, with a little adventure thrown in.

The position of Americans in the Philippines during the Commonwealth and thereafter has been protected. They still enjoy under the Commonwealth rights which are denied to other nationals as a result of constitutional provisions and new legislation aimed at reserving the country's natural resources and domestic trade for the Filipino people. The Independence Act and the Constitution of the Philippines provide that, pending the final and complete withdrawal of the sovereignty of the United States over the Philippines, citizens and corporations of the United States shall enjoy in the Commonwealth all civil rights of the citizens and corporations respectively thereof. The Constitution further provides that, when the Philippines shall have been proclaimed independent, the property rights of the United States and the Philippines shall be promptly adjusted and settled, and all existing property rights of citizens or corporations of the United States shall be acknowledged, respected, and safeguarded to the same extent as property rights of citizens of the Philippines. However, in view of the none too rosy prospects for the country under the provisions of the Independence Act, and in view of the steadily worsening political situation in the Far East, the status of Americans in the Philippines is not quite as secure as might have been expected ten years ago.

Most Americans, in spite of complaints about provisions of the Independence Act which hit their special interests, and about their unfair double taxation, admit that they took a gambler's chance in the Philippines and fared far better than they might have elsewhere. If they leave the islands with as little capital as they brought, they have at least had many years of pleasant living at a much higher standard than they would have been able to afford at home. If they lose money in some of their investments, they may look at the record of the depression years in the States and conclude that investments nowhere are shockproof.

In the larger sense, it may be many years before it will be possible to judge whether the whole Philippine venture has paid. As an entrepôt to the Far East, the Philippines has been almost a complete failure; but again it is not clear whether this should be charged up against the Philippines. As an outlet for investment, it has been quite insignificant, due partly to handicaps emanating from tax bureaus in Washington and from the American-controlled government at Manila. As a military and naval base in the Far East, it may create more problems in the future than it has prevented in the past. Still, if returns have been small, the total outlay has been likewise small.
this country is forced into war in the Far East, it will hardly be because of what the Philippines represents to the United States in dollars and cents.

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SHIPPING SHORTAGE HANDICAPS JAPANESE EXPANSION PLANS

It is still too early to predict just what course the Japanese government under Prince Konoye will follow in Southeast Asia. At the time of this writing it appears that the only question on which the Japanese are divided is whether to proceed by the slow methods of diplomacy and economic penetration, or by the swifter and more sweeping method of armed occupation. One important factor affecting their decision, and limiting the effectiveness of an active policy if adopted, is the acute shortage of Japanese shipping.

Japan has suffered from a lack of ships ever since the beginning of the China Incident (see Far Eastern Survey, Oct. 11, 1939, p. 238). Of her total tramp tonnage of 5,415,000 tons, about a million are usually needed to supply the armies in China. Freight and charter rates have soared upward, and the government has attempted to regulate the situation in such a way as to ensure sufficient tonnage for the shipment of essential military and industrial supplies. These efforts, however, have been less than thoroughgoing and have met with but limited success. The increasing shortage of bulky commodities in Japan—coal, metals and lately even rice—has necessitated imports which made severe demands on the available shipping space. Reports have been frequent in recent months that shipments of scrap iron and lumber from the United States, iron ore from British Malaya, rice from Burma, etc., have been delayed by lack of shipping space or by prohibitive freight rates. Because of the demand for tonnage in near-sea areas, it has been necessary to withdraw ships from profitable deep-sea routes. In June 1940 the Shipping Control Act was invoked to empower the authorities to compel owners to charter their vessels for the transportation of essential commodities.

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Delays resulting from lack of necessary materials—especially steel—and of skilled labor have forced many ships needing repairs to lie up in dock for extended periods. At the end of June 415,000 tons were laid up, a record figure and an increase of two thirds over June of the previous year. Nor is it likely that Japan's shipyards can soon relieve the situation, for they too are hampered by the difficulty of securing materials and labor, as well as power. The Oriental Economist stated last April that it then took over twice as long to build a large vessel as before the China Incident. The rate of launching new ships slowed down sharply in 1939, and since June of that year no figures have been published.

It is still not clear how the spread of the war in Europe will affect the shipping situation in the Pacific. The closing of the Mediterranean and the losses of Allied shipping from German submarines and air attack have diminished the world's shipping supply. Japan has already encountered difficulties in securing needed imports from the Near East and Netherlands India, normally transported in the ships of European neutrals. The control exercised by Great Britain over Dutch, Norwegian and Danish shipping has made it harder for Japan to charter such vessels. On the other hand, the diversion of vessels from dangerous Atlantic and Mediterranean waters may increase the supply in the Pacific. This seems to have been the immediate effect (see "The United States and the Shipping Crisis in the Pacific," Far Eastern Survey, July 31, 1940). Even if this trend continues, it will benefit Japan only to the extent that her own ships can be diverted to near-sea areas. If she needs to charter foreign tonnage she merely substitutes a financial problem for a physical problem.