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The Spanish flag over an Anglo-Chinese commercial colony: the Philippines in the 19th century

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Nineteenth-century Philippines, unlike most colonies, was not economically dependent on its mother country, Spain, which ranked generally only fourth among its trading partners, behind the United Kingdom, the United States, and China.
The index-measured concentration of Philippine trade was only moderately high owing to competition among its trading partners.
Foreign trading was mainly conducted by the British and Americans. The Chinese were pervasive in domestic trade. Thus arose the jibe that the Philippines was an Anglo-Chinese colony with a Spanish flag. With the growth of foreign trade, wealth circulated into the rural areas, assisting in the rise of a native middle class. But there were costs, among them the destruction of the domestic textile industry.
With the coming of the United States, the Philippines once again came under a unitary politico-economic metropole, leading to a high degree of economic complementarity lasting until long after World War II.

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1. Receptivity to western enterprise: two models under unitary metropoles

European colonies in the 19th century generally had a single metropole that exercised both political and economic control over them.

Western enterprise in Southeast Asia (Malaya and Indonesia) took varied and diverse forms: plantations, mines, manufacturing, transport, finance, and merchant houses [Allen and Donnithorne 1957:49-50]. This deep penetration into their productive structures was possible owing to political suzerainty. The ruling metropole[2] could remold laws and institutions to favor western entrepreneurs; regulate relations between westerners and local authorities; and even modify systems of land tenure, labor relations, and the nature of the economic activities of the bulk of the population.

By contrast, where western enterprise operated in nondependent countries, as in East Asia (China and Japan), the economic penetration was much shallower and the chief agent of foreign enterprise was the merchant house [Allen and Donnithorne 1957:49-50]. Arguably, whatever metropole there was would be purely economic.

China was reluctant to accept western material civilization and enterprise. The Chinese authorities, unable to exclude them after military reverses, strove to hinder and frustrate them, and when they succeeded they also retarded the modernization of the country's economy. They were not interested in economic change and were not equipped to promote it.

In Japan, however, economic modernization became a principal goal of national policy, and western enterprise in trade, finance, and transport was accepted as an important adjunct to this process. But as soon as domestic enterprise attained maturity, limits were placed on western enterprise, which was shunted to a subordinate role [Allen and Donnithorne 1954:242-243].

2. The Philippine case

Nineteenth-century Philippines fell between the two models of receptivity to western enterprise, but in substance tended more toward the East Asian than the Southeast Asian model in permissiveness to foreign

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[2] Metropole – mother-country as distinguished from colony; dominant country as distinguished from dependency; Political Metropole – political domination: Economic Metrople – economic preponderance.

enterprise. The political metropole was Spain, but Spain was too poor and too wracked by civil dissension to play a substantial role in the Philippine economy. A glance at the direction (or geographic distribution) of trade shows that until very late in the century, Spain trailed the United Kingdom, the United States, China, and at times even Australia in Philippine foreign trade [Bureau of the Census 1905, IV:564-574].

Furthermore, the domestic merchant class (in large part Creoles and Chinese mestizos) was ruined when Mexican self-proclaimed Emperor Agustin de Iturbide seized the proceeds of the Acapulco trade (their main line of business) in order to pay his troops [del Pan 1878:244]. Partly by default, foreign trading activities were largely conducted by longtime East Indian British traders and new entrants from the nascent United States.

Therefore, although the Philippine political metropole was in Spain, its economic metropole might be said to be based in the Anglo-Saxon North Atlantic. Thus it was a divided metropole [Legarda 2003:43-44]. With domestic commerce dominated by the Chinese—as intermediaries for export products and for imported goods and their pervasiveness in local trade—this gave rise to the rueful jibe by the Spanish writer Carlos Recur: "From the commercial point of view the Philippines is an Anglo-Chinese colony with a Spanish Flag ..." [1879:110; see also p. 51].

3. A divided economic metropole

The North Atlantic economic metropole, however, was itself not unitary but divided between the United States and the United Kingdom, and this had the consequence of diversifying the direction of trade earlier alluded to. Even when one of these trading centers reduced its volume of trade, there was a further fallback. When the United Kingdom substantially cut sugar imports from the Philippines in the 1880s, recourse was had to the Chinese market, albeit with a reduction to lower-grade varieties.

Faced with pages of trade statistics, one needs to discern some central tendencies and trends in the figures over time. For this we can turn to an index measuring the geographic concentration of foreign trade of small or weak nations. It is the second of three indices developed by Albert Hirschman in connection with world trade studies, and can be considered as expressing the degree of oligopoly or oligopsony in a country's external trade. Extending the concept somewhat, it gives an idea of a country's economic complementarity with or dependence on its major trading partners.

The mechanics of the index need not detain us here, as they can be found in Hirschman's *National power and the structure of foreign trade* [1945:98-100]. The higher the index number, the greater the degree of concentration. In *After the galleons* [1999:143], I computed the index for Philippine foreign trade in the 19th century.

Hirschman considers 40 as the number dividing low concentration from high concentration. It is evident that 19th-century Philippines was on the high side. But in his review of my book, Prof. Amado A. Castro, former dean of the School of Economics at the University of the Philippines, wrote that they were "not worrisome figures" [2000:285]. If these figures were not worrisome, the question arises whether Hirschman set the bar too low to separate countries of low and high trade concentration. With Philippine index figures in the 19th century modally in the 40s and 50s, perhaps the figure for high concentration could start at 50.

The modal index numbers in the upper 40s and low 50s are not too far above Hirschman's dividing line. Compressing the individual figures into averages for different periods, we come up with the following summary table:

Table 1. Hirschman indices of geographic concentration of Philippine foreign trade, 1818-1895

Years	Imports	Exports
1818	31.2	50.1
1825	40.0	33.0
1841-67	55.29 (Ave. for 20 yrs.)	45.88 (Ave. for 21 yrs.)
1873-90	60.09 (Ave. for 18 yrs.)	53.50 (Ave. for 18 yrs.)
1891-95	46.04 (Ave. for 5 yrs.)	48.95 (Ave. for 4 yrs.)

Source: Legarda [1999, 143].

The main break in the figures occurs during the statistical hiatus in the official published trade figures for 1868-1872.

In one characteristic, the series differs from Hirschman's observations in the 20th century. He found that the export index was higher (and often markedly higher) in 39 of the 44 countries he examined [Hirschman 1945:101]. In the table above, it can be seen that 19th-century Philippines ran counter to this case. The import index was higher than the export index in most years.

This can be explained by the fact that the major part of Philippine imports consisted of textiles, which came predominantly from one country, the United Kingdom, imported by British merchants. This held true until nearly the end of the 1880s. The sudden drop in the 1890s represents the results of Spain's nationalistic tariff legislation of 1891, which succeeded in redirecting Philippine textile imports to itself [Ministerio de Ultramar 1891]. For most years in the early 1890s, the import index was below the export index.

This had been the case early on when the trade statistics started in 1818. At that time, the Mexican metropole controlled the Philippines politically and commercially, and the high export index attests to that. This pattern would not be repeated until the 1880s, and the differences then were so small between the import and export indices that they were virtually equal. As already indicated, the reverse pattern in the 1890s had less to do with an increase in export concentration than with a decrease in import concentration.

4. Consequences of foreign trading operations

We have already seen that in their activities in the Philippines the Anglo-Saxon traders could not count on a supportive home government to penetrate deeply into the country's economic structure. In facing a foreign government, their situation was more nearly akin to that of the western entrepreneurs in China and Japan than in Malaya and Indonesia.

Nevertheless, they had a profound effect on the development of the Philippine economy. They sparked a steady rise in Philippine trade by tapping foreign markets. The Americans in particular played a crucial role in the development of the abaca industry. With sugar and abaca, the Philippines joined the trade in bulk commodities that characterized 19th-century world commerce.

In a country of smallholders the expansion of that trade meant the diffusion of expenditure flows into the countryside and the spread of the money economy. This in turn gave an impulse to the rise of the native middle class and the advancement of education and political consciousness.

There were costs. Dependence on unstable foreign markets meant ruin for some crops like indigo, an early major export, which gave way to chemical dyes from about 1830. The heavy imports of British textiles may have benefited consumers, but they brought destruction to the domestic textile industry. This in turn had consequences in redirecting investment funds from industry (textiles) to agriculture (sugar), in setting off demographic movements (from Iloilo to Negros), and eroding the socioeconomic position of women, who had operated the country's home looms. They were forced to go into retail trade or join the men in field work [Legarda 2011:10-13].

But in a labor-short economy, wage rates for urban unskilled worker were found by Williamson to be the highest in Asia at the end of the 19th century. Relative to Britain (100) the Philippines stood at 25.06, and the next highest was industrial Japan at 21.19 [Williamson 2000:19-20].

With these developments in the growth of foreign trade, the diffusion of financial flows to the countryside, a growing native middle class, and with a fairly diverse geographic trading pattern, the Philippines appeared to have the economic attributes of independent national existence. Pierre Chaunu highlights "the great period 1820-1898 which, all things considered, constitutes in the history of the Philippines the only moment of real near-independence ..." It was a near-independence during the period of a split metropole between periods of unitary metropoles: Mexico before 1821 and the United States after 1898 [Chaunu 1960:21].

5. Return of a single metropole: the coming of the United States

The focus of this presentation has been on the concentration of Philippine foreign trade during a period when its metropole was divided into political and economic, with the latter further subdivided between two principal trading partners.

It has been argued that although oligopoly and oligopsony were fairly high in this period by Hirschman's standards, they were only moderately so owing to the fractures in the metropole, and that there was actually some reduction toward the end of the period. We shall conclude with a brief survey of figures showing what happened when the situation changed.

With the American conquest of the Philippines in 1898, all elements were in place for a return to a single North American metropole, located this time not in Mexico but in the United States. America's huge and fast-developing economy was bound to draw Philippine trade to itself. The near-independence postulated by Chaunu was bound to recede.

Legislation in the US Congress in 1909 providing for virtual free trade between the two countries was opposed by the Filipino Resident

Representatives in Washington who, as members of the US Congress, had a voice but no vote. Commissioner Benito Legarda y Tuason (the author's great-grandfather) alluded to the diversion of Philippine sugar and tobacco products away from their natural markets in China and Japan toward the distant United States (geographical proximity seemed to be the criterion). Since quotas were being imposed on Philippine exports to the United States in order to protect American industries, it should be of equal interest to likewise protect Philippine industries. Free trade would also mean fiscal difficulties (from a reduction in customs revenues). The preferred alternatives to unlimited imports from America would be free entry of producer goods and certain essentials, or reciprocal balanced free trade, according to Legarda.

Resident Commissioner Pablo Ocampo for his part said the measure would mean financial embarrassment for the Philippines and the imperiling of the Filipino's desired independence. They were willing to defer commercial prosperity rather than lose their "hope of independence by artificially rapid development through American corporations" [Abelarde 1947:98-100].

It is unnecessary to go into all the ramifications of American trade and tariff policy toward the Philippines. The consequences were quite clear, as can be seen in the rising share of the United States in Philippine trade following a huge jump in the first decade of the 20th century.

Table 2. US share in Philippine trade, selected years, 1900-1940

Year	Percentage of total imports	Percentage of total exports	Percentage of total trade
1900	9	13	11
1910	40	42	41
1920	62	70	66
1930	64	79	72
1940	74	75	75

Source: Abelarde [1947, 215].

The trend is reflected in the rising values of the Hirschman index for that period, as computed by Hirschman himself. The declining trend of the late 19th century was reversed, and by the mid-1920s the figures were back at mid-19th century levels for imports and far above them for exports.

Table 3. Indices of concentration of trade for the Philippines, selected years, 1913-1938

Year	Import index	Export index
1913	52.5	43.0
1925	59.7	73.9
1929	64.6	76.3
1932	66.0	87.1
1937	60.6	82.2
1938	69.4	78.0

Source: Hirschman [1945, 105].

The unitary metropole was back in full force, and World War II aggravated the situation.

With many of its alternative markets in Europe and Asia badly affected by war, the Philippines became more than ever economically complementary to America on the import side. Although the export side appeared stable, it remained high.

Table 4. Philippines: indices of concentration of trade, selected years, 1945-1954

Year	Import index	Export index
1945	87.6	74.2
1950	74.9	73.3
1953	77.2	69.6
1954	68.3	62.5

Source: Legarda [1956, 46].

Despite certain initiatives, the adjustment to nonpreferential trade that should have come with independence in 1946 was in practice delayed by postwar rehabilitation and reconstruction. With most other would-be markets still recovering from the ravages of war, continuation of preferential trade ties with the United States was unavoidable, since they guaranteed access to the world's richest market. For this access there was a price to pay in the form of constitutional concessions.

The last stage in an orderly phaseout program was undertaken with the Laurel-Langley Agreement of 1954 providing for asymmetrical steps culminating two decades later. For 1975, Castro [1982] records an import index of 38.2 and an export index of 48.These levels approximated those of the 1890s.

It may be asked to what extent the ultimate result was determined by institutional arrangements and to what extent by the general expansion and diversification of global trade.

No verdict has been rendered here on whether Philippine economic complementarity with America was on the whole beneficial to the country, and whether any such benefits compensated for its reduced near-independence.

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