



## Ensuring American control over the Philippine economy through the imposition of the parity rights

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**Abstract:** On July 4, 1946, the Philippines attained her independence from the United States, but the imperialist continued to extend her hegemony over her former colony. Faced with the formidable challenge of economic rehabilitation and reconstruction, the cash-strapped Philippine government under President Manuel Roxas had no other recourse but to accept the lopsided conditions for the war damage payment. The most contentious stipulation was the infamous "parity clause" in the trade agreements, namely the Bell Trade Act of 1946 and Laurel-Langley Agreement of 1955. Having eliminated the opposition to the "parity" from both houses of the Philippine Congress, President Roxas secured the approval of the constitutional amendment. Appropriating Alejandro Lichauco's concept of neocolonialism, the writer contends that since the Philippine president did not assert the sovereignty of the Philippines, the United States imposed parity rights to ensure American control over its economy. This study presents a historical perspective of the parity question from 1946 to 1974. After explaining how the United States used the rehabilitation aid to blackmail the Philippine government into accepting the "parity rights" provision, the writer discusses the justifications for, scope and question of reciprocity of the "parity rights." Then, the writer explains how the "parity" amendment was passed and ensured the American control of the Philippine economy. The writer employs the historical method in the narration and interpretation of the data.

**Key Words:** Bell Trade Act; Laurel-Langley Agreement; rehabilitation aid; parity rights; Philippine-American relations

### 1. INTRODUCTION

By virtue of the Philippine Rehabilitation Act of 1946, the United States committed to provide rehabilitation aid in the amount of \$620 million. However, the grant of the aid was conditional upon the acceptance by the Philippine government of the "parity provision" of the Bell Trade Act. The revised trade agreement of 1955 allowed the American

investors to venture into all types of business enterprises.

Faced with straitened circumstances, the Philippine government under President Manuel Roxas accepted the "parity" clause of the trade agreement of 1946, maneuvering into the passage of the "parity" amendment to the 1935 Constitution by both houses of the Congress.

Studies have been done on the parity rights,



albeit limited in scope and lacking conceptual framework. Furthermore, the writer is cognizant of the continuing foreign intervention in the Philippine economy, foreign ownership of businesses in the country, and the challenges of integration into the global economy. In view of these considerations, the writer deems it expedient to pursue this study.

This paper addresses the controversial question of "parity rights" as stipulated in the Bell Trade Act of 1954 and Laurel-Langley Agreement of 1955. The writer explains how the United States afforded herself with economic leverage when the rehabilitation aid was bound with the trade act of 1946. The writer proceeds to discuss the "parity provision," particularly the justifications for, extent and reciprocal grant of the "parity" privileges, and explain how President Roxas used his influence to secure the passage of the "parity" amendment. Then the writer briefly presents on the implications of the "parity rights" for the Philippine economy.

This study is grounded on the concept of neocolonialism as put forward by Alejandro Lichauco. Lichauco declared that the Philippines was a "neocolonial state," which, "by definition, means a state that is sovereign and independent in theory but which in fact is the colony of another, or of others" (Lichauco, 2004). The nationalist hastened to add that the presidents served the economic interest of the United States, saying that "our presidents--and the resulting administrations they head--function essentially as the executors of U.S. aims and policies for this country, whether it is to mount policies that preserve the country as a raw material economy, or to adopt free trade and free market economics as the nation's economic policy" (Lichauco, 2005, p. 42). In the context of this study, the writer argued that after the immediate postwar years, the Philippine government was powerless to extricate herself from the yoke of American influence and control and acceded to the economic impositions, which undermined the sovereignty of the country and thwarted the industrialization of the Philippines.

## 2. METHODOLOGY

The writer makes use of the historical method, that is, the descriptive-narrative-analytical

method. The descriptive method involves "describing/identifying moments in the past." A narrative is "structured in terms of 'this happened, then that happened, then that happened', and so on." The analytical method "offers valuable insights into 'why things were as they were', or 'why things happened as they did'." (Lemon, 2003, pp. 294-299).

## 3. RESULTS AND DISCUSSION

### *3.1 Rehabilitation aid: aid with "strings attached"*

The country suffered heavy losses during the Second World War 2. The most pressing problem that confronted the young republic was economic rehabilitation. Shalom (1986) remarked: "The war had left in its wake terrible destruction throughout the islands. Manila was, after Warsaw, the most completely devastated capital anywhere in the world" (p. 33).

Propelled by economic and military considerations, the United States did not hesitate to provide economic assistance for the economic rehabilitation of the country. The American officials recognized that Philippine rehabilitation "would also serve the purpose of strengthening a political ally in Asia." Both Senator Millard E. Tydings and High Commissioner to the Philippines Paul McNutt the recognized the economic importance of the country as it could serve as a base for trade. The United States military considered the strategic location of the Philippines as ideal for its military bases. (Shalom, 1986)

As embodied in the Philippine Rehabilitation Act of 1946, the United States allocated \$620 million. The breakdown is as follows: "\$120 million for the reconstruction of highways, port and harbor facilities etc., \$100 million worth of surplus military property, and \$400 million for the compensation of property losses and damages suffered by Filipinos, Americans, citizens of friendly nations, religious and private organizations" (Constantino and Constantino, 1978, p. 202).

The Rehabilitation Act was inextricably linked to the Bell Trade Act, providing "an obvious



source of leverage for use in getting the Philippines to accept the trade legislation." Deliberations were held to determine how to "employ this leverage." It was McNutt who proposed that "no payments in excess of five hundred dollars would be made under the bill until the Philippines accepted the trade legislation" as provided for in Title VI of the Rehabilitation Act. The proposal was accepted by the House Committee on Insular Affairs and the Interior and Commerce Departments. (Shalom, 1986).

### *3.2 The Contentious Parity Provision: Justifications*

The proponents of the "parity" provision justified it by saying that it was "the only way to attract capital to the Philippines for badly needed rehabilitation, or at least the only way without draining the U.S. Treasury." In supporting the trade legislation, Representative John D. Dingell believed that it "is the only formula which will lure the only available capital into the Philippines. It will incidentally give American capital a chance and an inducement to assist in the rehabilitation of these islands" (Shalom 1986, 48).

### *3.3 Scope of the Parity Rights*

Named after its sponsor, Representative Jasper Bell, the Bell Trade Relations Act, also known as the Philippine Trade Act of 1946, was enacted by the U.S. Congress on April 18, 1946. On July 4, 1946, an executive agreement called the U.S.-Philippine Trade Agreement, which contained the stipulations of the trade act, was signed. (Shalom, 1980).

Under Article VII of the Bell Trade Act, the Philippines was pressed to grant the American citizens the same rights as the Filipinos in the "disposition, exploitation, development, and utilization of agricultural, timber, and mineral lands of the public domain, waters, miners, coal, petroleum, and other mineral oils, all forces and sources of potential energy, and other natural resources of the Philippines, and the operation of public utilities" (In Schirmer & Shalom. 1987, p. 89).

With the enactment of Republic Act No. 1355 on June 18, 1955, the President of the Philippines negotiated a revision of the 1946 Trade Agreement with the President of the United States. The representatives of both countries forged a revised trade agreement on September 6, 1955. The new agreement was called the Laurel Langley Agreement. (Philippines: Supreme Court Decision in Philippines vs. Quasha, 1972).

Pursuant to Article VII, Section 1 of the Laurel-Langley Agreement, the American investors enjoyed parity rights or accorded "national treatment" not only in the "disposition, exploitation, development, and utilization" of natural resources and "the operation of public utilities, but also in "all forms of business enterprises" (In Schirmer & Shalom, 1987, p. 95).

### *3.4 The Question of Reciprocity*

The "parity" stipulation in the Bell Trade Act was assailed both in the Philippines and United States. In the Philippines, Recto objected to parity because "of the non-reciprocity of the relations" (Constantino, 1969, p. 138). In the United States, both the Departments of State and Commerce opposed the provision because "it was not reciprocal, that is, that Filipino investors were not permitted to utilize American natural resources on an equal basis with U.S. citizens" (Schirmer, 1986, p. 49).

The Revised Trade Agreement of 1955 prescribed that the Filipinos be given "rights" to "exploit natural resources" and "to operate public utilities" (Bengzon, 1969, p. 344). In his speech at the Senate, entitled "The Agreement for the Revision of the Bell Trade Act, which he delivered on April 27, 1955, Recto denounced this form of reciprocity: "All these parity rights are merely in form, certainly not in substance, as far as those rights granted in favor of the Philippines are concerned. It cannot be questioned that there is mutuality if the wording alone of the Agreement is considered, but certainly there is none in actual application and practical results" (as cited in Constantino, 1969, p. 222). The "parity rights" granted to the Filipinos were restricted to those "natural resources in the United States which are subject to federal control or



regulations." Recto made it clear that "there is hardly anything left of the federal public domain for Filipinos to exploit should they have the capital to invest." Recto pointed out that such a provision had made a "mockery of 'mutuality' for the United States "has surplus capital that it wants to export and invest," whereas the Philippines has "no such surplus capital" (as cited in Constantino, 1969, p. 223). Bengzon (1969) pointed out one more drawback to the reciprocal grant of rights, that is, Filipino citizens "may exercise these rights only through the medium of a corporation organized under the laws of the United States or any of the States" (p. 344).

### *3.5 Roxas' machinations*

President Roxas made a case for the acceptance of the "parity" provision. In his address delivered at the University of the Philippines on November 19, 1946, the president considered the term "parity" as a "misnomer, saying that "the constitutional amendment that will be submitted to the people for ratification or rejection does not propose to grant to American citizens the same rights and privileges as those of Filipino citizens." Roxas emphasized that the American citizens would only enjoy these rights and privileges for a "temporary period." He hastened to add that "American citizens will the right, as a matter of right, to exploit our mines and acquire public agricultural lands without limitations." President Roxas noted that these parity rights "will be given for a temporary period, a maximum of 28 years." Citing the "argument of fear" raised by opposition, the president could not take the idea of using that argument "for the purpose of defeating a proposal that will make this country stronger and more self-reliant, more capable of enjoying not only the prerogatives of free national existence, but also prosperity and happiness in this, our native land." In defense of the allegation that America was "imperialistic, Roxas averred that that "not because Americans are angels, but because America is such a great and wealthy nation and has such tremendous resources that she does not have to be an imperialistic nation." President Roxas was convinced that it was necessary "to give certain concessions to American investors" for the "primary

benefit of the people of this country." Roxas disclosed that the principal rationale for accepting the amendment was "not only to be able to effectuate the whole rehabilitation program" authorized by the legislature of both countries, but at the same time "acquire. . .the scientific and technological equipment and skills that are necessary to make of the Philippines, not an agricultural country, but a productive industrial country (Roxas, 1946).

Furthermore, President Roxas, having won in the presidential elections through the United States, particularly Nutt and General Douglas MacArthur, pushed for the passage of the trade act on the following grounds: "in part because he wanted a market for Philippine exporters and in part because of his general eagerness to cultivate close ties with the United States" (Shalom, 1980, p. 504).

In view of the grant of parity rights to the United Citizens, it was deemed expedient to amend the 1935 Philippine Constitution because the constitutional provision on "Conservation and Utilization of Natural Resources" (Article XII) had restricted the disposition, exploitation, development, or utilization of the natural resources of the Philippines to "citizens of the Philippines, or to corporations or associations at least sixty *per centum* of the capital of which is owned by such citizens."

In his earnest desire to secure the passage of the parity amendment, President Roxas resorted to machinations. For six months, from May to September 1946, Roxas and his "lieutenants" employed "personal persuasions and offered patronage and pork barrel funds in exchange for an affirmative vote." Certainly, "patronage and public works funds" were "almost irresistible baits." Roxas enlisted the assistance of former President Osmeña in persuading some congressman from the Nacionalista bloc. President Roxas and cabinet members even went to the extent of appearing in the session "to apply some last-minute persuasion" on the night before the members of the Congress cast their vote on the parity amendment. (Constantino, 1978).

Under Article XIV of the 1935 Philippine Constitution, an amendment must be approved by a vote of three-fourths of all its Members. For the parity amendment to be passed, an "affirmative vote of 72 representatives and 18 senators" was needed.





However, Roxas could only count on the support of "13 Liberals in the Senate and 60 in the House" (Constantino, 1978, p. 203). Faced with such a predicament, he asked the "Liberal majorities in both houses" to expel "three Nacionalista senators and eight congressmen," seven of whom were from the Democratic Alliance (DA), on grounds of "alleged frauds and terrorism in their election" (Constantino, 1978, p.203). The amendment was approved by 68 representatives and 16 senators. (as cited in Constantino, 1969, p. 204). Denouncing the disgraceful mode of approving the parity amendment, Recto remarked: "Only in this shameful manner was the required number of votes secured to amend our Constitution." He went on to say: "In accordance with Article XV, Section 1 of our Constitution, the proposed amendment was submitted to our people for their clarification. It was a sham plebiscite" (as cited in Constantino, 1969, p. 204).

### *3.6 How the Parity Amendment preserved the American economic interest in the Philippines*

The Filipino nationalists like Recto and Salvador Araneta opposed the "parity" amendment for it was a brazen violation of Philippine national sovereignty. Recto looked upon the "parity" provision as "grossly unfair" and maintained that "this is, indeed, the first instance in history where an independent nation has granted to citizens of another rights equal to those enjoyed by its own citizens" (as cited in Constantino, 1969, p. 203). Reacting to the "argument of fear" alluded to earlier by Roxas, Araneta (1947) raised that "fear that without parity, the people and government of the United States will cease to lend friendly and sympathetic aid to the Philippines, in the form of loans or otherwise" (p. 52).

As stated in the 1935 Philippine Constitution, the state was mandated to "develop the patrimony of the nation." But in approving the parity amendment, the Philippine government surrendered the country's natural resources to the United States. Indeed, the Filipino people were put at a disadvantage because it was feared that once these resources were exploited, nothing would be left

to the next generation of Filipino citizens, who were empowered by the constitution to harness these resources for their own use.

The "parity" amendment brought the question of capital formation to the fore. The Filipino citizens were at the losing end because they were lacking in capital. It was easy for the foreign nationals, particularly the American investors to raise capital. Their capital outlay enabled them to buy into all areas of the Philippine economy.

The "parity" amendment opened the country to foreign exploitation of the economy. The American investors stood to gain from their investments in the country. Araneta (1947) lamented: "Our wealth was sent abroad by foreigners, while the country remained poor. We have only this wretched consolation; the thought that we might have been more ruthlessly exploited, that we might be poorer than we are" (p. 53).

## 4. SUMMING UP

After the grant of independence on July 4, 1946, the United States continued to exert its control and influence over the Philippine economy. The imperial power committed to assist the Philippines by providing her rehabilitation aid, but this was tied to the trade agreements. Confronted with the enormous challenge of economic rehabilitation, the Philippine government under the leadership of President Manuel Roxas accepted the terms of the Bell Trade Act. The most cumbersome provision was the grant of "parity" privileges to American citizens. The Bell Trade Act allowed the American investors to "exploit natural resources" and "operate public utilities. On the other hand, the Laurel-Langley Agreement permitted them to invest in all economic activities. In both agreements, the Filipino citizens could not enjoy parity rights. President Roxas railroaded the Congress into ratifying the "parity amendment." Certainly, the amendment had economic implications. It opened up the Philippine economy to the American capitalists, allowing them to exploit the natural resources of the country for their vested interest at the expense of the Filipino people.



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