Patronage, Weak Institutions, and the Failure to Establish a National Oceangoing Fleet: A Historical Interrogation, 1938-1988

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Abstract

When President Corazon Aquino directed the National Development Company (NDC) to transfer its shipping assets to the National Government for eventual privatization in March 1988, the fifty-year effort of the state to participate in the development of a national merchant marine fleet effectively ended. Such an undertaking had been in place since the Commonwealth Period and was meant to make the Philippines competitive as a center for world trade and provide a revenue stream for the government. However, despite the potential of this undertaking and the support of Malacañang, sustained government participation in a national marine fleet never took hold. This paper will, therefore, show how changes in the political landscape got the Government's major stakeholder (the NDC) embroiled in a complex rent-seeking environment that prevented its shipping program from taking off despite the induced demand created by a steady rise in the volume of Philippine exports. It is a testament to how certain historical actors undermined formal institutions and effectively prevented the Philippines from developing an international fleet despite its storied past as a seafaring nation.

Keywords: shipping, National Development Company, Philippine economic history, rent-seeking, cronies

Introduction

Today, the Philippines is still considered the world's seafaring capital, with 217,223 seafarers deployed overseas in 2020 ("Demand for Filipino seafarers," 2022). As for the country's oceangoing maritime fleet, however, it has all but become irrelevant in the context of global trade despite being the fourth largest in the world since 2010 (Department of Trade and Industry, 2017). The number of vessels in the overseas operating fleet totaled a mere 99 vessels in 2022, consisting mostly of bulk carriers (MARINA, 2023). Nowadays, most of the world's traded goods are shipped in 40-foot-long steel containers stacked by the thousands on the biggest vessels ever built. They are operated by the world's container shipping companies, such as Seaspan, Evergreen Line, Hyundai Merchant Marine, and Korea Maritime Transport Company (KMTC), and regularly operate to Manila as part of feeder routes out of Hong Kong with vessels ranging in capacity from 1800 to 4500 TEU. In 2022, these ships carried 4,887,477 TEU.[1] of containerized cargo into Philippine ports (Philippine Ports Authority, 2023) and paid a total of P2.4 billion in taxes in 2014. On the other hand, breakbulk carriers carrying Philippine exports paid P1.3 billion in that same year (German-Philippine Chamber of Commerce and Industry, 2016, 27-28).

The largest container ships in the world have capacities of well over 20,000 TEU. The largest operated by a Philippine company are the three carrier vessels of Iris Logistics, Inc., a subsidiary of Philippine logistics giant, Royal Cargo, which have 1,100 TEU capacity. That fleet includes the *MV Iris Paoay,* which became the first Philippine-flagged vessel to make a voyage to the United States in 45 years when it made its inaugural voyage to Los Angeles On September 23, 2021, (Masigan, 2021). Nowadays, however, it only serves an intra-Asia service from the Philippines to Thailand and Vietnam, and one reason for that switch is the inability of the small vessel to recover costs amid declining market rates for container shipping (Export Development Council, 2022). This recent development is reflective of the challenges faced by Philippine shipping operators to compete in the market for container shipping despite an 11.3% growth in total trade from September 2021 to September 2022 (Philippine Statistics Authority, 2022).

One challenge that Philippine operators must overcome to match the freight rates and services of overseas companies and increase their share of container carriage into the country is the prohibitive cost of operating a national fleet. Many cost elements, such as fuel, ship acquisition, and insurance, are based on international market prices. Moreover, inadequate infrastructure also makes operations more expensive. Hence, investing capital in a national fleet to compete with foreign carriers may not guarantee a return on investment or have a positive effect on the balance of payment (United Nations, 1999, 68). Despite these challenges, however, there should be more opportunities for Philippine-owned operators to increase the current 10% share of the national fleet in Philippine foreign trade. Aside from being very competitive in terms of crew costs, the bareboat law, which was extended to international shipping in 1976, has made capitalization more accessible (United Nations, 1999, 50-51). Coupled with the current tax structure imposed on foreign carriers, which the WTO deems as harsh and not in line with its "principle on non-discrimination" (German-Philippine Chamber of Commerce and Industry 2016, 27-28), Philippine operators could overcome the challenge of competing with the world's biggest operators who similarly face the high cost of doing business in the Philippines. This is where the national government can play a huge role.

The experience of countries in the region has shown that direct participation by the government, at least in the initial stages of development, would make up for the difficulty of the private sector in funding and managing infrastructure such as shipping. In the case of Indonesia, the government has a 100% owned shipping corporation. In contrast, Malaysia has two national shipping lines, one in which the government is a major shareholder and another that is majority private sector owned. Likewise, the government of Thailand has direct participation in a common carrier. (UN 1999, 143-144). As for the Philippines, there was strong policy support for the development of a national shipping fleet to increase participation in foreign trade and improve its balance of payment position during the seventies. Unfortunately, those ventures were severely mismanaged, and the shipping companies owned by the government at the end of the regime of Ferdinand Marcos were privatized. The institutions for government support that Marcos created persist until this day. Yet despite the additional incentives provided by the Omnibus Investment Code of 1987, there has still been a reluctance to invest in oceangoing shipping.

Given the challenges of competing with established international operators, support from the national government is needed to create a viable oceangoing fleet. This had been an undertaking of the Philippine Government since the Commonwealth Period, and massive infusions of capital were made for this investment. Unfortunately, complex relations among various stakeholders amid changing political landscapes hindered the growth of an oceangoing fleet while rewarding certain personalities with lucrative contracts. As such, this article will examine the role of state agents, both individuals and institutions, in the creation of a national merchant marine fleet and its eventual demise. To further interrogate this historical experience, a narrative based on the idea that the effectiveness of institutions that created the policy environment for the creation of a national merchant marine was also an underlying factor that would have allowed the industry to take hold in the Philippines. This approach would hopefully create a better appreciation of the events that discouraged the development of an oceangoing fleet as the country evolved into a post-colonial order. Moreover, considering the scarcity of any literature on this topic, it will also fill a gap in the narrative of the country's economic history.

The History of the Oceangoing Fleet in Literature

There is hardly any literature that is focused on the national merchant marine. Still, accounts of its significance in the post-colonial economy are mentioned in the work of A.V.H. Hartendorp, a longtime American resident of Manila and former editor of the American Chamber of Commerce Journal, who gives a loose narrative focusing on the role of institutions in the national economy based on his pro-American perspective in *Short History of Industry and Trade* (1953). He mentioned the names of the large shipping companies that benefited from institutions such as the National Development Company (NDC) during the postwar years as he emphasized how the national economy was not driven by any colonial agenda but rather on how certain institutions embarked on what he suggests were misguided policies on industrial development. With this pro-American bias, for example, he describes how the NDC advanced funds to De la Rama Steamship Company for the purchase of three ships from Italy as part of President Manuel L. Quezon's initiative to build a Philippine overseas merchant marine fleet.

Another book about the contemporary Philippine economy authored by an American, Frank Golay's *The Philippines: Public Policy and National Economic Development* (1961), echoes the need to improve the national economy. Written at a time when the nationalization of Philippine industry was at its peak, and the country was supposedly poised to become the second-largest economy in Asia, he cited the role of effective institutions in accelerating said growth while pointing out nationalism as a hindrance to private capital investment due to the proliferation of *caciques* in government. Having mentioned that the knowledge gap that this article seeks to address is based on the notion that the effectiveness of institutions, particularly the NDC, determined the manner in which the national merchant marine evolved.

Conceptual Framework

According to the late Nobel Prize-winning economist Douglass North, institutions refer to the manmade constraints that structure political, social, and economic interactions. They could either be informal (e.g., customs and codes of conduct), as well as formal (e.g., laws and property rights). As a determinant of economic activity, institutions undergo historical evolution to connect the past with the present and even the future (North 1991, 1). The application of this framework to conditions in the

Philippine economy during the immediate post-war period is apparent in works by political scientists Temario Rivera and Paul Hutchcroft. Rivera wrote about the role of the elites in Philippine industry *Landlords and Capitalists, Class, Family, and State in Philippine Manufacturing* (1994) to describe the country's economic modernization, or rather, the lack thereof, during the postwar period, as well as the failure of the state to set up the preconditions for economic development. His framework, which analyzed the relationship between a strong oligarchy and a weak state apparatus, was further enhanced by Paul Hutchcroft in his seminal work published in 1998, *Booty Capitalism – The Politics of Banking in the Philippines.* He shows how a powerful business class exacts privileges from a weak bureaucracy by using the history of Philippine banking as an example. Using a historical approach, he described the lack of any structural change as a legacy of American colonialism in which weak institutions thrived, thereby motivating elites to appropriate wealth that has already been produced rather than produce it themselves. That, according to Hutchcroft, is the essence of rent-seeking, a context in which business is conducted in the Philippines.

Discussing the shipping industry using a historical approach provides an alternative explanation to the current situation in the Philippines. Also, it explains how it does not seem to be a sound investment despite the strong institutional support it received in the past. For instance, despite the general impression that the Philippine economy at the time was historically tied to an American colonial agenda, Filipinos were already the main agents in the legislative process during which they enacted laws such as the Carriage of Goods by Sea Act (COGSA) as well as the Public Service Law, both of which are very much in force until this day. This was also the period in which the economic elites who had close relations with the political establishment, such as Esteban de la Rama, benefitted from their close relations with Manuel L. Quezon to become the country's biggest shipowners. Their shipping businesses thrived well into the postwar era, largely through the participation of the National Development Company (NDC).

The Creation of a National Merchant Marine During the Commonwealth Period

The National Development Company (NDC) was established on March 10, 1919, by the Philippine Legislature under the leadership of Senate President Manuel L. Quezon. As a government corporation, the NDC had the mandate to "engage in commercial, industrial, and other enterprises which may be necessary or contributory to the economic development of the country" (An Act to Create the NDC, 1919). After Quezon became President of the Commonwealth Government, the NDC was dissolved but re-established under the same name, this time with the added power of appropriating funds for the government to invest in projects that were vital for its economy as a soon-to-be independent nation. Hence, the NDC was allowed to contract loans, issue bonds, as well as purchase and mortgage property (An Act to Create a Public Corporation, 1936).

One project deemed vital for economic development was overseas shipping, for which the Commonwealth Government had provided policy support beforehand. On October 26, 1936, the National Assembly approved Commonwealth Act No. 65, thereby making the Carriage of Goods by Sea Act (COGSA) applicable to the Philippines. The Seventy-fourth Congress of the United States originally enacted the COGSA. Its adaptation by the Commonwealth Government application to the Philippines meant that the modern maritime rules and practices of "the great shipping countries of the world" could also be applied to the carriage of foreign trade by sea to and from ports in the Philippines (Quezon, 1936). It was under this policy environment that Quezon endeavored to establish a national merchant marine for overseas trade, which had been on his agenda even before the establishment of the Commonwealth Government. According to Andres Castillo, a founding member of the Philippine Economic Association, several factors were considered in the establishment of a national marine:

1. A well-organized merchant marine was necessary for the Philippines to take advantage of its

geographic location and be competitive as a center for world trade.
2. It is necessary for a country engaged in foreign trade.
3. It is an industry that needs to be nationalized and protected in the same manner as other domestic industries
4. It will increase government revenues and employ Filipino labor (Philippine Economic Association, 1934, 161-162).

The objective of this program was to lessen the reliance of Filipino exporters on foreign bottoms, which carried over ninety-nine percent of exports, and it was assumed that freight rates would be lessened if overseas trade was carried on Philippine vessels. Rates were controlled by the Manila-based representatives of foreign shipping companies affiliated with the Associated Steamship Lines, and for the program to be successful, the Government was expected to provide financing and even own their vessels for government use. (Philippine Economic Association, 1934, 162-167). Yet despite being a top priority, the Commonwealth Government actually had no budget for its program to modernize its merchant marine fleet. Hence, by virtue of its mandate as defined by Commonwealth Act No. 182, the NDC got involved in the shipping deal when Gregorio Anonas announced that the NDC and its subsidiaries would coordinate with the Philippine National Bank (PNB) for financing ("P.I. Foreign Trade", 1938). The PNB was allowed to disburse ₱20 million to shipping companies, and the first to express interest in this facility was the Esteban de la Rama Shipping Company, which was interested in acquiring freight and passenger oceangoing vessels ("Merchant Marine Plans," 1938).

Esteban De la Rama's shipping enterprise started with a single vessel plying the route between Iloilo, Pulupandan, and Silay, and they were known to undercut their competition by offering free chocolate and undershirts whenever their rival would offer free rides. The De La Rama Steamship Company was formed in May 1931 in Iloilo with Don Esteban and her daughters as stockholders and eventually managed by his son-in-law, Enrico Pirovano ("Esteban de la Rama", 1947). His connection to the PNB dates back to 1918 when his company was placed under investigation for collateralizing ten haciendas and sugar centrals located in the municipalities of Bago and Talisay, Negros Occidental, even if they have already been mortgaged to the Bank of the Philippine Islands (Nagano 2011, 17-18). Despite this controversy, Esteban de la Rama expanded into shipping by collateralizing its assets. With the PNB once again as a financier, he was able to purchase four steamships worth ₱2 million each from Italy ("₱8,000,000.00 Deal Is Closed", 1938).

Considering that De la Rama still had outstanding obligations to PNB, Manuel Roxas, who at the time was Chairman of the NDC, expressed concern to President Quezon about the transaction. Apparently, the NDC was not consulted by the PNB when the latter was given the responsibility of floating ₱9 million worth of twenty-year bonds because they were not allowed to grant loans of over ₱3 million to a single entity. Roxas wanted the deal re-examined because it would cost the NDC ₱450,000 a year, even if De la Rama fails to pay. However, Quezon had already made the promise to De la Rama. The Government was no longer in a position to back out, and the vessels were already under construction in Europe. Roxas, therefore, had no choice but to underwrite the bonds requested from the NDC on the condition that PNB takes care of their own crop loan to De la Rama with the collateral still mortgaged to the NDC and that they take over De la Rama's assets in case he's unable to pay (Roxas, 1939). Henceforth, De la Rama emerged as a major shipping company and the only one with an all-brand-new fleet constructed in Europe ("De La Rama Steamship Expanding", 1938).

At the onset of the Second World War, three ships of the De la Rama Steamship Company served with the United States Army Forces in the Far East (USAFFE) (Gibson 2002, 247-253), and the newly independent republic greatly rewarded their contribution to the war effort. This series of rewards started with their being awarded the Philippine Republic Presidential Unit Citation Badge "for service to the nation . . . above and beyond the call of duty" by the Roxas Administration ("Local Ship Crew", 1946). This recognition undoubtedly gave them an advantage in the rehabilitation of their fleet. Presenting the award to them was the former NDC chairman, who had previously questioned the funding for their shipping venture but now held the post of President of the Republic of the Philippines – Manuel Roxas.

By 1947, De la Rama had an oceangoing fleet of eleven vessels, including two 8,000-ton C-1 type vessels that were delivered by the War Shipping Administration in New Orleans ("De la Rama Acquires", 1947), as well as the 10,000-ton *Bataan* vessel chartered from Sweden ("De La Rama Charters", 1947). By 1949, their vessels were already discharging cargo from San Francisco to Cebu ("De La Rama Lines", 1949).

De la Rama, Cuenco and the NDC – The Politics Behind the Establishment of an Oceangoing Fleet

The Roxas Administration had been intent on reviving an undertaking by Quezon from the Commonwealth Period - the development of a Philippine Merchant Marine (Roxas, 1946). Government support was necessary for this enterprise due to the shortage of private capital. Yet, De la Rama Steamship did not seem to have any difficult time in convincing Roxas' successor, President Elpidio Quirino, on that matter. In January 1949, De la Rama reiterated its plans to add three brand-new 10,000-ton vessels from Japan to its fleet. Its new chairman of the board was Finance Secretary Pio Pedrosa, and its president was the husband of Esteban De la Rama's daughter, Lourdes, Sergio Osmeña, Jr. (AP, 1949). By February, the board of the NDC approved the purchase of three oceangoing vessels from the Supreme Commander of the Allied Powers in Japan at a meeting in Malacañan where Quirino himself was present ("Purchase of 3 Ships", 1949).

Soon after that high-level meeting to discuss the construction of those ships took place, De La Rama Shipping president Osmeña Jr. arrived in Japan to negotiate the purchase of the ships that they wanted ("DLR Manager", 1949). By

October 1949, De la Rama entered into a contract with the NDC. Before the year was over, a controversy was exposed on that deal, which was practically similar to what took place under Quezon when the NDC was chaired by Roxas a decade earlier.

At the end of December 1949, Cebu Representative Miguel Cuenco assailed Secretary of Finance Pio Pedrosa for the Government's investment of ₱14 million in three new ocean-going vessels for the De la Rama Steamship Company and even claimed that the latter was being compensated as chairman of the De la Rama board of directors. Pedrosa countered that he never received any, and he further defended the Government's investment in oceangoing by stressing that it was Quezon who first crafted the policy of aiding De La Rama well before the war to develop the Philippine merchant marine fleet and that a member of the cabinet has always acted as chairman of the board of directors' salary ("Shipping Deal Assailed", 1949).

Cuenco actually had a point against government involvement in oceangoing because there has never been a shortage of oceangoing vessels since the end of the war, and investing in a service already provided by other companies was not advisable due to the Government's dwindling bleeding of rehabilitation funds. The Cuenco political clan, however, had to deal with controversies of their own. In February 1949, Miguel's uncle, Senator Mariano Cuenco, was charged by his former secretary with crimes ranging from cheating in the bar exam to fraud and even murder. Meanwhile, Vicente del Rosario, a former mayor of Cebu City, flew all the way to Manila just to accuse the Senator of purchasing ships through a dummy company ("Says Cuencos Own Ship Firm", 1949). Although none of those accusations prospered, the charges against Senator Cuenco might have been a factor in his decision to give up his nomination as the Liberal Party's vice-presidential candidate ("Cuenco Set To Boycott", 1949). It is now apparent from the Cuenco - De la Rama controversy that in the absence of Quezon's leadership, mudslinging among Philippine politicians had now crossed over to the shipping industry. As expected, those exchanges did nothing to address what the Government perceived as an urgent need for the national economy.

In 1954, the National Economic Council (NEC) included the expansion of the oceangoing fleet "to reduce the invisible imports now being paid for in terms of freight on the export products of the country" in its five-year development plan for 1955-1959 (National Economic Council 1954, 7-16). Although it was the opinion of the American Chamber of Commerce in the Philippines that the carriage of foreign trade on Philippine-owned vessels would not result in any foreign exchange savings in the absence of a free currency exchange mechanism (Hartendorp 1961, 286), such a venture could still be workable if Philippine-flagged vessels were able to make a profit. That was what the NDC expected when it partnered with De La Rama for the purchase of three oceangoing steamers. Unfortunately, the exorbitant management fees charged by the latter compelled President Ramon Magsaysay to direct NDC officials to seek more equitable terms in March 1954 ("RM To Rescind", 1954). De la Rama Shipping president and chairman, Gov. Sergio Osmeña Jr., attempted to subvert the NDC directive by announcing that they had tendered payment for the three oceangoing vessels that were ordered in accordance with their partnership. Still, the NDC stood firm on its instructions from the President. Their management contract with De la Rama was rescinded; the latter lost the option to purchase those three vessels in February 1955 ("Deny Acceptance of Rama", 1955).

De la Rama Shipping's position was further complicated in April 1955 with the exposure of a supposedly anomalous real estate deal involving Osmeña Jr. by a group of politicians, including Sen. Mariano Cuenco, whose clan had been opposed to the De la Rama deal from the get-go (Veloso, 1955). Osmeña countered by accusing Sen. Cuenco of junketeering, but Sen. Lorenzo Tañada dropped the charge after the latter gave "an angry denial" of "insinuations and innuendos" from Osmeña ("Tañada Clears Cuenco", 1955). By May 1955, Osmeña literally broke down amid rigid grilling by Cuenco on the Senate floor ("Osmeña Breaks Down", 1955). As he emerged victorious, Cuenco further accused Osmeña of misspending millions in government funds for Quirino and his cohorts when the latter joined the Nacionalista Party after the Liberal Party started floundering "Cuenco Dares Osmeña Anew", 1955). As it turned out, the De la Rama – NDC contract may have been one of the nails in the coffin of the Quirino Administration, as opined in this excerpt from an editorial printed in *The Republic Daily* in March 1954:

> "One of the great anomalies of the defunct Quirino administration which became a stirring issue in the last election is this irregular ship contract. On the pledge of eradicating all the grafts and corruptions permeating the past government, then-candidate Magsaysay got the endorsement of the people" ("Wise Move", 1955).

The Growth of the Oceangoing Fleet From the Magsaysay to Macapagal Administrations

While De la Rama was still clinging to hopes of saving their contract with the NDC, the Advisory Committee on Philippine Maritime Affairs was formed to draft a new Philippine shipping bill. Members of that committee included representatives of the NDC, De la Rama Steamship, and Antonio V. Rocha, a shipping agent for a Japanese liner company before the war who was able to resume their business under a special permit from MacArthur (Filipino Shipowners Association, 2020; C.F. Sharp Group, 2023). Rocha eventually resigned to protest what he perceived as favoritism towards De la Rama Steamship Company. In his absence, the Committee was able to finalize a that was to be introduced at the House of Representatives ("Shipping master bill", 1955). However, in an interesting twist, the De la Rama contract that the NDC had rescinded was awarded to Rocha in 1956. That marked the establishment of Philippine National Lines (PNL) which went on to compete with established companies serving the lucrative Philippines-Japan-U.S. route. It was a consortium that included the NDC (with the three vessels purchased by De la Rama) and Magsaysay Lines, Inc. (D.M. Ho, personal communication, March 8, 2019).

Magsaysay Lines, Inc. started as a partnership between the uncle of President Ramon Magsaysay, Don Ambrosio Magsaysay, and Robert C.F. Ho, who was married to Don Ambrosio's daughter, Anita Magsaysay. Originally from

Shanghai, Ho was in Washington to complete his MBA at Columbia University. Right after the war, he formed Liberian International Steamship Co. to purchase surplus vessels that were offered for auction by the Department of Commerce in Washington, D.C. When Shanghai fell to the Communists, he diverted his assets to Hong Kong and the Philippines, where he partnered Don Ambrosio to form A. Magsaysay, Inc. Throughout the early fifties, Ho along with his brother-in-law, Miguel A. Magsaysay, worked with the Filipino Shipowners Association (FSA) to form a strong lobby for the approval of the Philippine Overseas Shipping Act of 1955 (Republic Act No. 1407) was signed into law by Pres. Magsaysay on September 9, 1955 (Fairmont Magsaysay Maritime Services n.d., 5-7).

R.A. No. 1407 declared it the official policy of the Government to do whatever was necessary to promote oceangoing shipping by attracting private capital from both local and foreign investors, who were allowed to own up to forty percent of a shipping company (Overseas Shipping Act, 1955). After the untimely death of Ramon Magsaysay on March 17, 1957, this law would become the template for the administration of Pres. Carlos P. Garcia, who continued to engage the NDC in its merchant marine policy as part of his Filipino First policy. To ensure that the NDC had sufficient funds, Garcia implemented a nine-year flotation of bonds in February 1959 for the acquiring of ships (Hartendorp 1961, 291). More funding came in the form of wartime reparations from Japan, which increased the tonnage of the Philippine fleet from 48,834 tons during the fifties to 121,087 tons by 1961 (Vellut 1963, 504). However, this industry was not free of controversies that revolved around personalities who were close to the President.

According to *Chronicle* sources cited by Lewis Gleeck, the businessmen with easy access to the President were Eugenio Lopez, Roberto S. Benedicto, Emerito Ramos, William Chongbian, and the Delgado brothers, who happened to be one of the stakeholders in United Philippine Lines (UPL), a consortium of seven established liner companies that formed in 1960 to serve a trade route between the Philippines and the United States via Hong Kong and Japan (UPL, 2021). UPL was managed by Col. Generoso Tanseco, president of the Filipino Shipowners' Association (FSA). When accusations of overpricing and favoritism reverberated throughout the media, he had an audience with President Garcia to defend against those accusations. Tanseco explained that the difference in prices between ships built in Japan for Japanese users and reparations ships for the Philippines was justified because they were built with the most rigid classification standards of the American Bureau of Shipping and Lloyds Register of London, as well as of the stringent revised Philippine Merchant Marine regulations ("Official Week in Review", 1960). While Tanseco's assertions may have been valid, his association with persons who were close to Garcia could not be overlooked. One prominent stakeholder in UPL was Jose Rocha, who was said to be the only person, besides Executive Secretary Juan Pajo, who could see President Garcia at any time (Gleeck 1993, 214).

Regardless of whether personal connections with the President had anything to do with the UPL startup, the seven cargo ships that they eventually acquired were the most modern Philippine oceangoing ships at the time (Alegre 1975, 92-93). Unfortunately, the overall performance of the economy during Garcia's term was a real decline in gross national product from 1958 to 1960 (Macapagal, 1962). Garcia admitted that his administration faced serious difficulties as the country's foreign reserves fell to dangerous levels. To remedy the country's precarious foreign exchange situation, his successor, Diosdado Macapagal, approved a decision by the Monetary Board of the Central Bank on January 21, 1962, to dispense with exchange rate controls that had been in place since the Quirino administration and introduce genuine decontrol in the country's foreign exchange (Macapagal, 1963). One offshoot of this policy was a dramatic increase in the value of the country's exports, which rose by almost thirty percent during the first two years of Macapagal's term (Philippine Statistics Authority 2020, 28-29). This development greatly induced the demand for oceangoing shipping.

Oceangoing During the Marcos Years

A surge in exports took place during the sixties particularly due to sales of logs to Japan and an expanding plywood industry (International Bank for Reconstruction and Development 1974, 10). By 1962, logs comprised the highest volume among all export products. Log exports doubled during the second half of the sixties and kept on growing well into the mid-seventies (Bautista 1990, 69). This development induced the demand for oceangoing shipping, and the company that mostly gained from this trend was Magsaysay Shipping. They were an original partner in the UPL consortium and had been a strong lobbyist for the introduction of a shipping bill during the Magsaysay Administration. However, due to what they perceived to be their co-founders' lack of vision, they bailed out of the group in 1963 to pursue their approach to dealing with the growing trade with Japan (D.M. Ho, personal communication, March 8, 2019).

In 1963, Robert C.F. Ho moved his family to Vancouver and established Fairmont Shipping (Magsaysay Shipping and Logistics, 2020). Unlike UPL, it was a truly international shipping business with strong ties in Japan and Europe. They partnered with Hitachi Zosen to build ships that were particularly suited for the log trade, and these were chartered to Japanese shipping lines such as Mitsui O.S.K. Lines and Showa Lines in what was then the first partnership in which Japanese operators used Philippine-flagged vessels (Fairmont-Magsaysay Shipping n.d., 8). The establishment of Fairmont Shipping in Hong Kong enabled Magsaysay Shipping to practically monopolize Philippine trade due to its strong international linkages. They continued to prosper and practically monopolize the Philippine-Japan trade well into the Marcos years (G.P. Sicat, personal communication, March 4, 2019). Meanwhile, the policies of successive administrations to support investments in oceangoing shipping continued to involve political controversy and drain the country's foreign reserves.

Just like all other postwar presidents, the Marcos economic plan included the development of oceangoing shipping. A handwritten journal entry by the President himself revealed that overseas shipping was an issue that he got involved with on a personal level (Marcos, 1973). He wanted Philippine ships to account for at least thirty percent of total carriage instead of the 7.9 percent in 1966. Although the capacity for overseas cargo carriage of the Philippine fleet increased by one-third (Marcos, 1968), shipowners were not satisfied with how the NDC was negotiating with Japanese shipbuilders. According to recently released documents by the PCGG, they were mainly motivated by commissions instead of procuring the type of vessels the shipowners needed. Moreover, instead of making procurements through public bidding as required by the law so as to ensure competitiveness, transparency, and to ensure that the bidders must be truly the shipbuilders themselves and not mere agents, the NDC reverted to canvassing potential suppliers one-on-one. This gave rise to speculations that its board members were motivated by maximizing commissions instead of getting the best deal on vessel procurement (Panganiban, 1969). The NDC stood firm and insisted that canvassing was an international norm in the procurement process, and the development of the Philippine oceangoing fleet continued to be part of the martial law agenda.

According to Marcos's economic planner Gerardo Sicat, one reason for the underdevelopment of the country's shipping was the lack of available financing for shipowners, especially since most banking facilities were used by American companies such as American President Lines due to the parity rights that they had enjoyed since 1946 due to the Bell Trade Act. Marcos tried to address this with the issuance of Presidential Decree No. 214 on June 16, 1973, "Further Amending the Philippine Overseas Shipping Act of 1955." Its most salient feature was this particular section from Republic Act No. 6106 amending Republic Act 1407, as amended, as follows:

> "Sec. 11-1/2. a. Any citizen of the Philippines, or any association or corporation organized under the laws of the Philippines, at least seventy-five percent of the capital of which is owned by citizens of the Philippines, engaged or which shall engage exclusively in the *overseas shipping*

> *business* may, for the purpose of financing the construction, acquisition or purchase of vessels for use in overseas shipping, freely constitute a mortgage or any other lien or encumbrance on such vessels and its equipment with any bank or other financial institution, domestic or foreign (Emphasis supplied).

The issuance of P.D. No. 214 made banking facilities available to stakeholders in oceangoing shipping. However, fleet expansion still failed to take place due to issues with mortgages. The current chair of the Magsaysay Group of Companies, Doris Magsaysay Ho explained that Filipino shipowners were unable to make use of mortgage facilities because this type of transaction was not understood by the Philippine government, thereby making it difficult to deal with international banks. The standard practice in the international mortgage was that in case a borrower defaulted on payment, the first party to be compensated in case the vessel under a lien forfeited was the crew, followed by the bank. In the case of the Philippine laws, the first is 'whoever'[2], and the banks were at the bottom of the list. Hence, nobody wanted to finance shipping acquisitions for the Philippines (D.M. Ho, personal communication, March 8, 2019). That is, until the era of crony capitalism.

Among the personalities tagged by John F. Doherty, who, along with the late Jovito R. Salonga, authored *Cronies and Enemies: The Current Philippine Scene* in 1982, was the president of UPL, Col. Generoso Tanseco. While Marcos appointed him as the first administrator of the Maritime Authority of the Philippines (MARINA), he was also associated with the Filipinas Manufacturers Bank (Filmanbank) Group, which had seventy-one director interlocks with 55 corporations, including UPL, for which he was the President. Other interlocks of Filmanbank related to the shipping industry were the Bataan Shipyard and Engineering Company (BASECO), as well as with the new Bataan-based Shipbuilding and Engineering Company, a joint venture between the Philippine Government and Kawasaki Heavy Industries of Japan. According to Doherty and Salonga, however, the real owners of the latter were Benjamin

Romualdez and Tanseco himself, who also had substantial investments in BASECO.

While Tanseco is generally labeled as a Marcos crony, according to Philip Lustre, a reporter for a now-defunct business newspaper who was assigned to cover the waterfront as well as MARINA during the late seventies, he was a very mild-mannered and religious man (one of his sons was actually a Jesuit brother), who ended up becoming a Marcos crony against his will due to his prominence in the shipping industry. Tanseco was actually already in his seventies when he was assigned to MARINA, and his family was already wealthy due to their stake in UPL. Tanseco also served as director of the Philippine Shippers' Council (Shipperconn), yet another body created to support the shipping industry by virtue of presidential decree - P.D. No. 165 as amended by P.D. No. 833, s. 1975. According to Lustre, he was not happy about how the dictator handled shipping, and this had to do with the involvement of two cronies in the oceangoing shipping - Roberto S. Benedicto and Rudolfo Cuenca.

Benedicto and Cuenca Get the Big Ships

In response to the precipitous decline in sugar prices, Marcos established the Philippine Sugar Commission (Philsucom) in 1976. It was the only institution authorized to buy and sell sugar, to set prices paid to planters and millers, and to purchase companies connected to the sugar industry (Lindsey 1993, 146). The person whom Marcos made the head of Philsucom was his close associate and fraternity brother, Roberto S. Benedicto, who also happened to be the chairman of the PNB and ambassador to Japan. While Ambassador to Japan, Benedicto negotiated a contract with the Marubeni Corporation for the mill (Doherty 1982, 20). His control over the sugar industry extended all the way to shipping. He had his own shipping company, Northern Lines, which carried sugar to the United States (Crewdson, 1986). Its *Doña Corazon II* (15,892 GT), *Don Salvador* (15,892 GT), and *Doña Hortencia* (11,283 GT) were the largest vessels (bulk carriers) in the entire Philippine oceangoing fleet (Alegre 1975, 2b). According to Lustre, these vessels were purchased from

Japan by Benedicto for the sole purpose of obtaining commissions. Being a mere cash cow, Northern Lines was never a serious business and eventually sold at a loss (Lustre, personal communication, March 20, 2019).

One other company controlled by Benedicto was the Bukidnon Sugar Company, and one of his partners in that enterprise was Rudolfo Cuenca (Doherty 1982, 20). He was a golfing buddy of Marcos and had been a supporter since the 1965 campaign. He was the head of the Construction and Development Corporation of the Philippines (CDCP), which was awarded practically every major construction contract by the regime (Seagrave 1988, 282). His Galleon Shipping Company incurred $100 million in government-guaranteed loans (De Dios 1988, 95), and these funds were used to purchase nine to twelve multi-purpose vessels for either container, breakbulk, or grain carriage (Philippine Shippers Council 1983, 94). The first of these ships was the MS *Galleon Topaz*, followed by the *Galleon Amethyst, Galleon Sapphire,* and *Galleon Onyx*. These vessels were altogether worth over $150 million. They provided regular services between the Philippines and major Atlantic, US Gulf, and California ports as a subsidiary of the Construction Development Corporation of the Philippines (CDCP) (New Wave Media, 1980).

Among the eight vessels they had in 1983 were the largest container vessels in the interisland fleet, three of which weighed in at between 13,680 GRT and two at 14,163 GRT (Philippine Shippers Council 1983, 94), some of which went into service for National Steel Corporation (D.M. Ho, personal communication, March 8, 2019). Galleon Shipping became unprofitable and was taken over by the government as the official Philippine container shipping company to the west coast (Celoza 1997, 98). At the end of 1983, it had two outstanding loans to foreign banks totaling $81.9 million (De Dios 1988, 95). These assets eventually became the shipping arm of the Philippine Government and were privatized under the name National Marine Corporation (Magsaysay Shipping and Logistics, 2021).

Conclusion

When Corazon Aquino took over the presidency following the departure of Marcos, the export sector, which was a vestige of the colonial economy, had also changed drastically. Manufacturing posted high growth, mainly in electronics and garments (Aquino, 1988), but sugar sales to the United States had dropped to only 161,000 tons by 1988 as compared to just under 1.3 million tons per year in 1971. Aquino established the Sugar Regulatory Authority in 1986 to take over the institutions set up by Benedicto (Lindsey 1991, 146). Still, it was more reflective of her administration's focus on getting out of cronyism than a genuine effort to make that industry recover. That was the same approach to other productive assets held by the Marcos government and its cronies.

The Presidential Commission on Good Government (PCGG) was created on February 28, 1986, by Executive Order (E.O.) No. 1. Its primary mission was "The recovery of ill-gotten wealth accumulated by former President Ferdinand E. Marcos, his immediate family, relatives, subordinates and close associates" (PCGG, 2021). This wealth also included many sequestered shipping assets and the bulk of the country's tanker fleet (Nozawa 1991, 25-62, 42), which the Aquino Administration offered up for privatization through an auction/bidding process. The only bidder for the significant crony shipping assets was Magsaysay Lines, Inc., which acquired National Marine Corporation for ₱168 million in 1988 (Godinez 1989, 265-270). She could have acquired the entire fleet that was up for privatization. However, she didn't know that in the absence of other bidders, she had to bid against herself to acquire a government asset.

The manner in which the disposal of shipping assets was handled seemed to show a lack of a long-term vision for shipping. Indeed, unlike previous Philippine presidents who implicitly mentioned shipping in their SONAs and involved the NDC in its efforts to expand overseas shipping, the Aquino government was practically hands-off when it came to that subject. Her administration might have demonstrated sound judgment on shipping policy by retaining laws directives from the previous regime, such as the Marcos-era “Bareboat Law” (MARINA, 2021). It seemed, however, that promoting private investment in lieu of excluding the government from state-owned enterprises in the shipping industry when the economy was in shambles showed a lack of long-term vision, and this adversely affected Philippine shipping.

In comparison, when Manuel L. Quezon became President of the Philippine Commonwealth in 1935, one of his closest allies, Senator Esteban De la Rama, benefitted from preferential treatment to create a brand-new oceangoing fleet in a partnership with the NDC in 1938. This pattern of rent-seeking behavior persisted into the post-colonial era in which De La Rama Shipping was given access to scarce foreign exchange to purchase a fleet of brand-new oceangoing vessels in a partnership with the NDC. It became an issue for petty politics reflective of the corruption during the Quirino Administration and eventually led to his electoral defeat in 1953. The Magsaysay Administration practically made oceangoing shipping state policy when the Philippine Overseas Shipping Act of 1955 was enacted, mainly through the lobbying efforts of a company affiliated with the President’s cousin. That coincided with the creation of UPL, a major shipping conglomerate that also included the NDC’s ships. The creation of UPL marginalized De la Rama as the NDC’s assets were transferred to a personality known to be very close with Magsaysay’s successor. As it has in the past, the NDC continued to be embroiled in controversies during the Garcia Administration, including the misallocation of Japanese war reparations funds to questionable beneficiaries and purchases instead of ships for established shipping companies.

This interrogation, covering half a century of negotiations among state agents and private businessmen, illustrates how irregular transactions involving the government’s shipping assets were just an example of the rent-seeking behavior among some of the country’s economic elites since the time of Quezon. Although the media didn’t cover it at the time, it was most blatant during the regime of Ferdinand Marcos. Personalities whose names are now synonymous with crony capitalism during his regime accumulated shipping assets without any regard for the scarcity of capital. They either got into shipping as an allied industry to the main industry that Marcos allowed them to capture or simply entered a high capital venture without any thought of risk. Understandably, the volume of the country's trade is a main factor in the development of the nation's overseas shipping fleet. Moreover, national shipping fleets that are not competitive internationally and are unable to match the freight rates and services of overseas companies cannot survive in a free market. Nonetheless, the recurring patterns of institutional behavior described in this narrative give a better understanding of how weak institutions were easily overwhelmed by personal connections at the top levels of government, thereby resulting in the dismal state of overseas shipping. Perhaps lessons from the past may also help the industry go beyond the mentality that weak institutions are a norm and realize the opportunities to transform them.

Notes

[1] TEU refers to Twenty-Foot-Equivalent Unit, the unit of measure equivalent to a container's length of twenty feet.

[2] This was probably a euphemism for a cut going to a government official.

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