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US and Japan rivalry in Philippine interwar import manufactures market: Power politics, trade cost and competitiveness

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US and Japan rivalry in Philippine interwar import manufactures market. Power politics, trade cost and competitiveness.

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Abstract

This study examines the asymmetric protectionist policies of the U.S. in the Philippine market during the interwar period, focusing on how these policies effectively marginalized European powers and the emerging Japan before the Yen devaluation in 1931. Using a new database on product and country-level imports from 1913 to 1940, the study concludes that competition was most intense in cotton textiles between the U.S. and Japan. The literature identifies a devalued Yen, lower transport costs, and cheaper prices of cotton manufactures as key Japanese advantages that counterbalanced U.S. protectionism in the Philippines. Regression analysis indicates that tariffs hindered cotton textile exports to the Philippines during the interwar years, especially affecting Japanese exports before the Great Depression. Japanese competitiveness before the 1930s relied on government-supported lower freight rates. However, after the Yen devaluation in 1931, the effectiveness of tariffs diminished, and the devaluation became the principal driver of Japanese textile exports to the Philippines. To counter this advantage, the USA and Japan agreed to an export restraint in exchange for tariff stabilization at the start of the Commonwealth period in 1935. However, this agreement failed to reduce the value of Japanese cotton textile exports to the Philippines. A significant reduction occurred only after the outbreak of the Sino-Japanese War in 1937.

JEL Codes: F13, F15, N75

Keywords: Asymmetric tariff policy, US colonial markets, commercial power politics, trade cost, exchange rate policy, competition in colonial markets, import margins.

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1. Introduction.

Recent commercial disputes like Brexit, the USA-China trade war, and sanctions on Russia following the occupation of Ukraine have shifted attention from the economic impact of trade liberalization to the implications of growing asymmetric protectionist policies (Rogers et al., 2024). Notable examples include works by Steinbock (2018), Li et al. (2020), Mao & Görg (2020), and Fajgelbaum et al. (2021). These studies focus on analyzing tariff impacts but primarily examine short-term shocks affected by crises. In this context, Economic History can significantly complement this literature by providing longer-term insights into the trade effects of asymmetric commercial policies, which were more common in the Imperial preference and trading bloc strategic policies developed before and during the interwar period (Chase, 2004).

These policies were more frequent within colonial frameworks, prompting us to examine the role of trade policy in promoting intra-Empire trade, as explored by Arthi et al. (2024). It is important to clarify that pre-WWII asymmetric protection typically involved the metropolis using political power to expand its manufactures in colonial markets (see Tena-Junguito-Restrepo, 2023). This contrasts with contemporary trade sanctions imposed during conflicts or tariff increases to protect national producers, as these do not involve one country unilaterally imposing trade policies on another.

Studies on the impact of protection in colonial territories typically focus on the monopsony abuse of colonial exports by the metropolis (Lavallée et al., 2015). For instance, research often examines the enforcement of control over colonial exports through monopsonies of African primary exports, as demonstrated by Tadei (2022, 2024).

Our study is more complex as it focuses on manufacturing colonial imports rather than the export price bias of colonial primary products. Southeast Asia is particularly interesting in this context because it was the only region where a regional empire, Japan, could challenge Western colonial powers. Our research centers on the Philippines, where the new US metropolis had a long-established tradition of protecting domestic manufactures, unlike free trade metropolises such as Great Britain or the Netherlands. Consequently, colonies like the Dutch East Indies and British Malaya only

implemented tariffs to promote exports from the metropolis during the 1930s (Booth, 2003).

Research on the impact of asymmetric protection in colonies has evolved over the years. Some scholars have focused on why trade between colonies and their metropolises remains particularly intense even after independence (Eichengreen & Irwin, 1996; Athow & Blanton, 2002). This literature examines the persistence of these trade patterns, often using theoretical models (Bonfatti, 2015) or post-independence data (Head et al., 2010; Absell et al., 2024). Our article aligns with recent scholarship that uses granular historical data to study the impact of asymmetric protectionism in colonial trade markets, such as Arthi et al. (2024) and De Zwart et al. (2023), who investigate protectionism's effects on colonial trade in India and Indonesia, respectively. Building on their research, we empirically examine how asymmetric protectionism based on duty free US exports and discriminatory tariffs against foreign producers affected competition between Japan and the United States in the interwar Philippines using a new granular database containing Philippine imports by partner, disaggregated by product-level for the years 1913-1940.

An analysis of the data reveals that during the interwar years, the Philippines experienced a gradual shift from importing foodstuffs and light manufactures to heavy manufactures. This trend likely marks the onset of an industrialization process in the Philippines. Consequently, there was a growing dependence on imports from the USA, which had a comparative advantage in producing and exporting heavy manufactured goods.

The USA's dominance in heavy manufacturing, coupled with limited local production, resulted in these goods facing lower tariffs. Conversely, locally produced foodstuffs, such as rice, were the most protected commodities. This protectionist policy led to a replacement of Southeast Asian imports by local production.

In between these extremes were light manufactures, notably cotton textiles, which faced higher protection than heavy manufactured items such as iron sheets. This was due to the USA's lack of a comparative advantage over Japan in the cotton sector. Additionally, during the 1930s, efforts were made to develop local cotton manufacturing in the Philippines. This sector is particularly significant for this paper, as

tariffs were strategically employed to counter Japanese market penetration during the interwar years.

An analysis of market shares in dyed cloths—a key commodity within cotton textiles—reveals notable trends influenced by tariffs and global events. During World War I, Japan expanded its quota in the Philippines as average duties on dyed cloths decreased, easing market entry. Throughout the 1920s, low tariffs on this product enabled Japan to leverage its comparative advantage and significantly increase its market share.

However, the onset of the Great Depression led to an increase in existing discriminatory tariffs in the Philippines. This policy shift during the 1930s caused significant fluctuations in Japan's market share of dyed cloth imports. These variations highlight the complex interplay of economic policies and international competition during this period.

The historiography offers no consensus on the factors behind Japan's comparative advantage in cotton textile exports to the Philippines and Southeast Asia during the interwar years. Some studies attribute the rise of Japanese exports to the relative cheapness of Japanese manufactures, driven by low wages and high productivity (Shimizu, 2005). Others argue that the principal driver was the Yen devaluation following Japan's departure from the Gold Standard in 1931 (Kagotani, 2011). Additionally, Davies (1985) contends that government low-interest loans for vessel construction reduced freight rates for Japanese companies compared to other exporters.

On the other hand, some authors argue that the agreed restrictions on Japanese cotton textile exports to the Philippines, negotiated as part of the establishment of the Philippines Commonwealth in 1935, explain the dramatic fall in Japanese market share during the second half of the 1930s (Lim, 1981). These restrictions were likely part of broader economic agreements designed to balance trade relations and protect local industries. Others suggest that the outbreak of the Sino-Japanese War in 1937 was a significant factor behind the decline in Japanese market share. Goodman (1978) attributes this downward trend to rising prices of Japanese cotton textiles due to wartime controls and resultant economic disruptions. Similarly, Farley (1939) points to the sharp

increase in freight rates for Southeast Asian routes during the conflict as another critical factor.

To determine which of these factors were most relevant throughout the interwar years, we conducted a regression analysis with the dependent variable being the Philippine imports of cotton textiles at partner and product level between 1913 and 1940. Potential regressors included import duties as a percentage of total imports by product, freight rates by exporter, and their corresponding exchange rates. The regression results indicated that during the interwar years tariffs imposed by the USA in the Philippines were an obstacle to foreign exports of cotton textiles, especially for Japan. The principal advantage of Japanese textile exports before the Great Depression was its lower freight rates due to geographic proximity and government intervention, while low prices were not a source of competitiveness, but the capacity of Japanese producers to adapt to sophistication in demand.

These trends shifted when the Yen devaluation in 1931 provided a substantial boost to Japanese cotton textile exports, making tariffs less of a barrier for Japanese manufacturers. The export quotas agreed upon in 1935 can be viewed as an effort to counteract the competitive edge gained through the Yen devaluation. However, a difference-in-differences (diff-in-diff) analysis reveals that the value of Japanese cotton textile exports to the Philippines actually increased following the imposition of these quotas. It was only the outbreak of the Sino-Japanese War in 1937 that significantly curtailed Japanese exports.

2. Literature Review and Historical context.

2.1 Tariffs, competitiveness and colonial effect on trade.

Tariffs and their economic impact have been widely discussed in the literature, although few articles empirically study competition in colonial markets, focusing instead on the evolution of tariff protection levels. Historiography suggests that by 1913, Great Britain had become a major proponent of free trade, maintaining an open-door policy in its Empire's colonial markets. In contrast, starting in 1892, France adopted tariff assimilation or customs unions, allowing colonies to enjoy free trade with the motherland while imposing high tariffs on foreign goods (Gann et al., 1969). Similar discriminatory practices, known as asymmetric protection, were also observed in

Spanish, Portuguese, and US dominions, which implemented preferential tariffs (Mitchener & Weidenmier, 2008; Tena-Junguito & Restrepo, 2023).

A major limitation of these studies is their lack of empirical demonstration of the impact of asymmetric trade policies on colonial imports. Some approaches rely on theoretical models. For instance, Thomas (1965) illustrates the deadweight loss generated by the Navigation Acts in the British thirteen colonies in North America. Similarly, Bonfatti (2015) uses a theoretical model to argue that decolonization is more likely when the rest of the world is richer in manufactures or poorer in raw materials. This is because trade policy outside the empire tends to be more favorable to a rebel colony, while trade policy within the empire is more restrictive.

Empirical research on colonial trade often examines the intense commercial exchanges between a colony and its colonizer, known as the colonial effect on trade. These studies primarily focus on post-independence trade relationships with former metropolises. Pioneering works in this area, such as Eichengreen & Irwin (1996) and Athow & Blanton (2002), demonstrate that trade relationships between metropolises and former colonies are unusually intense but tend to diminish over time.

More recent studies have expanded on these findings. Head et al. (2010) demonstrated that trade with the colonizer decreased post-independence, especially in cases of hostile separations. Berthou and Ehrhart (2017) and Ro'i & Senegas (2012) presented similar findings. Lavallée et al. (2015) highlighted differences between empires, showing that post-independence trade between France and its former colonies diminished due to the end of French colonial protectionism, unlike for former British colonies. This is crucial for our research, suggesting that French asymmetric protectionism significantly explained the intense trade between a metropolis and its colony. El Kallab & Terra (2018) attributed this to the extractive institutions of the French Empire. Conversely, De Sousa & Lochard (2012) suggested that persistent trade connections in the case of British colonies are due to the pre-colonial origins of British trade with these territories. Similarly, Absell et al. (2024) indicate that colonial trade policy and location were important drivers of the metropole effect.

Other authors also mention similar kinds of endogeneity, where location or pre-colonial conditions influenced the trade policies established by colonial powers (Auer,

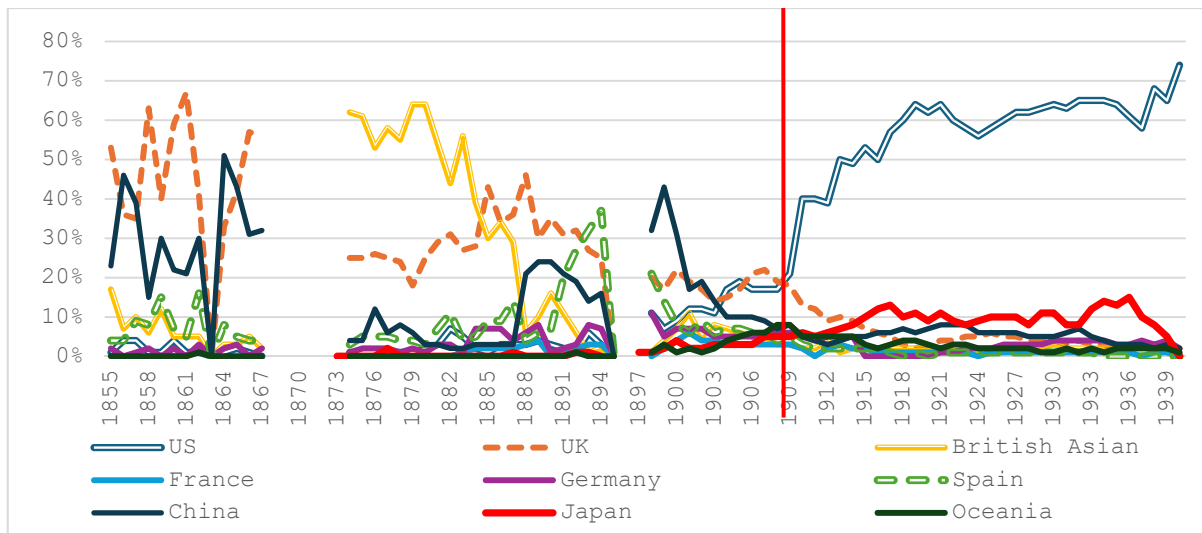
2013; Tadei, 2022). This endogeneity would make Africa unsuitable for studies on the impact of asymmetric protectionism and would drive similar studies in other regions. For example, Mazhikeyev & Edwards (2021) study trade between Russia and former Soviet Republics after 1991.

Unlike Africa, Southeast Asia's greater distance from Europe meant location played a less significant role in colonial trade policies. Moreover, the region faced intense competition not entirely dominated by Western powers, notably from Japan. Recent scholarship has highlighted Japan's emergence as a major trade partner in Southeast Asian colonies through informal empire mechanisms (Ayuso-Díaz & Tena-Junguito, 2020). Japanese penetration was particularly pronounced in Dutch colonies due to their more liberal trade regimes (Booth, 2003). However, studying the long-term impact of tariffs on trade in Dutch and British Asian colonies is challenging because they only implemented asymmetric tariff policies in the 1930s. In contrast, the Philippines and French Indochina applied protectionist policies since the late 19th century. Given these factors and the availability of high-quality commercial statistics, this study focuses on how asymmetric protectionism influenced the direction of Philippine imports between 1913 and 1940.

2.2 Colonial trade policies and competition in Philippine imports across history.

The Philippines was a Spanish colony from the 16th century, during which Spain maintained a near-total trade monopoly and enforced strict trade restrictions. It was only after 1789 that Spanish authorities permitted the Philippines to engage in trade with other nations. Subsequently, British and later American manufactured goods began to be exchanged for Philippine sugar and hemp.

Figure 1 Share of Philippine imports by main countries 1850-1940.



Sources: Table 3 by Yoshiko Nagano, Y. (1997)

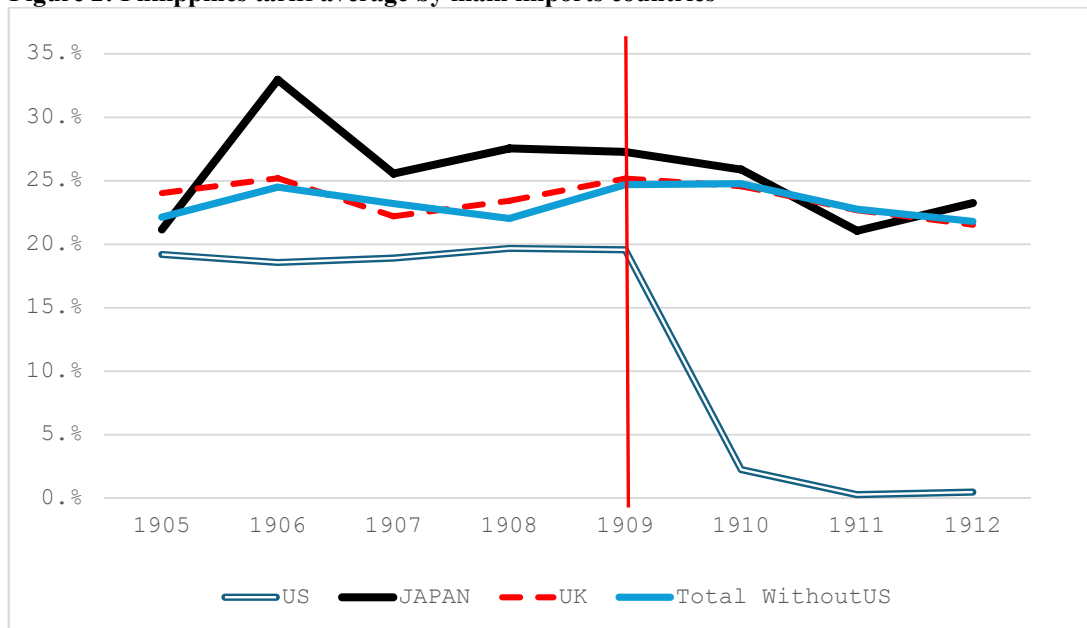
Figure 1 illustrates the dominance of British manufactured goods and food products from British Asia and China in the Philippine market during the latter half of the 19th century. Consequently, Spanish exports held a mere 10% market share until the Philippine Revolution in the 1890s, which shifted Spanish focus back to the Philippine market. During this period, the United States remained a marginal supplier, contributing less than 3% of the market share.

A new phase commenced during the first decade of American rule, from 1899 to 1909. Under Article III of the Treaty of Paris (1898), Spanish goods and vessels were to be treated on par with those from the United States. During this period, there were no substantial tariff reductions or preferences for American imports compared to Spanish or other suppliers. U.S. shipping laws were not enforced in the Philippines, as American shipping companies in Asia were relatively weak and could not compete with British interests in supporting American exports of Philippine sugar, tobacco, and hemp. Despite these limitations, the U.S. share of Philippine imports increased to 14% from 1899 to 1909, while its share of Philippine exports fell to 34%.

With the expiration of the ten-year period, the U.S. Congress enacted the Tariff Law of August 9, 1909, ushering in an era of asymmetric protection between the U.S. and the Philippines that lasted until 1935. This law established nearly unrestricted free trade for exports and imports between the two countries, with only minor exceptions (see Figure 2). In contrast, other countries retained similar tariff levels as before. The Tariff Act of October 1913 further cemented this relationship by instituting free trade

for Philippine sugar, cigars, and tobacco, thereby reinforcing the commercial reciprocity between the U.S. and the Philippines.

Figure 2: Philippines tariff average by main imports countries



Source: Philippine Bureau of Customs (Various volumes).

Asymmetric US protectionism in the Philippines persisted until World War II, despite the formal declaration of future independence under the Independence Act of 1934. The tariff reductions of 1910 benefitted US manufacturers of textiles, machinery, and iron and steel, but clashed with the interests of US sugar and tobacco producers, who voiced their concerns in Congress. Over the next two decades (1916-1925 and 1926-1935), the share of Philippine exports to the US rose from 66% to 79%, while imports from the US increased from 60% to 63%.

Despite an average tariff of around 20%, Japan emerged as a major competitor to the USA in the Philippine market, displacing the British, who had around a 10% import share. The primary competition between the USA and Japan centered on cotton goods, with both countries dominating 90% of the market. Japan's market share in cotton goods increased from 18% in 1925-1929 to 34% in 1930-1935, while Great Britain, once the leading exporter of cotton textiles, struggled within the framework of US asymmetric protection.

Several factors contributed to the decline in British competitiveness. Porter (1982) highlighted the obsolescence and inefficiency of the British textiles sector. In a

context of limited demand, increased exports from local producers such as Indian, Japanese, and Chinese manufacturers eroded British market share. Additionally, the overvaluation of the pound in the 1920s likely exacerbated the British decline (Andrews, 1987). Conversely, Japanese textiles, already cheaper, benefited from Yen devaluation after 1931 and capitalized on a shift in demand towards more affordable varieties (Shimizu, 1984).

This reference also highlights improvements in Japanese shipping during the interwar years, which were crucial to Japan's dominance in Southeast Asian cotton textile exports. The historiography indicates that Japan's competitive edge in cotton textiles was largely due to its efficient distribution system. This system ensured rapid and cost-effective delivery through a direct-to-dealer approach, extending even to British colonies such as Malaysia (Brauer, 1931). Consequently, Japanese ships carried about 80% of the cotton textile trade between Burma and the Far East. Additionally, Japanese migration and the establishment of consulates were strategies employed to counteract British diplomatic dominance in Southeast Asia (Hartley, 2018).

As noted, the transition to Philippine Independence began with the Independence Act of March 24, 1934, marking the start of the Commonwealth period. This period was characterized by a 10-year transition maintaining free trade between the USA and the Philippines, with some exceptions after the first five years. By the same year, Japan's share of the Philippine cotton textile market had exceeded that of the USA. Japan supplied 52.7% of the cotton textile tonnage to the Philippine market, while American suppliers provided only 40.5%. In response, the United States sought to assert control over the Philippine market by negotiating with Japan to voluntarily restrict cotton textile exports. In 1935, the US Department of State announced a two-year agreement limiting Japanese cotton and textile exports to the Philippines to 45 million square meters annually, down from 60 million square meters the previous year, in exchange for a promise not to increase tariffs on cotton goods.

2.3 Japanese sources of competitiveness in its interwar rivalry against the USA.

Unlike British India, the Philippines had a very marginal domestic cotton textile production, limiting the influence of local producers on the country's commercial

policy design.¹ This paper examines the competition between the USA, as the colonial ruler of the Philippines, and the Japanese Empire, the principal challenger, during periods of asymmetric US protectionism and the Commonwealth era. Various explanations have been offered for the penetration of Japanese textile exports into the Philippines.

Some scholars attribute Japan's success to the aftermath of World War I and Japan's post-war economic surge (José, 2003). During the conflict, Japanese manufactures replaced those of European producers who focused all their industrial and maritime efforts on winning the war. Yoshikawa (1995) explains that this replacement occurred due to the relative increase in prices of US and European manufactures, rather than rising Japanese competitiveness. The substitution of high-quality US textiles with more affordable Japanese products deepened in the context of post-war inflation.

The last author also mentions other factors that fostered the demand for Japanese textiles in the Philippines, including the establishment of Japanese consulates and increased Japanese immigration. The establishment of consulates helped reduce information and transaction costs for Japanese producers and traders, while Japanese immigrants created a demand for goods from their homeland over other manufactures. Major Japanese zaibatsu and the Yokohama Specie Bank also established subsidiaries in the Philippines, which demanded Japanese intermediate goods and reduced transaction costs. Additionally, the Japanese government supported exports through subsidies. Collectively, these elements facilitated Japan's growing influence in the Philippine textile market during the interwar period.

Brown (1992) also contends that the affordability of Japanese textiles provided a competitive advantage that overcame US protectionism. In this context, Shimizu (2005) suggests that decreases in wages and increases in productivity during the years of rationalization under deflationary policy (1927-1931) contributed to the relative

¹ In 1941, a report by the Technical Committee to the President of the Philippines estimated that only about 20% of the cotton cloth consumed in the Philippines was produced locally. According to the report, "There are only two textile mills in the Philippines, one owned by the Philippine Government equipped with 20,000 spindles and the other by a private concern with a spindle capacity of 7,500 spindles" (see Table 62). Additionally, there was a weaving mill owned by the Japanese, which used imported yarns for its raw materials and had a weaving capacity of 3,000,000 yards per year. (American Philippine Trade Relations. Report of the Technical Committee to the President of the Philippines. Washington 1944. p.167, <https://babel.hathitrust.org/cgi/pt?id=mdp.39015030014255&seq=9>)

cheapness of Japanese textiles in Southeast Asia. Consequently, Japanese textiles, being more affordable, matched the demand of relatively poor Southeast Asian consumers better than the more sophisticated Western manufactures.

Kagotani (2019) explains that exchange rate parities during the 1920s were another mechanism that made Japanese textiles cheaper. British colonies were pegged to an overvalued Sterling Pound since 1925, so Japanese exports became more affordable due to the lower parity of the Yen. The Japanese departure from the Gold Standard and the subsequent devaluation of the Yen in 1931 deepened this advantage. Japan was able to purchase large quantities of raw cotton before the devaluation and then sell its cotton manufactures at a devalued Yen in Southeast Asian colonies. This strategic advantage allowed Japan to dominate the textile market in these regions despite economic fluctuations.

The evolution of freight rates significantly impacted Japanese textile exports to Southeast Asia. Yasuba (1978) notes that Japanese freight rates for light manufactures were lower than those of other countries since the late 19th century, further decreasing before WWI due to increased productivity and government subsidies. During the interwar period, while the decline in Japanese freight rates halted due to wage rigidity and monopolistic power of Japanese shipping lines, Japanese freights remained competitive. This was due to government low-interest loans for vessel construction (Davies, 1985).

Japanese maritime advantages persisted until the Sino-Japanese War in 1937. The conflict required significant transport resources for soldiers and munitions, restricting commercial shipping in the Pacific. Farley (1939) estimates that up to one third of the Japanese merchant fleet was used for war purposes, sharply increasing Southeast Asian freight rates.

Conversely, US protectionism in the Philippines significantly hindered Japanese penetration, as discriminatory tariffs during the period of asymmetric protectionism made Japanese cotton textiles more expensive than their US counterparts (Lim, 1981; Booth, 2003). Both authors also emphasize that the establishment of the Philippines Commonwealth in 1935 included quotas on Japanese cotton textile exports. The Japanese agreed to these export limits in exchange for a promise of tariff

stabilization and future Philippine independence, which they anticipated would enhance their influence in the islands.

In contrast, Goodman (1978) argues that protectionism alone couldn't halt Japanese commercial advances in the Philippines. He posits that only the trade controls imposed after the Sino-Japanese War outbreak in 1937 significantly reduced the share of Japanese cotton textiles in the Philippine market. Okazaki (2023) examines these controls in more detail, concluding that the Japanese government restricted the allocation of foreign exchange for raw cotton imports in 1937-38, artificially increasing the price of Japanese textile exports. However, this issue was corrected by 1938.

3. The New Database and descriptive statistics.

3.1 The new imports database.

The paper significantly enriches the literature on the impact of asymmetric protection by offering a pioneering analysis of discriminatory tariffs' impact at the product level. This novel approach provides nuanced insights into how such tariffs, designed to favor the colonial power, influenced trade dynamics within colonial territories.

To achieve this objective, access to granular data on imports by partner and corresponding tariffs for a comprehensive range of products is indispensable. Our primary data source is the *Annual Report of the Insular Collector of Customs*, provided by the Philippines Bureau of Customs, covering the period from 1909 to 1940. By focusing on the period starting from 1913, we can evaluate the effects of World War I and its aftermath on competitive dynamics within this colonial market.

The accuracy of the data is confirmed by its alignment with figures reported in the *Statistical Bulletin of the Philippine Islands*, published by the Philippines Bureau of Commerce and Industry. This dataset is highly detailed, covering up to 102 products and 86 trading partners, allowing for an in-depth analysis of Philippine imports at the product level.

The dataset includes quantities imported and values in Philippine Pesos, which we convert to US dollars using the exchange rates from Federico & Tena (2019) to

account for currency fluctuations. Import duties are also detailed, and we calculate average tariffs for each product by dividing these duties by the total imports, excluding imports from the USA, which were exempt from duties.

For our analysis, we classify commodities using the Standard International Trade Classification (SITC) in its Second Revision (SITC Rev-2). We categorize sectors 5-8, which encompass various manufactures, into two groups: light and heavy manufactures. Light manufactures include textiles, cloths, paper, and wood, while heavy manufactures encompass chemicals, iron and steel products, and machinery, including transport equipment. This classification follows the framework established by Chepeliev (2020).

3.2 Descriptive Statistics: Competition in the Philippines markets.

The new database reveals key insights into the evolving patterns of Philippine imports during the interwar years. As shown in Figure 3, there was a notable shift from food and light manufacturing imports to an increased reliance on heavy manufactures. This trend indicates a diversification in the types of goods imported into the Philippines, with a growing emphasis on heavy manufactures.

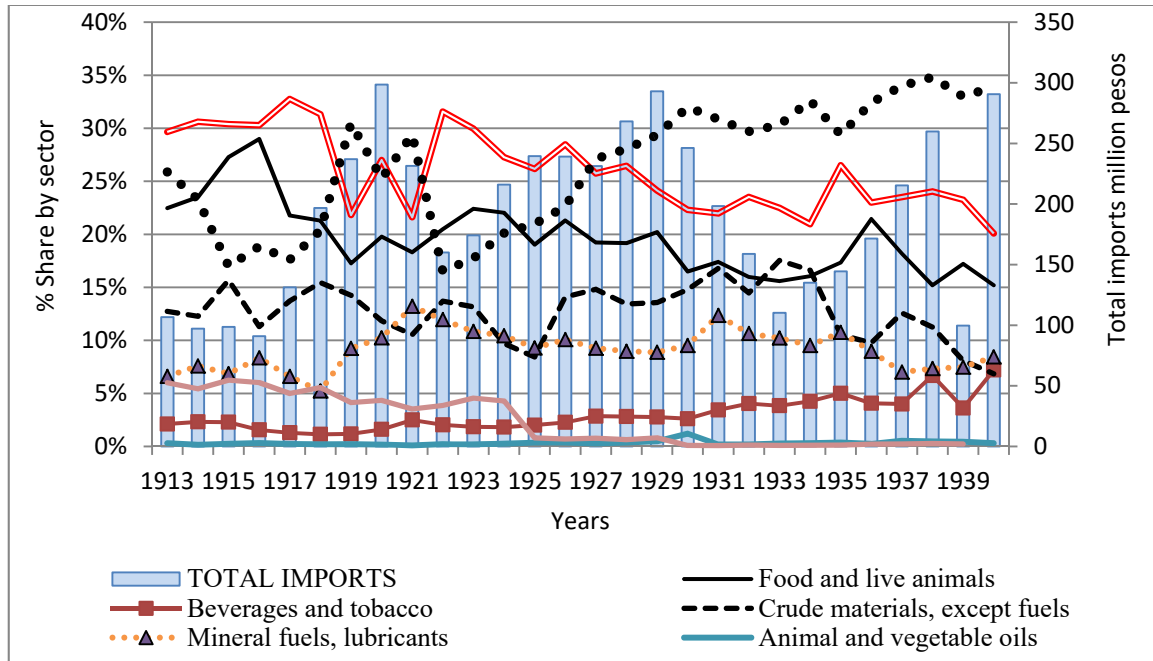
During periods of economic stability and growth, total imports increased alongside the share of heavy manufactures. However, during crises, such as the post-War adjustment or the Great Depression, there was a noticeable resurgence in the share of light manufactures or a stagnation in the dominance of heavy manufactures.

This trend likely indicates an ongoing industrialization process in the Philippines, as observed by Williamson & de Dios (2014). It also highlights the increasing dominance of the USA in the Philippine market, which is evident from Figure 1. The USA's comparative advantage in heavy manufactures explains its growing market share, which accelerated during World War I and after 1937.

Meanwhile, the Japanese Empire progressively replaced other East and Southeast Asian exporters to become the second main supplier to the Philippines. This shift was particularly marked during World War I and the Great Depression. However, the trend began to reverse following the establishment of the Philippines

Commonwealth in 1935 and more sharply with the onset of the Sino-Japanese War in 1937.

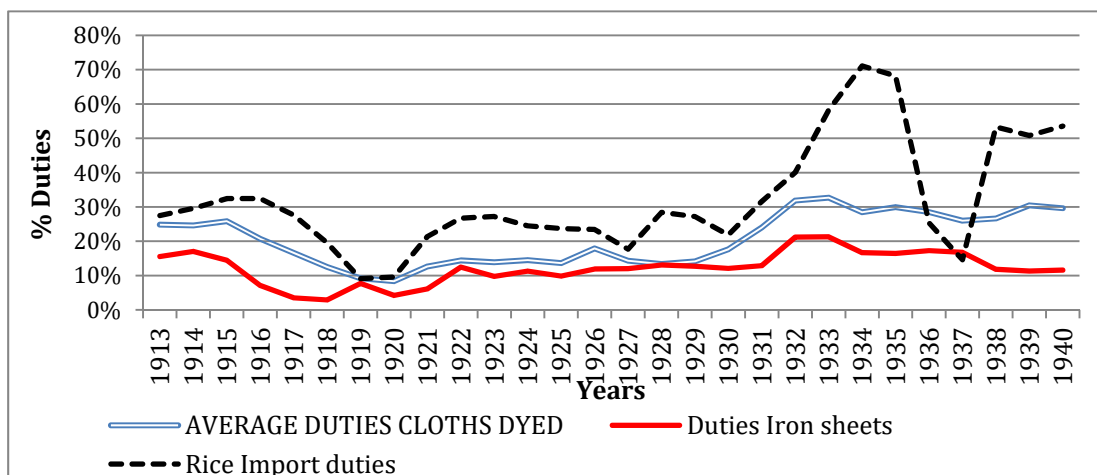
Figure 3: Share of Philippine principal imports by sector (left) and total imports in million Pesos (right) 1913-1940.



Source: Philippine Bureau of Customs (Various volumes).

A closer examination of protectionist measures during the interwar years clarifies the observed trends. For instance, rice, a key foodstuff, was highly protected, as shown in Figure 4. The average duties on rice increased significantly in the 1930s, leading to a rise in domestic rice production and a corresponding reduction in imports from Indochina. This protectionist strategy reduced the Philippines' reliance on Southeast Asian foodstuffs, reflecting a broader trend of increasing self-sufficiency and decreased dependency on regional imports.

Figure 4: Import duties in principal Philippine imports 1913-1940.



Source: Philippine Bureau of Customs (Various volumes).

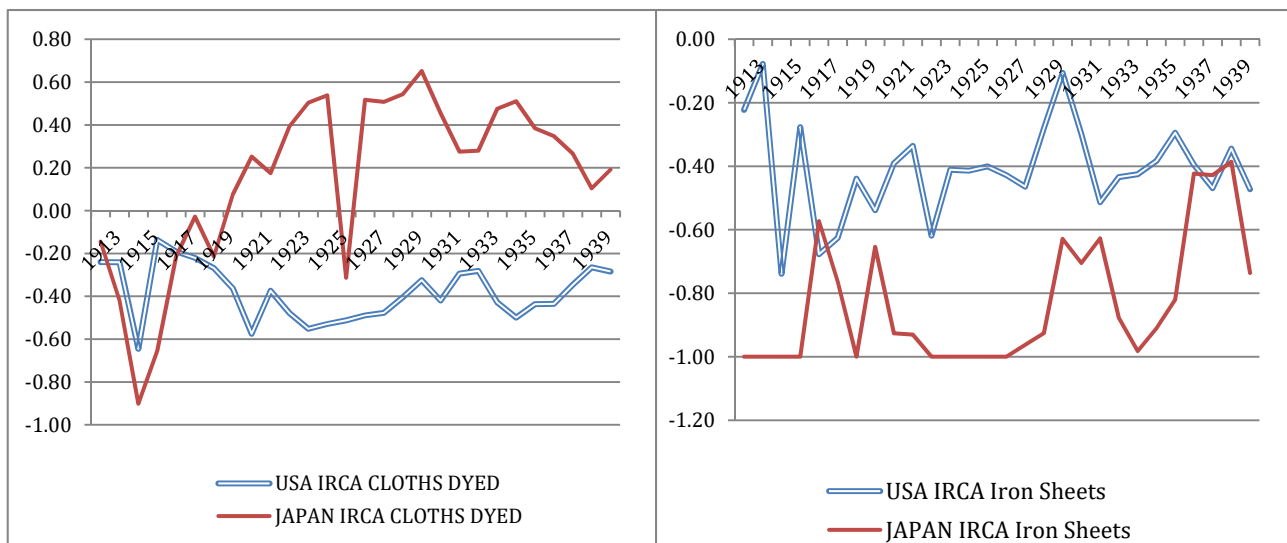
Overall, Philippine tariffs decreased during WWI but rose during the 1920s and especially after the Great Depression. Following the establishment of the Philippines Commonwealth, tariffs decreased again in exchange for quotas on Japanese cotton textile exports. Among the studied items, rice consistently faced the highest levels of protection, representing a key commodity in heavily imported sectors. This heightened protection was largely driven by local producers' pressure. During the Great Depression, average rice duties saw a notable increase but were temporarily reduced amid the 1935 rice crisis, only to rise again by 1937 (Chiba, 2010).

Rice and foodstuffs, in general, were among the few sectors where Philippine local producers could demand protection. Manufacturing tariffs were primarily set to protect US producers and confront regional rivals with devalued currencies like Japan (United States Tariff Commission, 1929). Figure 4 indicates that dyed cloths were more protected than iron sheets in the Philippines, which aligns with the Japanese IRCA (Index of Relative Comparative Advantage) in Philippine markets depicted in figure 5. This index was favorable to Japan for dyed cloths and to the USA for iron sheets.² In addition, the Philippines sought to develop a local textile industry since the late 1930s. (Brown, 2014).

Figure 6 depicts the impact of average import duties and comparative advantage on the market shares of the USA and Japan for the studied commodities. For dyed cloths, as shown on the left-hand side of Figure 5, Japan's market advantage increased after WWI, especially in the late 1920s and early 1930s. This likely prompted the rise in tariffs on this commodity, as seen on the left-hand side of Figure 6. The graph indicates that reductions in import duties on dyed cloths during WWI and their post-war stabilization at low levels coincided with a rising share of Japan in this market until 1929. The increased tariffs during the Great Depression contributed to a reduction in the Japanese share. However, the effectiveness of asymmetric protection diminished during the 1930s, as the Japanese market share recovered and then fell sharply despite the stability of tariffs at high levels. This suggests that we should scrutinize other variables to explain the evolution of Philippine cotton textile imports in the 1930s.

² Raise in Japanese iron sheets expertise in the late 1930s might reflect Japanese rearmament and industrialization in heavy manufactures, even though it didn't allow Japanese market share in the Philippines to converge with the US.

Figure 5: Philippines Index of Revealed Comparative Advantage (IRCA index (-1 to 1) in cotton cloths dyed (left) and iron sheet imports (right) from the USA and Japan 1913-1940.

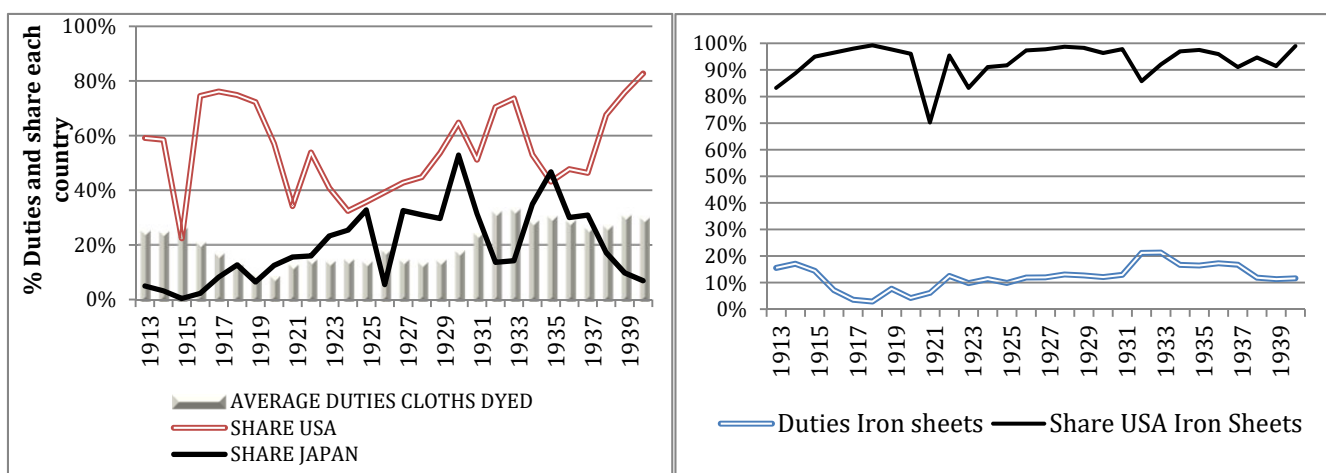


Source: Philippine Bureau of Customs (Various volumes).

Notes: IRCA go from -1 to 1 and is calculated as partner's quota in the analyzed sector divided by the corresponding sector's quota in Philippines imports following Álvarez et al., (2017).

On the other hand, the market for iron sheets was clearly dominated by the USA, with quotas approaching 100%. Consequently, import duties remained low but still had some impact. For example, reductions in tariffs during WWI coincided with a decrease in the US quota, while tariff recovery during the 1920s coincided with a renewed increase in the US market quota.

Figure 6: IRCA index in Philippine cotton cloths dyed imports from the USA and Japan (left) and Average duties and share of USA and Japan in Philippines imports in cloths dyed (right) 1913-



1940.

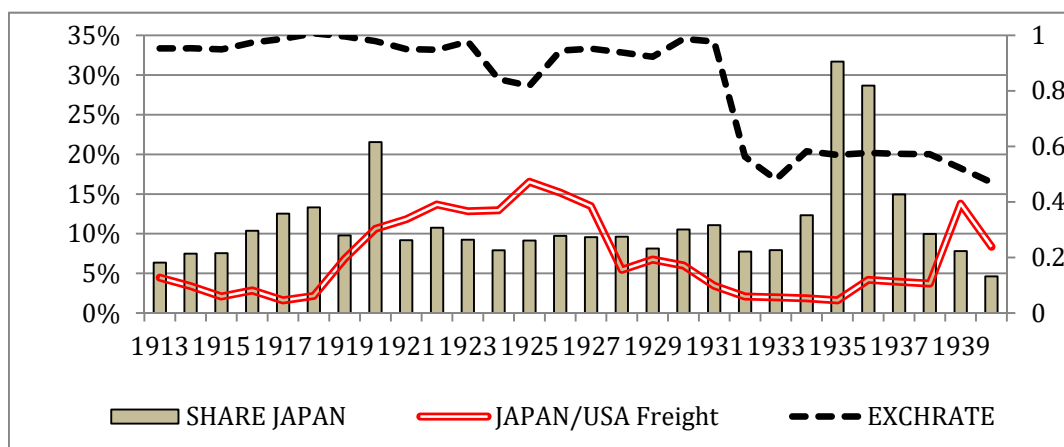
Source: Philippine Bureau of Customs (Various volumes).

Figure 7 delves into the factors potentially explaining the behavior of Japanese cotton manufactures in Philippine markets. One significant factor is shipping competition between the USA and Japan during this period. For most of the analyzed years, Japan benefited from lower transport costs, likely due to its closer proximity compared to the USA. Additionally, during World War I, the Japanese market share increased significantly, coinciding with substantial rises in US freight costs and only moderate increases in Japanese transport costs, as noted by Yoshikawa (1995).

After World War I, Japanese transport costs rose relative to those of the USA, leading to a decrease and stabilization in Japanese market share. Between 1927 and 1935, Japanese freight rates fell compared to US rates, which contributed to a significant increase in the Japanese market share. This divergence in freight costs occurred because US rates stabilized and then increased after the formation of a tanker pool in 1934 (Sanderson, 1938), while Japanese rates decreased, partly due to government subsidies for vessel construction (Davies, 1985). The final collapse of Japanese cotton textile exports to the Philippines coincided with a sharp increase in Japanese transport costs relative to American ones, triggered by the outbreak of the Sino-Japanese War in 1937.

Regarding exchange rate fluctuations, Figure 7 shows that the Yen's value relative to the Philippine peso remained stable for most of the period, limiting its impact on Japanese exports. However, the devaluation of the Yen in 1931 coincided with a significant expansion in Japanese cotton textile exports to the Philippines.

Figure 7: % Share Japanese cotton textile exports to the Philippines (right) and index of exchange

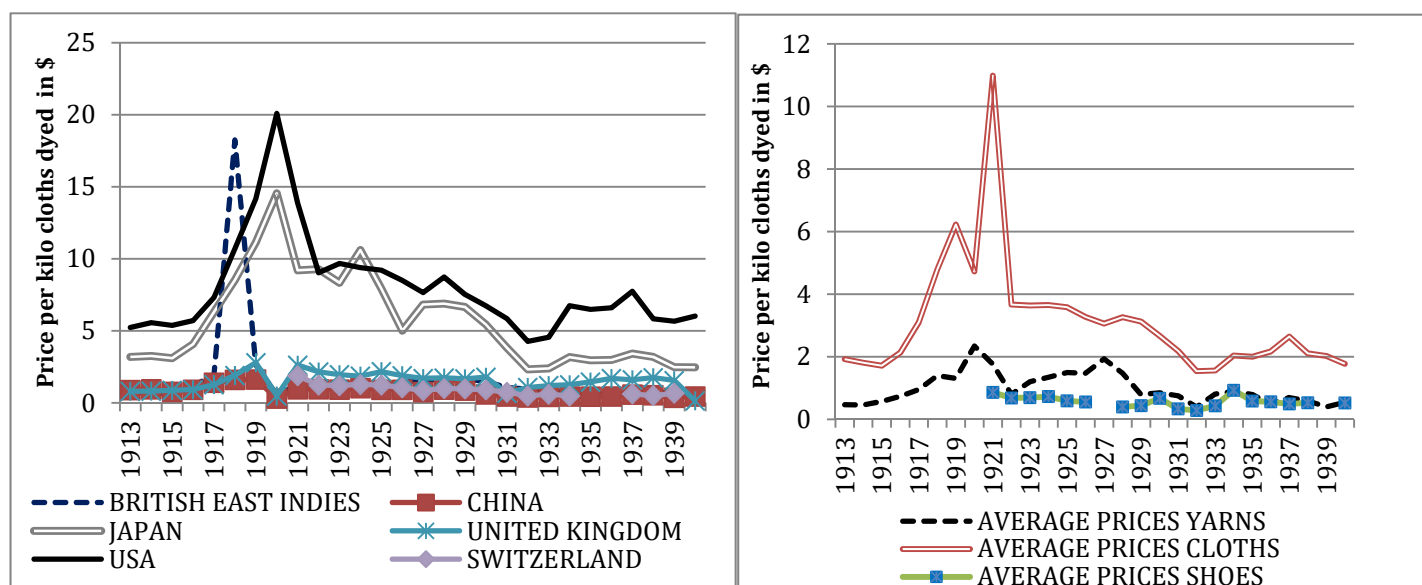


rate and freight differential 1913=1 (left) 1913-1940.

Sources: See table 1.

The last competitive advantage for Japanese textile manufacturers, as noted in the literature, was their lower pricing compared to other producers. This substitution of high-quality US textiles with cheaper Japanese alternatives was particularly notable during WWI and the post-war inflation period (Yoshikawa, 1995). However, the left side of Figure 8 shows that, during the interwar years, Japanese dyed cloths were only cheaper than US products. Among major exporters to the Philippines, Japanese textiles were more expensive than those from India, China, Switzerland, or Britain, although they gradually reduced the price gap. Dyed cloths are within the most complex and expensive variety of cotton textiles as shown in the right-hand side of figure 8, but we appreciate a similar pattern in the rest of cotton manufactures.

Figure 8: Average price of cotton cloths dyed by the principal exporters to the Philippines (left) and average price of cotton textiles by variety both in dollars per kilo (19 13-1940).



Source: Philippine Bureau of Customs (Various volumes).

4. Empirical strategy.

Both the literature and our data reveal that competition in the Philippine market was particularly intense for cotton textiles, with import duties designed to protect US producers. Japan emerged as a strong competitor to US dominance, becoming the leading supplier by 1935. However, Japanese market share declined afterward, allowing the USA to regain its leading position.

In this section we are going to measure the effectiveness of asymmetric protection and the relevance of different factors that, according to the literature in section 2, might have facilitated Japanese cotton textile exports to the Philippines. For doing that, we run a regression with the dependent variable being the Philippines' imports of cotton textiles in kilos by exporter (i), at the product level (j) for each year (t) between 1913 and 1940. We choose not represent this variable in dollars to avoid endogeneity because the dollar value of imports in the destination includes costs of transport, exchange rate fluctuations and tariffs, which are the regressors in this estimation. The first explanatory variable is country and time variant since it consists on freight rates on a mileage basis for three different routes multiplied by each country distance with Manila in nautical miles. We also add annual import duties at product level that are the same for every country but the United States for which tariffs are zero. Finally we incorporate the annual exchange rates of each currency with respect to the Philippine peso.

The universe of cotton textile imports by the Philippines during this period encompasses numerous products. However, our study focuses on those for which detailed information about quantities and duties is available. We analyze 14 different goods, which represent 70% of total Philippine cotton textile imports from 1913 to 1940, across a sample of 32 countries. This results in 12,544 observations, including both countries and periods with zero trade, and 2,143 positive trade flows. The sources and key characteristics of these variables are outlined in Table 1.

Table 1: Sources and principal features of regression variables.

Variable name	Source	Characteristics
---------------	--------	-----------------

$Imp_{ij,t}$	Annual report of the insular collector of customs (various volumes).	Philippine imports of cotton textiles at product and country level from 1913 to 1940. Expressed in kilos.
$Freights_{i,t}$	<ul style="list-style-type: none"> • Freight Osaka-Batavia Cotton Piece Goods Ayuso-Díaz & Tena-Junguito (2020). • Freight Indian Cotton to New York Smith (1915) The Traffic Service Corporation (1927) and US Tariff Commission (1940). Interpolated using SE Asia freight index by Mohammed & Williamson (2004). • Freight Manila hemp to UK Federico & Tena-Junguito (2019). 	Freight rate per ton of cotton manufactures from three different routes (East Asia dominated by Japan, US and European/Southeast Asian dominated by the UK) on a mileage basis multiplied by distance in nautical miles with the respective exporter.
$Exchrates_{i,t}$	Federico & Tena-Junguito (2019).	Pesos per currency of interest. If the variable rises it means a foreign currency appreciation.
$Tariffs_{ij,t}$	Annual report of the insular collector of customs (various volumes).	Import Duties collected divided by total imports at product level in dollars.

EQ (1)

$$Imp_{ij,t} = \beta_0 + \beta_1 Freights_{i,t} + \beta_2 Exchrates_{i,t} + \beta_3 Tariffs_{ij,t} + \gamma_i + \alpha_j + \delta_t + \Pi_{ij} + Y_{it} + P_{jt} + \varepsilon_{ij,t}$$

We estimate equation 1 using two methods. To analyze positive trade flows, we apply Poisson Pseudo Maximum Likelihood (PPML) with fixed effects, as suggested by Silva & Tenreyro (2006), utilizing the `ppmlhdfc` command developed by Correia et al. (2019). This method helps mitigate multicollinearity among variables (Baltagi, 2008) and incorporates fixed effects to control for multilateral resistance to trade (Fally, 2015; Anderson & Van Wincoop, 2003). For models including zero trade flows, we use Zero Inflated Poisson (ZIP) estimation due to the high prevalence of zero

observations (10,401) compared to positive trade flows (2,143), which does not conform to a standard Poisson distribution (Martin & Pham, 2020).

Unfortunately, we cannot control for fixed effects that vary by country, year, and product due to the limitation of having data for only one importer, the Philippines. This would result in perfect collinearity among the regressors, as fixed effects would absorb all variability (Wooldridge, 2010). Instead, we follow Arthi et al. (2024) and include country, product, and time fixed effects ($\gamma_i, \alpha_j, \delta_t$) along with interactions of these fixed effects grouped into broader categories. Specifically, we group country fixed effects by the three different routes used for calculating freight rates, categorize product fixed effects into three varieties (yarns, clothes, and shoes), and replace year dummies with five-year fixed effects. These interactions are represented in equation 1, where Π_{ij} , denotes the route-product variety fixed effects, Y_{it} represents the route-Five Year fixed effects and P_{jt} represents the product variety-Five-year fixed effects. Finally, $\varepsilon_{ij,t}$ indicates the product, exporter and time variant error term.

We log all the variables to interpret them as elasticities (Martínez-Zarzoso, 2013). Each independent variable is interacted with a Japanese dummy to assess if any of these variables affect imports from Japan differently. Additionally, we create a triple interaction by multiplying the previous interaction with a post-1929 variable to examine if the impact of these variables on imports from Japan changed during the 1930s.

In addition to analyzing the economic factors affecting cotton textile exports to the Philippines at the product level, we aim to assess the impact of significant events in the 1930s on this trade. To achieve this, we run two independent difference-in-differences (diff-in-diff) models. In both models, the treatment group is Japanese exports. The first model examines the effect of the establishment of the Philippines Commonwealth Government in 1935, while the second model evaluates the impact of the outbreak of the Sino-Japanese War in 1937.

$$\begin{aligned} Imp_{ij,t} = & \beta_0 + \beta_1 Japan_{j,t} + \beta_2 Intervention_{ij} + \beta_3 Japan Post Intervention_{ij,t} + \gamma_i \\ & + \alpha_j + \delta_t + \Pi_{ij} + Y_{it} + P_{jt} + \varepsilon_{ij,t} \end{aligned}$$

EQ(2)

The principal objective of Equation 2 is to assess which intervention had a greater impact on Japanese cotton textile exports to the Philippines. We use the same estimation methods as before. In this model, the dependent variable is imports in current dollars, as we are not measuring the impact of variables that caused endogeneity in Equation 1. Additionally, we group year fixed effects into decades, as five-year averages would introduce collinearity with the post-1935 dummy.

5. Results.

5.1 Principal Results.

In Table 1, we present the coefficients and significance levels of the principal variables incorporated into Equation 1. Column 1 details the determinants of Philippine imports of cotton textiles at the product level for the entire period, including years, countries, and products with zero trade. Conversely, Column 2 shows the estimation results when we only evaluate positive trade flows. Changes in the sample do not affect the interpretation of results, only the significance of some coefficients.

First, the positive and significant coefficient for freight rates indicates that the Philippines imported more from distant countries, particularly the USA. The positive and significant exchange rate coefficient suggests that a stronger currency generally reduced costs and prices for raw cotton imports (Abe & Hirano, 2013; Gordon, 2021; Hatase, 2023). Most importantly, US-imposed tariffs had a negative and significant impact on cotton textile imports, showing the effectiveness of asymmetric protection in shielding US manufacturers from foreign competition.

The positive and significant coefficient of the Japanese dummy indicates that Japan was a preferential trade partner for the Philippines. The subsequent three coefficients, which interact with the Japanese dummy, reveal whether certain variables influenced textile imports from Japan differently than from other countries. The negative and significant coefficient for freight rates in both columns suggests that Japan's lower transport costs, due to proximity and government support for vessel construction, were a key driver of Japanese textile exports during the interwar years.

The coefficient of exchange rates remains positive and significant in the first column, suggesting that a strong yen facilitated the acquisition of cheap raw cotton from India and the USA and the sale of cheaper cotton manufactures to the Philippines

(Hatase, 2023). More relevantly, the negative and significant coefficient of tariffs in the first column indicates that asymmetrical protection was particularly effective in deterring Japanese cotton exports more than those from other partners. However, these results are not robust when analyzing only positive trade flows, as shown by their insignificant coefficients in column 2.

Lastly, the low coefficient of the post-GD dummy in the first column, which turns insignificant in the second, implies that the turbulent 1930s didn't have a significant impact on Philippine cotton textile imports. The remaining coefficients represent triple interactions between the studied variables, the Japanese dummy, and a post-Great Depression variable to assess changes during this decade. Notably, the coefficient of the interactions with exchange rate turns negative indicating that Japan's principal advantage in the 1930s was the yen devaluation in 1931. This did not increase production costs, as vast amounts of raw cotton were purchased at cheap prices before devaluation. After devaluation, the cost of Japanese cotton manufactures in international markets became relatively cheaper (Kagotani, 2019).

The coefficient of interaction for freight rates is small and not robust in column 2, indicating that in the 1930s, the principal boost to the consumption of Japanese cotton manufactures in the Philippines was the yen devaluation. Additionally, the coefficient for the interaction with tariffs turns positive, suggesting that increases in tariffs during the 1930s coincided with increases in Japanese exports of cotton manufactures to the Philippines, failing to curb them as Booth (2003) suggested. An alternative explanation could be that the different composition of British and other European cotton goods exports to the Philippines was crowded out by different Japanese cotton goods with similar tariffs. Furthermore, the positive coefficient might depict reverse causation, where Philippine tariffs were raised in response to increasing Japanese cotton textile exports.

Table 1: Determinants of Philippine cotton imports at country and product level 1913-40.

VARIABLES	(1) PHL Cotton Textile Imports in kilos (Zeros included)	(2) PHL Cotton Textile Imports in kilos (No Zeros)
Freights	0.507*** (0.000150)	0.571*** (0.126)

Exchangerate	0.567*** (7.96e-05)	0.513*** (0.0823)
Tariffs	-0.641*** (0.000344)	-0.729** (0.361)
Japan	3.535*** (0.00227)	5.405*** (1.131)
Freights Japan	-0.788*** (0.000886)	-0.770*** (0.243)
Exchrates Japan	1.890*** (0.00589)	1.134 (0.991)
Tariffs Japan	-0.603*** (0.000862)	0.198 (0.619)
Post GD	0.0560*** (0.000499)	-0.0614 (0.0772)
Freights Japan 1930s	0.189*** (0.000923)	-0.0393 (0.232)
Exchange Rate Japan 1930s	-2.766*** (0.00593)	-1.402* (0.794)
Tariffs Japan 1930s	0.772*** (0.000785)	0.528* (0.286)
Constant	193.1*** (0.126)	4.913* (2.752)
R-squared		
Product, exporter, time Fixed Effects and Route-Product variety, Route-Five Year and Product Variety-Five year fixed effects.	Yes	Yes
Estimation Method	ZIP	PPML
Observations	12,544	1,997

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The limited effectiveness of US discriminatory tariffs against Japanese cotton textile exports in the 1930s is further evidenced by the quotas established with the Philippines Commonwealth agreement in 1935, in exchange for tariff stabilization. Table 2 presents the coefficients of a diff-in-diff analysis, assessing whether these quotas halted the advance of Japanese cotton manufactures in the Philippines. The positive and significant coefficient of the interaction between the post-1935 dummy and the Japanese exports dummy in both columns confirms the ineffectiveness of this measure, as Philippine imports of Japanese cotton manufactures increased despite these export limits. Conversely, the negative and significant coefficient of the interaction between Japan and the post-Sino-Japanese War dummy shows that only the outbreak of the Sino-Japanese War and its adverse effects successfully reduced Japan's market share.

Table 2: Results: Diff-in-diff.

VARIABLES	(1)	(2)
	PHL Cotton Textile Imports in	PHL Cotton Textile Imports

	dollars (Zeros included)	in dollars (No Zeros)
Japan	3.558*** (0.00154)	3.423*** (0.294)
Post Commonwealth	-0.105*** (0.000224)	-0.471*** (0.0984)
Japan post Commonwealth	0.255*** (0.000431)	0.740*** (0.193)
Post War	0.100*** (0.000271)	0.326*** (0.0819)
Japan Post War	-0.603*** (0.000601)	-1.039*** (0.136)
Constant	11.53*** (0.000979)	13.08*** (0.0234)
Product, exporter, time Fixed Effects and Route-Product variety, Route-Five Year and Product Variety-Five year fixed effects.	Yes	Yes
Estimation Method	ZIP	PPML
Observations	12,538	2,143

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In summary, the results show that US discriminatory tariffs generally reduced Philippine cotton textile imports from foreign countries and were particularly effective in hampering Japanese exports. Japan benefitted from relatively lower transport costs due to government intervention throughout the period. However, tariffs couldn't block the advance of Japanese cotton manufactures driven by the early Yen devaluation in the 1930s. Consequently, in 1935, the USA aimed to restrict Japanese exports of cotton manufactures by agreeing to quotas with the Japanese delegation in exchange for a future Philippines independence. This measure, however, failed to reduce the value of Japanese textile exports to the Philippines, which only dropped with the outbreak of the Sino-Japanese War in 1937.

5.2. Robustness Checks.

The principal estimations aimed to determine the key sources of competitiveness for Japanese cotton manufactures in the Philippine market and the effectiveness of asymmetric protection measures in counterbalancing those advantages. According to the literature, a significant feature of Japanese textiles was their relatively lower price compared to their competitors, due to lower wages earned by Japanese workers. To assess how prices influenced Japanese exports to the Philippines, we could

use data from the Annual Report of the Insular Collector of Customs, which contains prices at the port of destination.

However, it is important to note that these prices are CIF (Cost, Insurance, and Freight), meaning they include costs of freight, exchange rates, and tariffs. Including these variables in our estimations would introduce bias, complicating the analysis of the actual impact of prices on Japanese exports. Furthermore, prices at the port of origin are equivalent to the import value in pesos divided by the import quantity, which is the dependent variable in our research. Thus, using these prices directly would create endogeneity issues in our analysis. To avoid this, we need to identify a measure of prices that is exogenous to Philippine imports in kilos.

Our approach in this situation is to use prices from alternative sources that are not directly linked to the specific imports under study. We utilize data from the Japanese Ministry of Finance (various volumes) that includes information about prices of Japanese cotton textile exports to the Philippines at the port of origin in current Yen at the product level. These prices are Free on Board (FOB), meaning they are not influenced by factors such as freight costs, exchange rates with the Philippine Peso, or tariffs at the destination port. Thus, FOB prices provide a measure of Japanese competitiveness in cotton textiles that is exogenous to Philippine imports in kilos. To facilitate our analysis, we convert these prices into US dollars using the exchange rates provided by Federico & Tena-Junguito (2019).

Since this last variable only has information for Japan, we must restrict our analysis to Philippine imports from Japan. Consequently, we can only include product fixed effects and the interaction of five-year dummies and product variety. To maximize the number of observations, we will estimate the model by including the zeros. Given that the number of zeros is now much lower than positive trade flows, we can retain the zeros and simultaneously estimate the model using Poisson Pseudo Maximum Likelihood (PPML) with fixed effects in column 2.

We present the results of this estimation, which incorporate prices at the port of origin, in Table 3. These results corroborate our earlier conclusions. The negative and significant coefficient for freights indicates that for most of the period, the primary determinant of Japanese cotton textile exports to the Philippines was their lower

transport costs. Additionally, a strong and stable currency favored exports. However, these results are not robust to estimation through PPML, as shown in column 2.

The coefficients of tariffs in both columns confirm that asymmetric protection through discriminatory tariffs effectively reduced Japanese exports of cotton manufactures to the Philippines. However, during the 1930s, the principal spur to Japanese cotton textile exports to the Philippines was the Yen devaluation after 1931, as indicated by the negative and significant coefficients in both columns. During this decade, the impact of import duties was weak.

On the other hand, the positive and significant coefficient of prices in column 1, which turns insignificant in column 2, provides insights that challenge previous literature. Specifically, it suggests that Philippine demand for Japanese textiles was not primarily driven by their lower prices. The positive coefficient of the interaction with the post-Great Depression dummy in both columns reinforces our belief that demand in the Philippines became more sophisticated, with Japanese producers successfully adapting by increasing exports of more complex and expensive varieties. Supply factors might also explain these results. Japanese producers tested sophisticated textiles in their East Asian colonies and, once productive, exported them to Southeast Asian neighbors (Ayuso-Díaz & Tena-Junguito, 2020, Appendix C).

Table 3: Imports determinants of Philippine imports of cotton textiles from Japan at product level 1913-1940.

VARIABLES	(1) PHL Cotton Textile Imports from Japan in Kilos (Zeros included)	(2) PHL Cotton Textile Imports from Japan in Kilos (Zeros included)
Freights	-0.526*** (0.000984)	-0.450 (0.321)
Exchangerate	1.292*** (0.00617)	3.057 (2.437)
Tariffs	-1.867*** (0.00128)	-1.580** (0.623)
Prices FOB	0.383*** (0.000534)	0.222 (0.189)
Post GD	-2.342*** (0.00369)	-4.183 (3.147)
Freights Post GD	0.346*** (0.00107)	0.237 (0.451)
Exchange rate Post GD	-3.295*** (0.00638)	-5.436** (2.689)

Tariffs Post GD	-0.0491*** (0.00159)	-0.824 (1.214)
Prices PostGD	0.400*** (0.000633)	0.600* (0.360)
Constant	9.651*** (0.00220)	11.46*** (1.010)
<hr/>		
Product, Fixed Effects and Product Variety-Five year fixed effects.	Yes	Yes
Estimation Method	ZIP	PPML
Observations	371	350

6. Conclusions.

This paper addresses the growing body of scholarship on the impact of asymmetric protectionism on trade direction, employing a long-term approach. These policies were more common before WWII, particularly within colonial frameworks. Unlike today's asymmetric protection, tariffs were imposed by countries wielding political power over another territory. Import duties often aimed to boost manufacturing exports from the metropolis to the colony. In the case of the Philippines, the U.S. imposed stricter commercial controls to maintain their privilege, more so than other European metropolises in their Southeast Asian colonial markets. To compensate for the relative scarcity of empirical studies on this subject, we align with recent research by performing this type of analysis using granular historical data.

To evaluate the impact of asymmetric protection on the composition and direction of trade in the Philippines, we built a new database on average import duties and imports at the product level. Statistics show that competition was more intense in cotton textiles, where Japan had a comparative advantage. The USA defended its textile exports to the Philippines by implementing asymmetric protectionist policies, imposing heavy tariffs on most manufactured goods while allowing US manufactures to enter duty-free, thereby limiting European and Japanese market competition. This policy was particularly successful against European competitors, especially British textile manufacturers, who were marginalized even before the interwar years. However, it was less effective against the Japanese. Japan's share in this sector rose after WWI, during the period of low tariffs in the 1920s, and again in the early 1930s despite increasing tariffs during the Great Depression. Furthermore, Japan's share decreased in the late 1930s despite stability in tariffs.

There is no consensus in the literature regarding the factors that influenced Japanese textile penetration in the Philippines. To address this, we conducted two regressions to compare the impact of variables suggested by other researchers. Our results indicate that, throughout the period, the main driver of Japanese cotton textile exports to the Philippines was their relatively lower transport costs. Additionally, Japanese cotton manufacturers benefited from the Yen devaluation in 1931, highlighting the role of government support in Japanese export expansion. Conversely, this study reveals that the Japanese advantage was not primarily due to low prices. Instead, Japanese textiles adapted to the increasing sophistication of Philippine demand.

Most importantly, this paper highlights that during the interwar years, asymmetric protectionism was effective in curbing cotton textile exports from foreign countries. Specifically, these tariffs had a more significant impact on Japanese exports, though this finding was not consistently robust across different estimation methods. Furthermore, increases in tariffs during the 1930s were ineffective in stopping Japanese market penetration.

The relative ineffectiveness of 1930s tariffs against Japanese cotton manufactures led the US government to agree to restrict Japanese textile exports in exchange for tariff stabilization with the signing of the Philippines Commonwealth in 1935. However, this measure also failed to curtail Japanese market penetration. It was only the outbreak of the Sino-Japanese War in 1937 that managed to halt Japanese advances in colonial Southeast Asia.

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