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JAPANESE ECONOMIC COOPERATION IN THE ASIA-PACIFIC REGION AND JAPANESE FOREIGN DIRECT INVESTMENT IN THE PHILIPPINES SINCE THE 1980S

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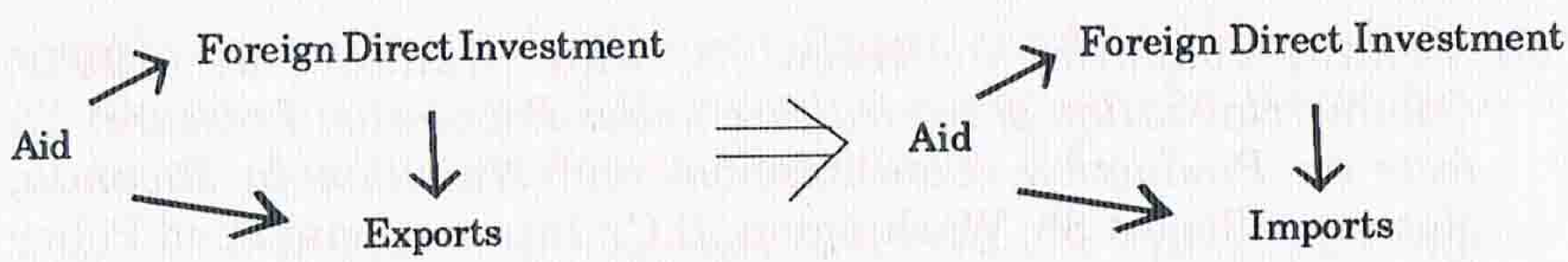
The purpose of this paper is to investigate the impact of Japanese economic cooperation on the Philippine economy, especially the impact of Japanese direct investment in the Philippines since the mid-1980s. First, a broad discussion on the changing characteristics of Japanese economic cooperation in the Asia-Pacific region is presented. The discussion then focuses on the characteristics of Japanese direct investment in the Philippines since the mid-1980s and assesses its impact on Philippine industrialization. In conclusion, the paper explores the nature of Japanese-Filipino economic cooperation.

1. Japanese Economic Cooperation Since the 1980s

1.1 Changing Characteristics of Japanese Economic Cooperation

The characteristics of Japanese economic cooperation[1] have been changing since the 1980s, especially around the midddle of the decade. It is well known that the amount of Japanese economic cooperation has been the biggest in the world since 1985 when yendaka (yen appreciation) drastically advanced. Both the quantity and the composition of Japanese economic cooperation have changed since then. As has been pointed out in other studies Japanese economic cooperation used to



Before the mid-1980s **After the mid-1980s**

Note: → means the effects of promotion

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[1]Economic cooperation means the total amount of foreign direct investment, ODA (Official Development Assistance), more than one year export credit, non-money making organization grants and so on, according to the definition of the DAC (Development Assistance Committee).

comprise the trinity of aid, promotion of exports and investment. However, in recent years, the composition has changed to aid, promotion of imports and investment as the foregoing figure shows.

In the past, Japanese Official Development Assistance (ODA) was used to assist the private sector in exporting to the rest of the world and promote Japanese direct investments abroad. It originated from the reparations paid to Southeast Asian countries. The reparations had the effect of pump-priming these economies which eventually led to an increase in Japanese exports, specifically of heavy-industry manufactures made in Japan. The Japanese Government ingeniously created effective demand in Southeast Asia by giving reparations.

The yen loan started in the early 1970s at almost the same time that Japanese reparations ceased to be given. In the case of the yen loan, it promoted not only Japanese exports all over the world but also Japanese foreign direct investment which started to increase in the early 1970s. Japanese ODA (Yen loan and grant) was used to promote the exports of Japan and to assist social infrastructure projects in recipient countries in order to create a good environment for Japanese direct investments.

The main strategy of Japanese direct investments during the 1970s was to sell their products to the local market, except the Japanese direct investments in the Asian NIEs, which were already export-oriented.[2] However, the export-oriented foreign investment of Japan, which was already spreading in a few Asian countries such as Korea and Taiwan since the 1970s, increased in the Asian region, specifically in ASEAN countries since the mid-1980s when Yendaka advanced sharply. Now, Japanese ODA is expected to play an active role in inducing export-oriented Japanese direct investment in Asia, specifically in Southeast Asia. It assumes a different role which is to promote imports to Japan and to assist Japanese export-oriented investments in Asian countries.

In addition to the changes in Japanese economic cooperation mentioned above, Japanese aid policy itself has changed. As mentioned earlier, Japan's ODA originated from the reparations of the Second

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[2]It has been pointed out that one of the important factors explaining rapid export growth of the Asian NIEs since the 1970s was the direct investments in these countries by Japan which aimed to export its products to the U.S. market. It can be thought of as a form of indirect (roundabout) export from Japan.

World War. The recipient countries and Japan have been so worried about the possibilities of a re-militarization of Japan. Japan's ODA was used only for economic development purposes in recipient countries and not for military purposes. Under Pax Americana, Japan depended on U.S. military and strategic aid, and thus Japan was able to restrict its usage of the aid for economic purposes. As far as Japanese aid was used for economic development, Japan did not interfere with its use. Japan's ODA used to be given for economic development projects which the recipient countries had chosen and submitted to the Japanese government. But now, Japanese aid policy has changed. Since the early 1980s, the U.S. has strictly required Japan to give aid not only for economic purposes but also for strategic purposes. Eventually, the Japanese government was obliged to accept the U.S.'s requirement. Examples of this are the contribution made by Japan for the Gulf War and the participation in the MAI (Multilateral Assistance Initiative) for the Philippines which will be referred to in a later section. Japan's policy of non-interference in the economic poliy of aid recipient countries has changed. The Japanese government has recently announced that it wants to hold talks with the recipient countries regarding their economic policies prior to the release of the aid because the discussions on economic policies and cooperation between the Japanese government and the recipient government were essential for effective usage of aid.

1.2. *The Structural Changes in the World Economy in the 1980s*

Some structural changes in the world economy in the 1980s could have led to the changes in Japanese economic cooperation. Several charts and a table are presented to show some evidences which support this. Table 1 shows the huge external imbalance between the U.S. and Japan, that is, the huge trade deficit of the U.S. and the corresponding huge trade surplus of Japan. Chart 1 shows that almost half of the total trade deficit of the U.S. is accounted for by Japan. This table and chart can explain well why the trade friction between the U.S. and Japan has intensified and why the U.S. has strictly required Japan to increase imports from the U.S. In spite of the effort of Japan to reduce the huge trade surplus, there has been no substantial reduction in the external imbalance between the U.S. and Japan. Chart 2 shows that in 1988, the U.S. market was still the biggest absorber of Japanese goods in the world. We can also see that even though the annual average growth rate of imports by Japan from the U.S. from 1985 up to 1988 (18.5%) was higher than the annual average growth rate of exports of Japan to the U.S. during the same period (10.6%), the amount of exports of Japan to the U.S. in 1988 (US$90,245 million) was still far bigger than imports from the U.S. (US$37,701 million).

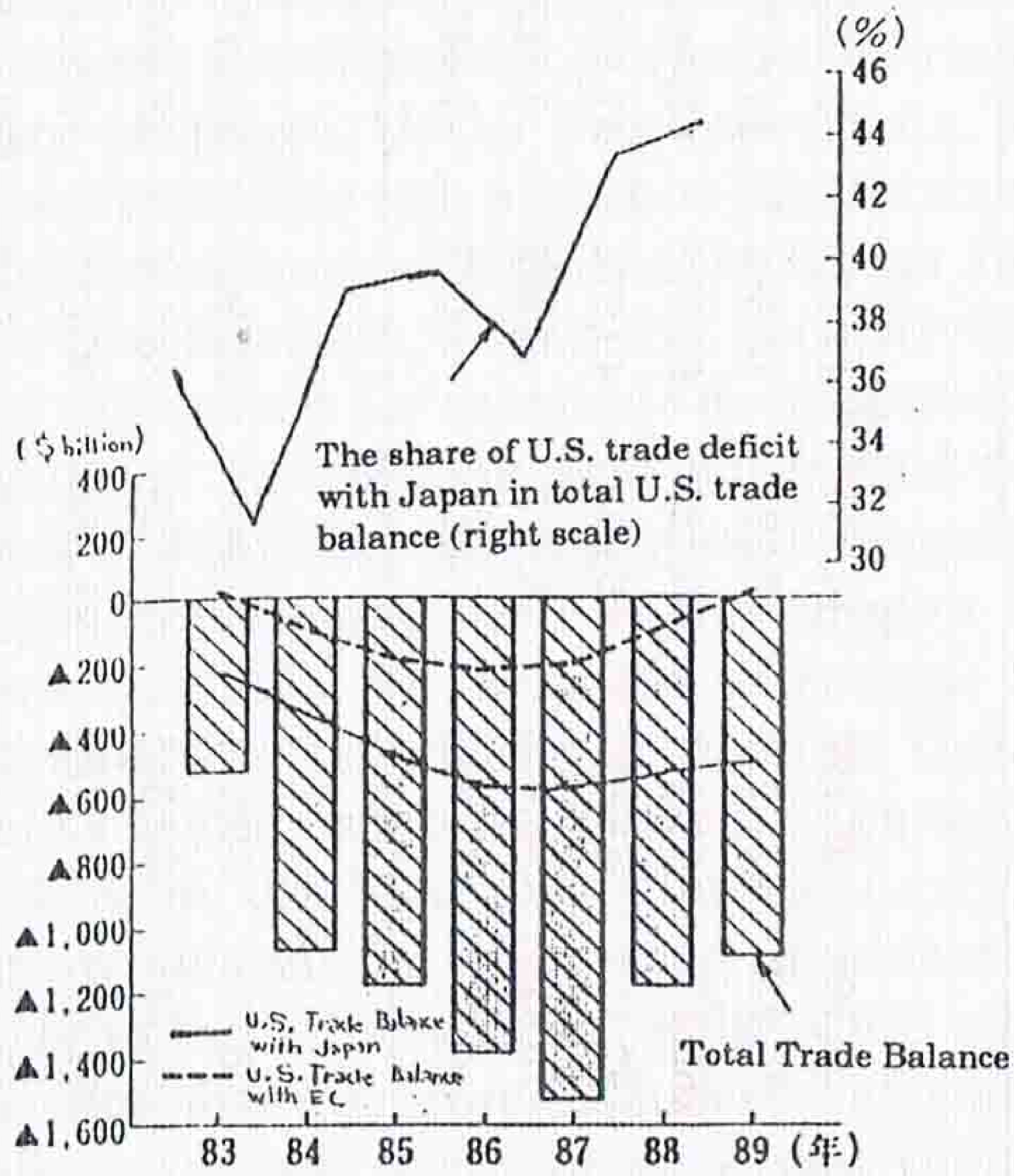
Table 1 - The Balance of Payments of the U.S. and Japan

(Unit: million dollars)

	1984	1985	1986	1987	1988	1989	I	II	III	IV
Japan										
current balance	35,003	49,169	85,845	87,015	79,631	57,157	20,290	14,031	14,154	9,161
trade balance	44,257	55,986	92,827	96,386	95,012	76,917	25,276	19,523	18,602	14,017
exports	168,290	174,015	205,591	224,615	259,765	269,570	71,147	66,126	67,676	65,440
import	124,033	118,029	112,764	128,229	164,753	192,653	45,871	46,603	49,074	51,423
invisible trade balance	-7,747	-5,165	-4,932	-5,702	-11,263	-15,526	-4,010	-4,675	-3,433	-3,513
balance of transfer	-1,507	-1,652	-2,050	-3,669	-4,118	-4,234	-976	-817	-1,015	-1,343
United States of America										
current balance	-104,186	-112,682	-133,249	-143,700	-126,548	-105,878	-30,391	-31,999	-22,909	-20,571
trade balance	-112,522	-122,148	-145,058	-159,500	-127,215	-113,248	-28,355	-27,529	-28,558	-28,806
exports	219,900	215,935	223,367	250,266	319,251	361,872	87,783	91,284	90,691	92,114
import	332,422	338,083	368,425	409,766	446,466	475,120	116,138	118,813	119,249	120,920
invisible trade balance	20,805	24,892	27,588	30,012	15,323	21,646	1,451	-1,641	9,134	12,711
balance of transfer	-12,469	-15,426	-15,779	-14,212	-14,656	-14,276	-3,487	-2,829	-3,485	-4,476

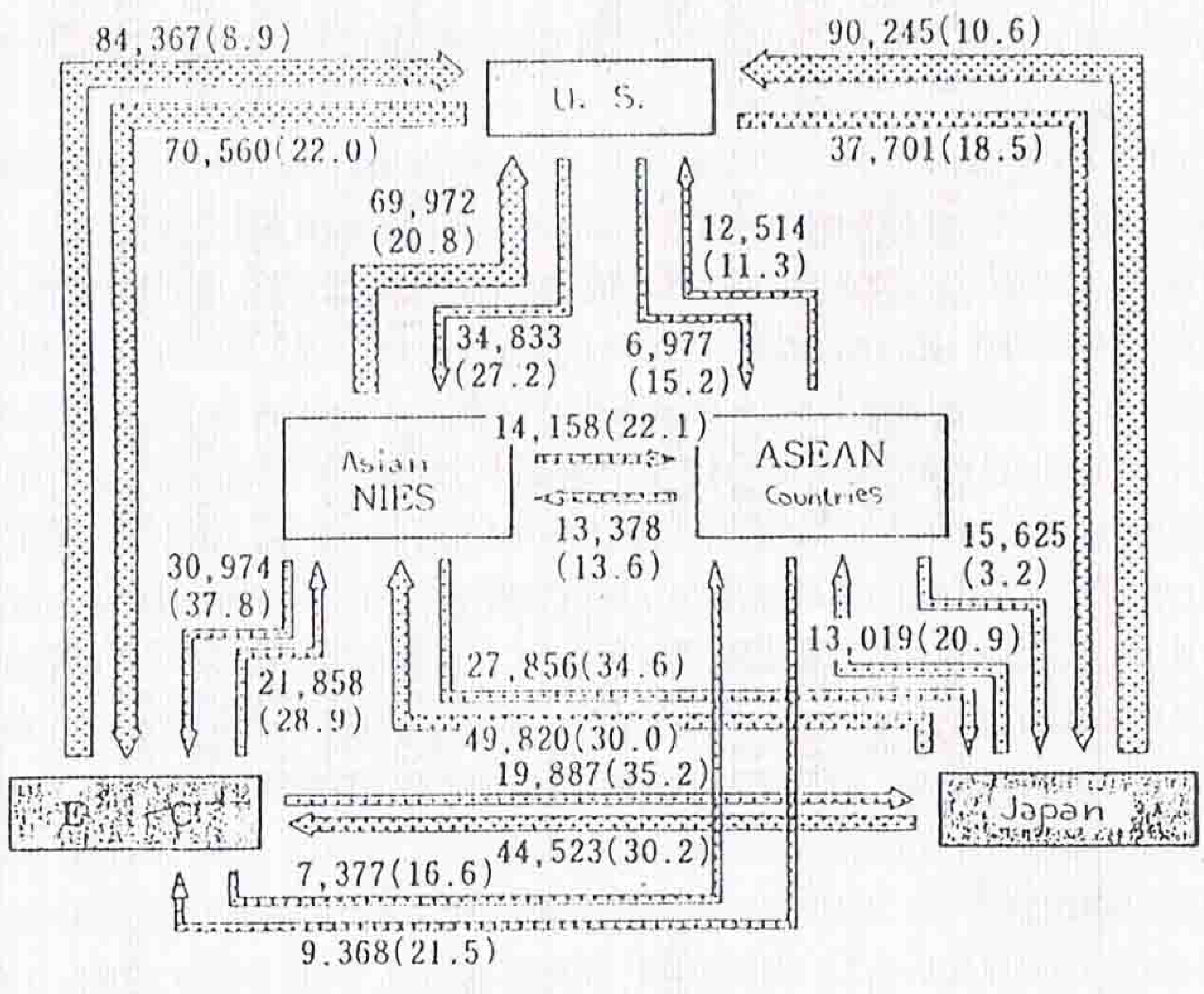
Source: MITI, *White Paper on International Trade*, Japan, 1990.

Chart 1 - The Trend of Trade Balance of the U.S., E.C. and Japan



Source: MITI, *White Paper on International Trade,* Japan, 1990

Chart 2 - Trade in the Asia-Pacific Region



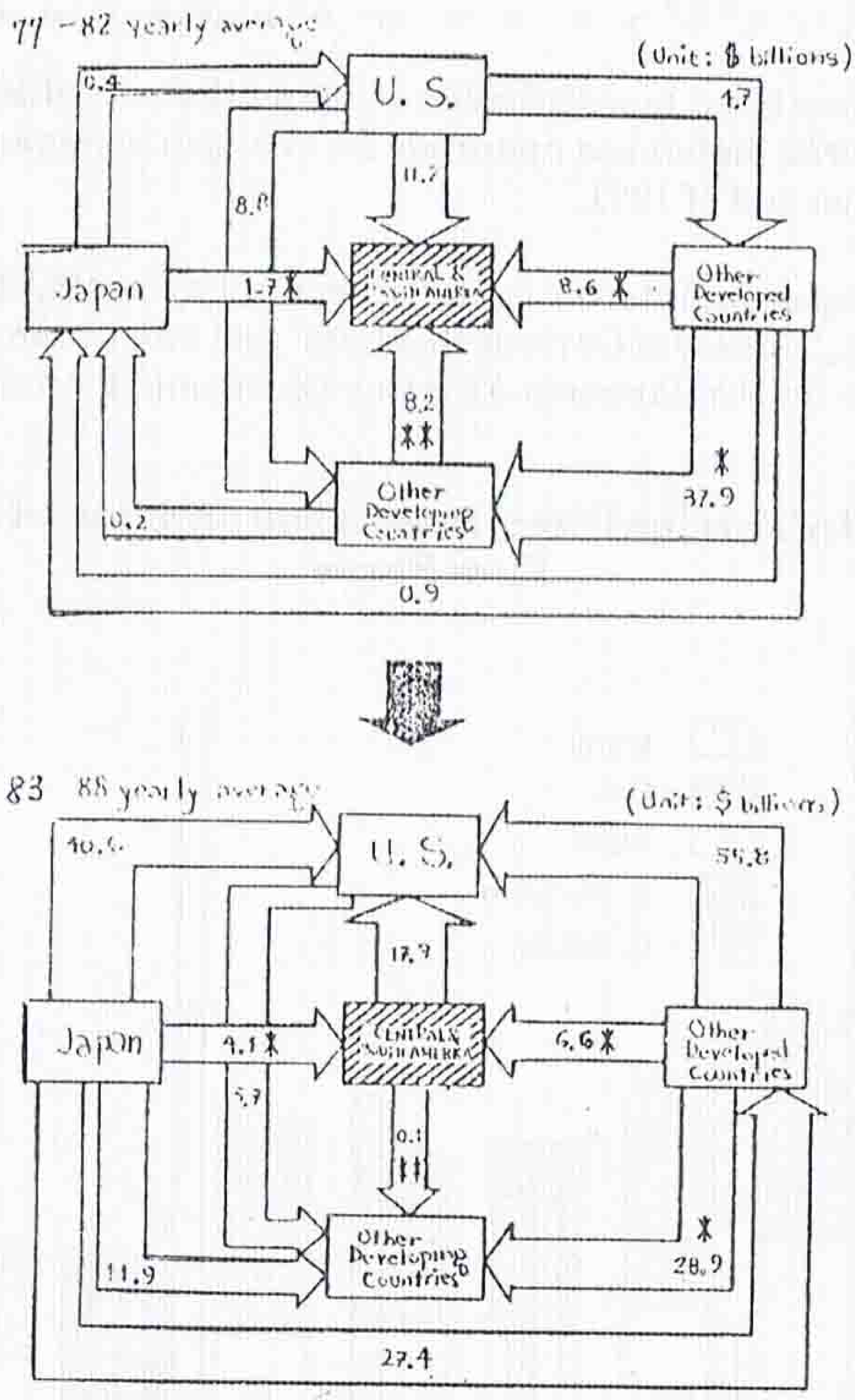
Note: The figures indicate the amount of export in 1988 ($ million) according to the direction of the arrows.

( ) suggests the yearly average growth rate of trade from 1985 to 1988.

Source: MITI, *White Paper on International Trade,* Japan, 1990.

U.S. had raised interest rates sharply since the early 1980s in order to raise money easily from local and international money markets to finance the deficits. As a result, the flow of money in the world has changed as Chart 3 shows. From 1977 up to 1982, the net amount of money which flowed from developed countries to developing countries was bigger than the net money flow from developing countries to developed countries. However, since 1983, the latter became bigger than the former because the high interest rate of the U.S. induced the flow of money to the U.S. and the debt crisis in developing countries discouraged the money inflow to these countries. Consequently, the net foreign asset held by the U.S. has drastically decreased since the early 1980s while the net foreign asset of Japan has increased sharply as Chart 4 shows. Now, the U.S. has become the biggest debtor and Japan the biggest creditor in the world.

Chart 3 - The Trend of Global Financial Flow

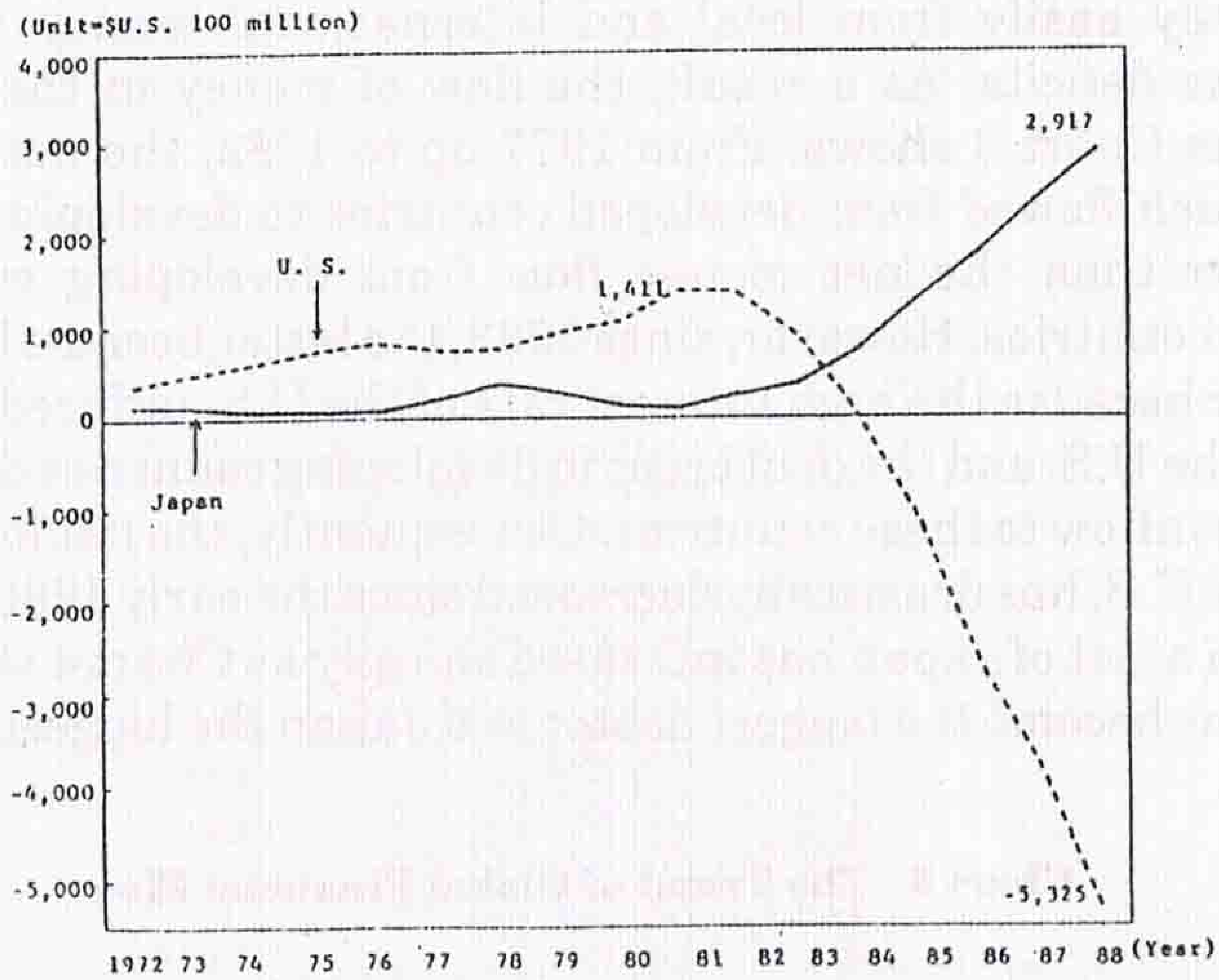


Notes:

(1) ⇨ the direction of financial flow.
(2) * the total public and private financial flow based on DAC's date.
(3) ** a simple estimation from the flow of trade.

Source: MITI, *White Paper on International Trade*, Japan, 1990.

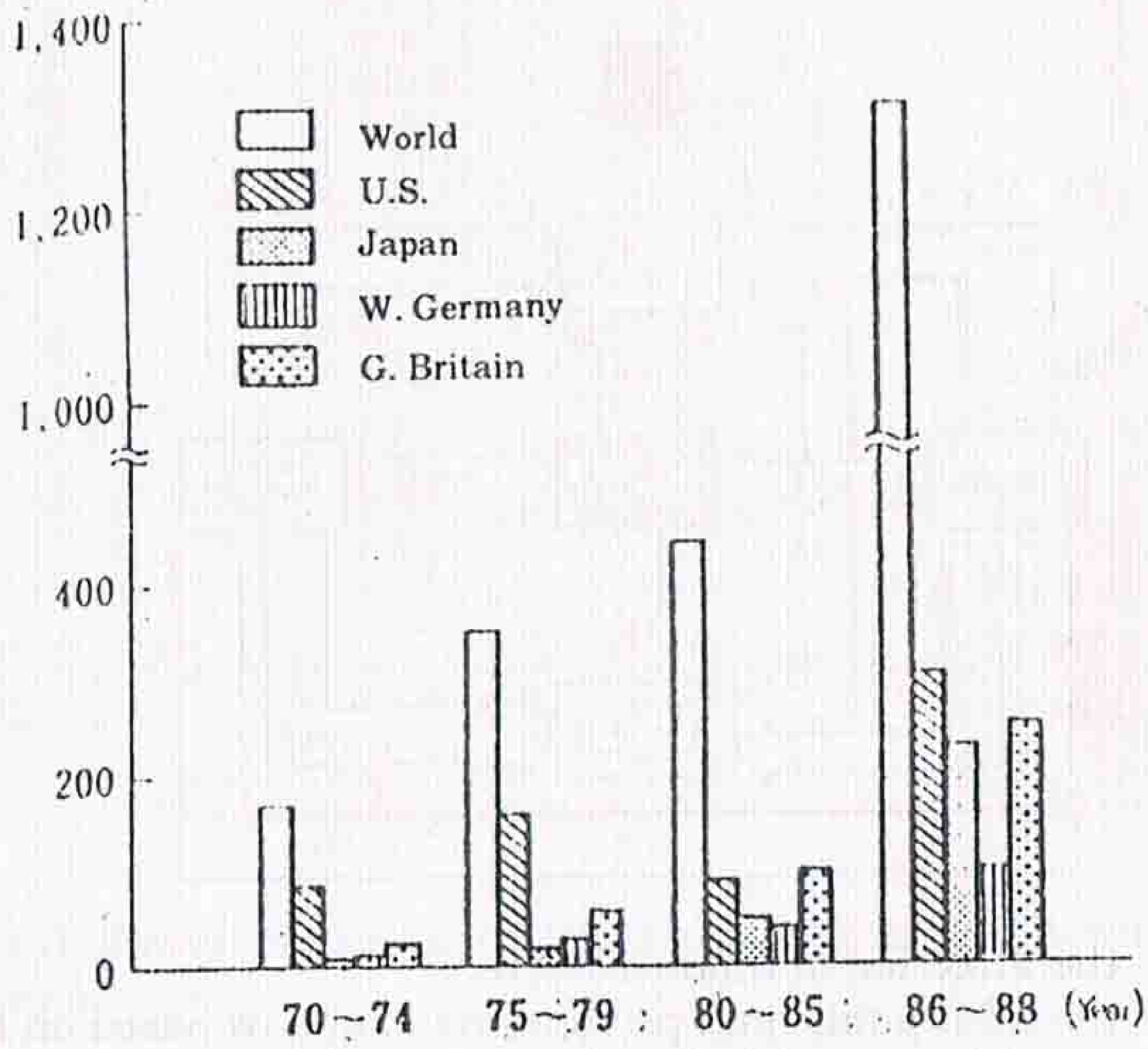
Chart 4 - Changes in Net Foreign Assets Held by the U.S. and Japan



Note: Official publication of Japan's foreign assets and balance of debt payments are from the end of 1972. Reference materials for changes in Japan's net foreign assets were from the end of 1971.

Source: "Monthly Report on International Balance of Payments," BOJ; U.S. Commerce Department, "Survey of Current Business" and other sources, as reported in the *White Paper on the Japanese Economy* (Economic Planning Agency of Japan, 1989).

Chart 5 - The Trend of Foreign Direct Investment of Major Advanced Countries: Flow Phase

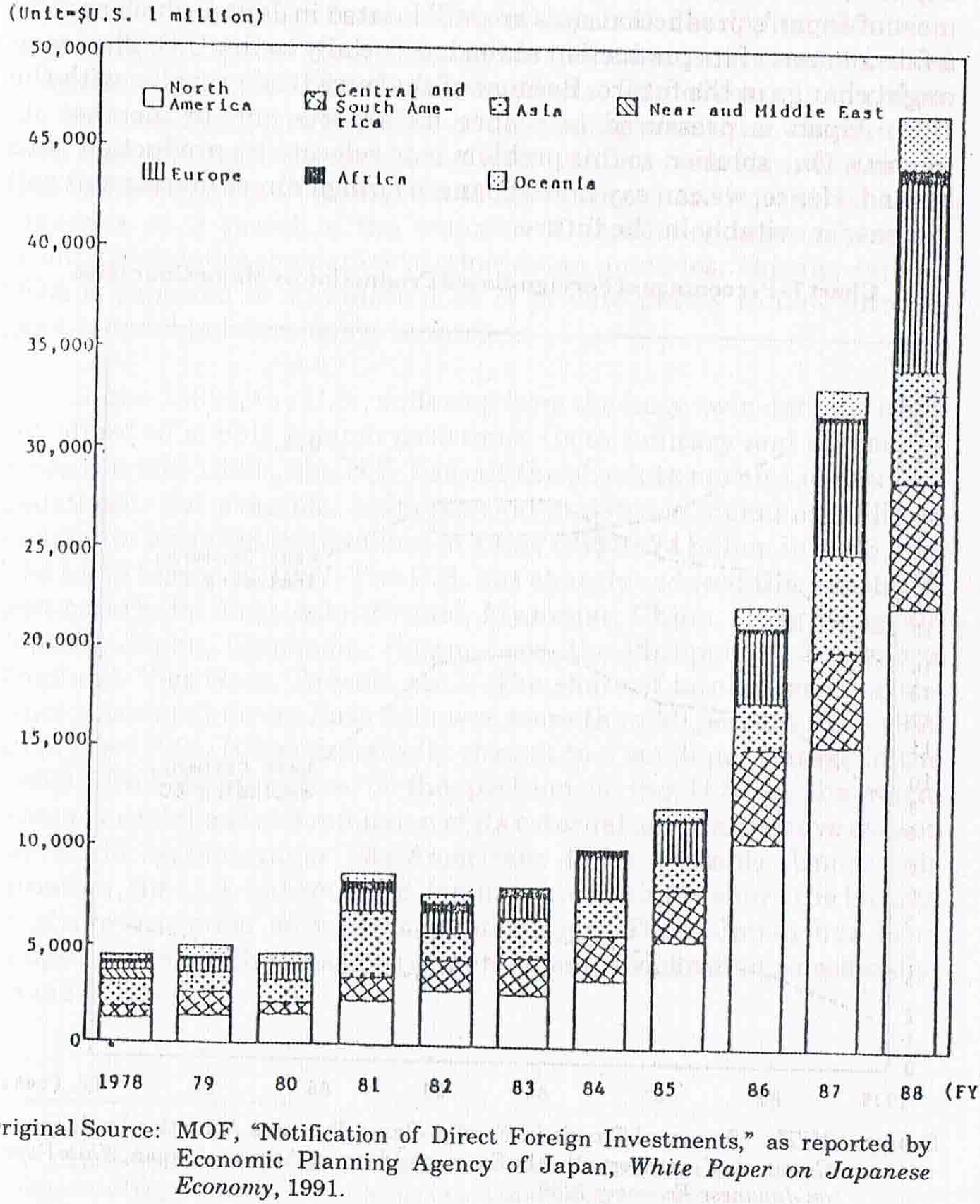


Note: The figures are yearly averages.

Source: MITI, *White Paper on International Trade*, Japan, 1990.

During the 1980s, the globalization of big business in the developed capitalist countries advanced greatly. We can see in Chart 5 that foreign direct investments of developed capitalist countries such as the U.S., Japan, West Germany and Britain have increased sharply since the mid-1980s. Specifically, Japan has increased its foreign direct investments rapidly. Charts 5 and 6 show this quite well.

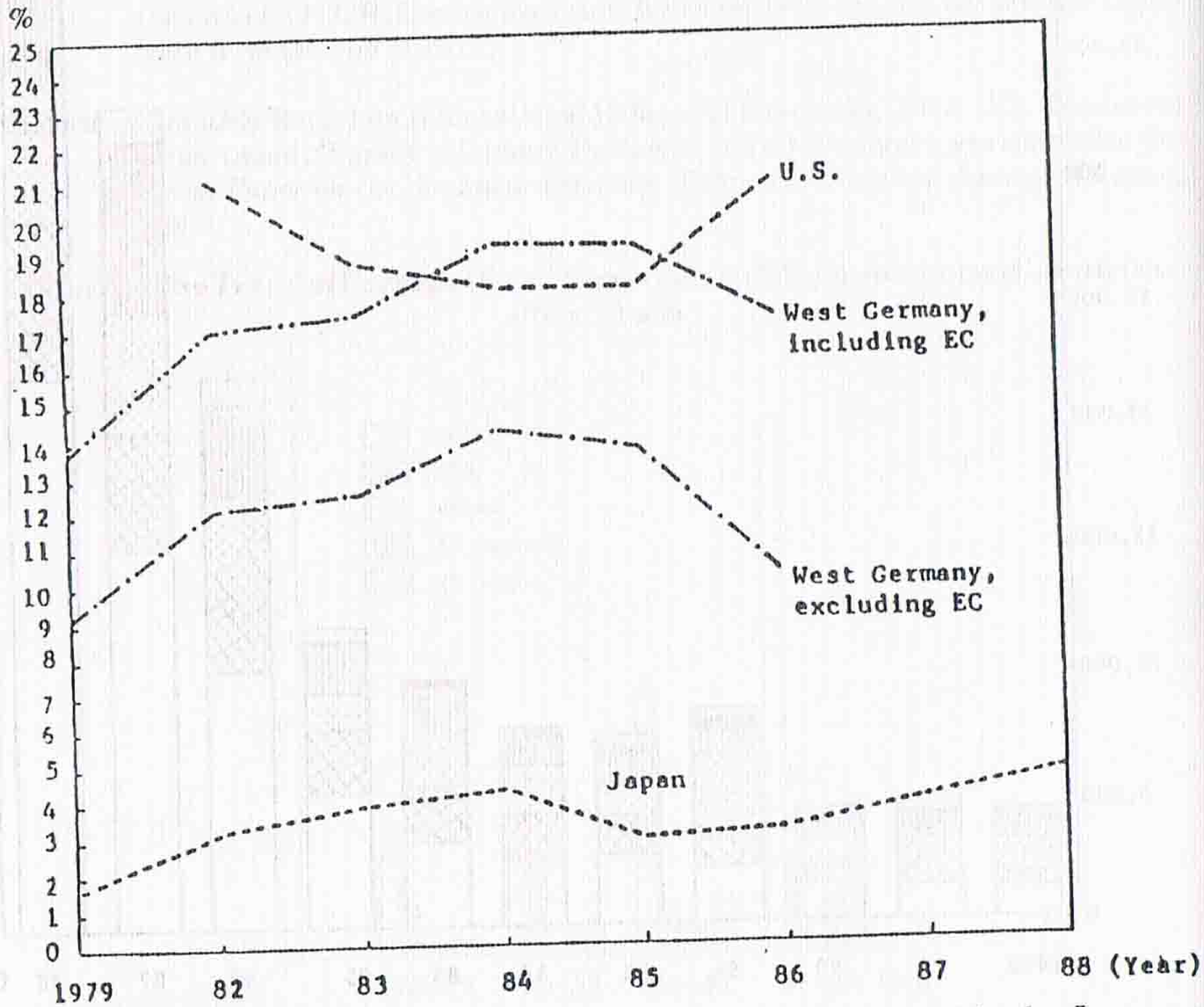
Chart 6 - Trends in Direct Foreign Investment By Region



Original Source: MOF, "Notification of Direct Foreign Investments," as reported by Economic Planning Agency of Japan, *White Paper on Japanese Economy*, 1991.

During the 1980s, the accumulation and monopolization of the big business advanced drastically at a worldwide scale. However, the development process was not even among the advanced countries. For example, during the 1980s, the GNP growth rate of Japan was highest among advanced countries. Moreover, the growth rate of foreign direct investment of Japan has also been high among the advanced capitalist countries since the mid-1980s. However, the share of foreign-based production of Japan was still far lower than those of other advanced capitalist countries. Chart 7 shows this very well. This means that most of Japan's production sites are still located in Japan which exports a fair amount of its production abroad, especially to the U.S. The trend might change in the future. Because of the huge trade surplus with the U.S., Japan is pressured to reduce its exports and to increase its imports. One solution to this problem is to relocate its production sites abroad. Hence, we can say that Japanese foreign direct investment will increase inevitably in the future.

Chart 7 - Percentage of Foreign-Based Production by Major Countries



Source: MITI, "Survey of Trends in Foreign-Based Business Activities by Japanese Companies", as reported by the Economic Planning Agency of Japan, *White Paper on Japanese Economy 1989*.

1.3 *The Role of Japan's ODA*

With these changes taking place in the world economic environment, Japan's ODA is expected to play a new role in economic cooperation. Firstly, it is expected to help pump-prime economies in order to recycle goods and money better in the world economy than in the mid-1980s as exhibited in Charts 2 and 3. Hence, it is seen to play an active role in increasing imports from all over the world, especially the U.S. and developing countries. Secondly, it is expected to promote export-oriented foreign investments of Japan in developing countries, especially in Asian countries. The increase in export-oriented investments is expected to have two effects. One of them is to reduce the balance-of-payments deficit of developing countries which result from huge trade deficits and lack of money inflow from abroad. Another is to reduce exports from Japan and to increase those from other Asian countries as a result of the transfer of production sites of export-oriented Japanese companies to other Asian countries. Thirdly, Japan's ODA is expected to stimulate a lot of private money to flow into the heavily-indebted developing countries.

In the 1980s, the U.S., suffering from the huge twin deficits, could not afford to supply enough assistance (both military and economic). Since the mid-1980s, the U.S. has cut the absolute amount of external assistance. For example, total external assistance including military assistance was US$18.13 billion in 1985, US$16.74 billion in 1986, and US$14.49 billion in 1987. The U.S. has sharply reduced the assistance particularly for East Asia (Brunei, Myanmar, China, Hong Kong, Indonesia, Japan, Cambodia, Korea, Laos, the Philippines, Singapore, Thailand, Viet Nam, Taiwan, etc.). The share of total external assistance accounted for by East Asia was more than 30 percent from 1950 up to the 1970s. It has drastically shrunk to a small percentage in the 1980s.[3] The deterioration of the position of the U.S. in the world economy and the sharp reduction of its external assistance have caused the world system under Pax-Americana to be unstable. Under this situation, the U.S. has required Japan to increasingly share the burden of giving economic as well as strategic aid. Thus, Japan has been obliged to change some aspects of its economic cooperation, specifically, its aid policies.

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[3]These figures are based on: U.S. AID, *Overseas Loans and Grants and Assistance from International Organizations, Aggregations and Loan Authorizations.*

2. Japanese Economic Cooperation in the Asia-Pacific Region with Special Focus on the Philippines

It is evident that in the new type of Japanese economic cooperation in the Asia-Pacific region which emerged since the 1980s, Japan's ODA plays a new role in terms of supporting Japanese foreign investment and trade there. Let us first discuss the role of economic cooperation in the Asia-Pacific region and then focus on cooperation with the Philippines.

2.1 Japanese Economic Cooperation in the Asia-Pacific Region

The Asia-Pacific region is attracting much attention from all over the world because of its high economic growth rate. However, there are some serious problems such as the overdependence on the U.S. market, external imbalance between the U.S. and Japan, and the problem of money recycling mentioned in Section 1.

Japanese economic cooperation in the region is expected to function in a different way. Specifically, Japanese ODA is expected to play the active role of an adjuster.

The latest *White Paper on Economic Cooperation in 1989* (Keizai Kyoryoku no Genjyo to Mondaiten) by the Ministry of International Trade and Industry (MITI) of Japan has pointed out the advancement of open regional cooperation in the Asia-Pacific region as an important aim of Japanese economic cooperation. It has also stated that in order to promote open regional cooperation, Japan is carrying out a comprehensive type of economic cooperation, that is, one which comprises aid, import and investment. The paper does not deny the importance of direct support for poverty and starvation. However, these will not be eliminated by giving ODA to directly support the poor. Developing countries should develop their industries in order to achieve growth in their economy and to graduate from the underdeveloped stage.

The interrelationship among Japanese ODA, promotion of imports and direct foreign investment is well shown in the ongoing New Asian Industries Development Plan (New AID Plan) which was released for the first time in 1987 when the former Minister of International Trade and Industry, Mr. Tamura, visited Thailand. The New AID Plan outlines the new type of economic cooperation, selects some promising regions and industries in each Asian countries after due consideration of its industrialization strategy, assists foreign currency earning industries in Asian countries to perform well, and assists private Japanese companies investing in export-oriented companies in Asia. A plan for the Philippines, Indonesia and China is being prepared while that for Thailand and Malaysia has been completed. A policy dialogue is seen as necessary to accomplish this Plan.

The *White Paper on Japanese Economy* (Keizai Hakusho) issued in 1989 by the Economic Planning Agency of Japan states that the country intended to create a horizontally interdependent economic network by forming an international division of labor between Japan and Asian countries and forecasts that the economic network will produce a balanced expansion in the Asia-Pacific Region (see Chart 8).

Both MITI and the Agency for Economic Planning of Japan intend to promote better economic cooperation by using ODA. However, the total amount of ODA (not only of Japan but also for other countries) is not enough to recycle money and goods in the Asia-Pacific region. Table 2 compares the scale of the Marshall Plan of the U.S. in 1950 and the scale of ODA of the U.S. and Japan in 1988. This figure shows how large the scale of the Marshall Plan is compared with the scale of the present ODA of the U.S. and Japan. Because of this, the Government of Japan has targeted to circulate money from public and private sources worth more than 65 billion dollars from 1987 up to 1992. It has also intended to promote Japanese direct investment in developing countries through measures outlined in the New AID Plan.

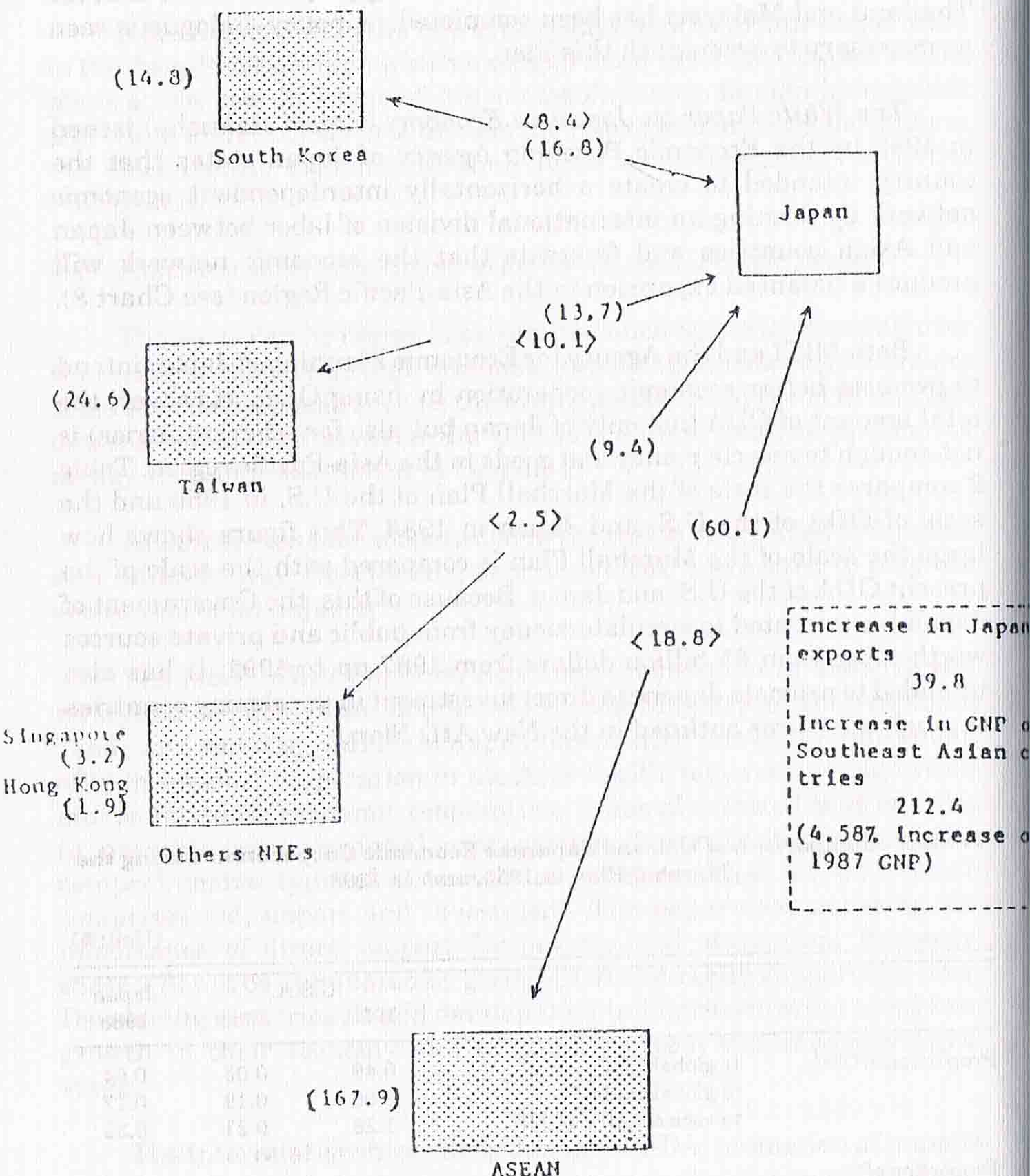
Table 2 - Comparison of U.S. and Japanese Economic Cooperation during the Marshal Plan in 1950, and in 1988

(Unit: %)

		U.S.A. 1950	U.S.A. 1988	Japan 1988
Proportion of ODA:	to global GNP	0.49	0.05	0.04
	to global trade	3.06	0.19	0.17
	to each country's GNP	1.26	0.21	0.32
Proportion of Economic Cooperation:	to global GNP	0.63	0.08	0.1
	to global trade	3.92	0.32	0.39
	to each country's GNP	1.62	0.36	0.75

Source: Ministry of International Trade and Industry, *White Paper on International Trade*, Japan 1990.

Chart 8 - Influence of Trade Between Japan and Southeast Asia



Note: The above figures show the projected influence on Asian NIEs and ASEAN countries when imports to Japan are increased by $U.S. 10 billion. Figures in ( ) show increased value of export s to Japan while those in < >show increased value of exports from Japan. Figures in [ ] show GNP increases.

Source: Economic Planning Agency of Japan, *White Paper on Japanese Economy, 1989.*

2.2 Japanese Economic Cooperation in the Philippines

The new role of Japanese ODA in the 1980s is very well exemplified by Japanese economic cooperation with the Philippines. A close examination would reveal some problems which confront this economic cooperation.

First, let us examine the role of Japanese assistance in the Multilateral Assistance Initiative (MAI), that is, the Philippine Assistance Program (PAP).

Since the early 1980s, Japanese ODA has been increasing especially after the inauguration of President Aquino's administration. This increase signifies support for the administration which explicitly bears the banner of democracy. The U.S. which has special military and economic interests in the Philippines had also wanted to increase its aid in order to prevent the collapse of the Philippine economy and to prevent the Phlippines from falling away from the capitalist world system to join the communist world. However, the U.S. has been suffering from huge fiscal and trade deficits, hence, it could not afford to assist the Philippines as much as before. Thus, the U.S. has prompted the formation of the MAI and has urged Japan to be its biggest creditor. Recognizing the fact that political stability in the Asia-Pacific region is critical for the globalization of Japanese capital, the Japanese Government consented.

On July 1989, the first conference for MAI was held in Tokyo, where 26 countries and international institutions participated and the MAI was initiated. Three years have already passed since the mini-Marshall Plan was formulated by the Philippines to carry out the Medium-Term Philippine Development Plan 1987-92. A huge sum of more than 11 billion dollars was to be supplied to the Philippines by the MAI from 1989 until 1992.

Japan has provided 1 billion dollars, which included a loan of 115 billion yen and 20 billion yen of grant aid and technical cooperation and plans to lend a maximum of .6 billion dollars as the parallel loan of the Export-Import Bank of Japan within several years beginning 1989. (In 1989, Japan was the biggest creditor in the MAI.)

MAI, which was organized by the U.S. ostensibly to support democracy aims to provide strategic aid. In fact, the U.S. had initiated the MAI before the resumption of the bases talks in order to get a better bargaining position. Although Japan participates as the biggest creditor in the MAI, Japan and the U.S. have different ways of supporting democracy in the Philippines.

The *White Paper on Economic Cooperation* in 1989 stated that the fundamental ideas of Japanese economic cooperation are the consideration of humanism and acceptance of interdependence and these can be realized in aid-receiving countries by developing their industries, and extending direct and immediate support for the alleviation of poverty and starvation, after due consideration of their self-reliance efforts. It also stated that the main way to overcome the economic underdevelopment was to improve the capability of industries of developing countries. It stressed the importance of economic assistance for productive investment such as social infrastructure and of project assistance in developing countries.

The view of Japanese economic cooperation in the *White Paper* is consistent with the position stated in the MAI. By participating in the MAI, Japan intends to prevent the Philippines from dropping out of the capitalist world system. In this respect, the interest of Japan is consistent with that of the U.S. However, Japan's idea of an economic strategy is different from that of the U.S. Japan intends to support democracy in the Philippines by pushing industrialization. This kind of economic cooperation is clearly visible in the new AID Plan, the investment by the Japan International Development Organization Ltd. (JAIDO) and the policy dialogue with the Philippines.

All of these are paradigms of the new trend of Japanese economic cooperation which consists of aid, import and investment. In this regard, Japanese ODA is expected to play a significant role in encouraging Japanese direct investment in the Philippines for its development. As mentioned in Section 1, the New AID Plan aims to induce export-oriented Japanese direct investment in the Asian region in order to stimulate export in each Asian country. For example, in the Philippines, the New AID Plan has undertaken the Development Plan of Cavite Export Processing Zone in 1989 and has chosen the industries of mold, furniture and computer software, as promising industries to be aided in 1990.

In the case of JAIDO, the site for its first investment is the Philippines. JAIDO was organized just before the first conference of the MAI in Tokyo (July, 1989). It was set up by Keidanren on April 4, 1989 as a joint stock company. The amount of approved capital was 20 billion yen; the paid-up capital was 6.9 billion yen, 4.9 billion yen of which was paid by Japanese private companies (98 member companies of Keidanren) and the rest of which was paid by OECF. It uses its fund to make equity investment in worthwhile projects in developing countries. The following is its statement of objectives and policies:

> "The international community widely recognizes that the only real solution to the third-world debt problem is for the developing countries to become economically stronger and grow out of their debt. Japan, with its large trade and current account surpluses, has both the responsibility and capability to play an active role in promoting this growth. In the hope of encouraging Japanese business to contribute to this process, Keidanren has set up two new bodies to promote direct investment in the developing countries, the Japan International Development Organization Ltd. (JAIDO) and the Committee on International Cooperation Projects. The achievement of economic growth in the third world requires the transfer of funds, technology, and managerial know-how from the industrial countries. The most effective way to provide these needed resources is through direct investment, which promotes development without adding to the developing countries' external debts.
>
> Kaidanren supports these worthwhile objectives and in particular, emphasizes that Japanese direct investment in developing countries should strengthen their export industries and thus lead to increased exports of their products into Japanese market.
>
> While governments of developing countries must create a favorable climate for investment and those of industrial nations like Japan must provide means of minimizing investment risks, it is essential that Japan's private sector play an active role in first identifying and then carrying out promising projects.
>
> The Committee on International Cooperation Projects is to be created within Keidanren to support the activities of JAIDO and maintain liaison with the appropriate government bodies. It will examine JAIDO's proposed investments in the light of officially endorsed guidelines. Among others, it will ensure that the investment not be tied to the promotion of Japanese exports.

Total Japanese capital (e.g., Keidanren: Association of Economic Federation) is intended to reduce Japanese exports and to promote export-oriented foreign direct investment in developing countries in order to create a better recycling of goods and money. Japan expects its ODA to play an active role in improving recycling. For this purpose, it established JAIDO, a kind of project venture with OECF. Let us discuss the investments of JAIDO in the Philippines in particular.

JAIDO has invested in the First-Cavite Industrial Park located at Dasmariñas in the CALABARZON area, the development cost for which was 5.5 billion yen. The paid-up capital was 1.4 billion yen, 60 percent of which was paid by NDC (Philippines); 32 percent by Marubeni

Corporation (Japan), and 8 percent by JAIDO. JAIDO has also invested 1.1 billion yen in Crown Packing International Inc. (a 250-million-peso project), a pineapple farm and canning factory in Davao City. The main participants are the Alberto Soriano group, Nisho Iwai Corp. and JAIDO. JAIDO is also planning to invest in a copper factory, which is one of the ASEAN joint industrial projects and a service company which sends computer programmers and software engineers.

All of these investments were discussed by President Aquino with JAIDO and Keidanren at the Malacañang Palace in May 1989. The Japanese Government used to refrain from interfering with the economic policies of aid-receiving countries. So long as Japanese aid was used for economic development in aid-receiving countries, Japan usually did not interfere with the use of the aid. Japanese ODA used to be given for development projects which aid-receiving countries had chosen and presented to the Japanese Government. However, the Japanese aid policy of non-interference has changed. The Japanese Government recently announced that it would discuss with aid-receiving countries their economic policies before aid is given because discussions on economic policies between Japan and aid-receiving countries were essential for effective usage of the aid. This new AID policy was for the first time evident in the discussion between Japan and the Aquino government just before the start of the MAI. This policy dialogue was thought to affect the choice of five demonstration-area projects, which were prepared for the MAI by the Aquino Government. One of them is the CALABARZON Area, in which Japanese economic cooperation has been deeply involved.

Along with Japanese direct investments in an industrial park (one is the First Cavite Industrial Park, and another is the Laguna Techno Park) in Calabal area, the OECF has already funded several social infrastructure in the CALABARZON area, e.g., Kalaka (Electric) Power Plant, South Luzon Expressway Construction Project, the rehabilitation of the Batangas Port and so on. JICA also made a feasibility study of the rural development master program of the CALABARZON area in 1990.

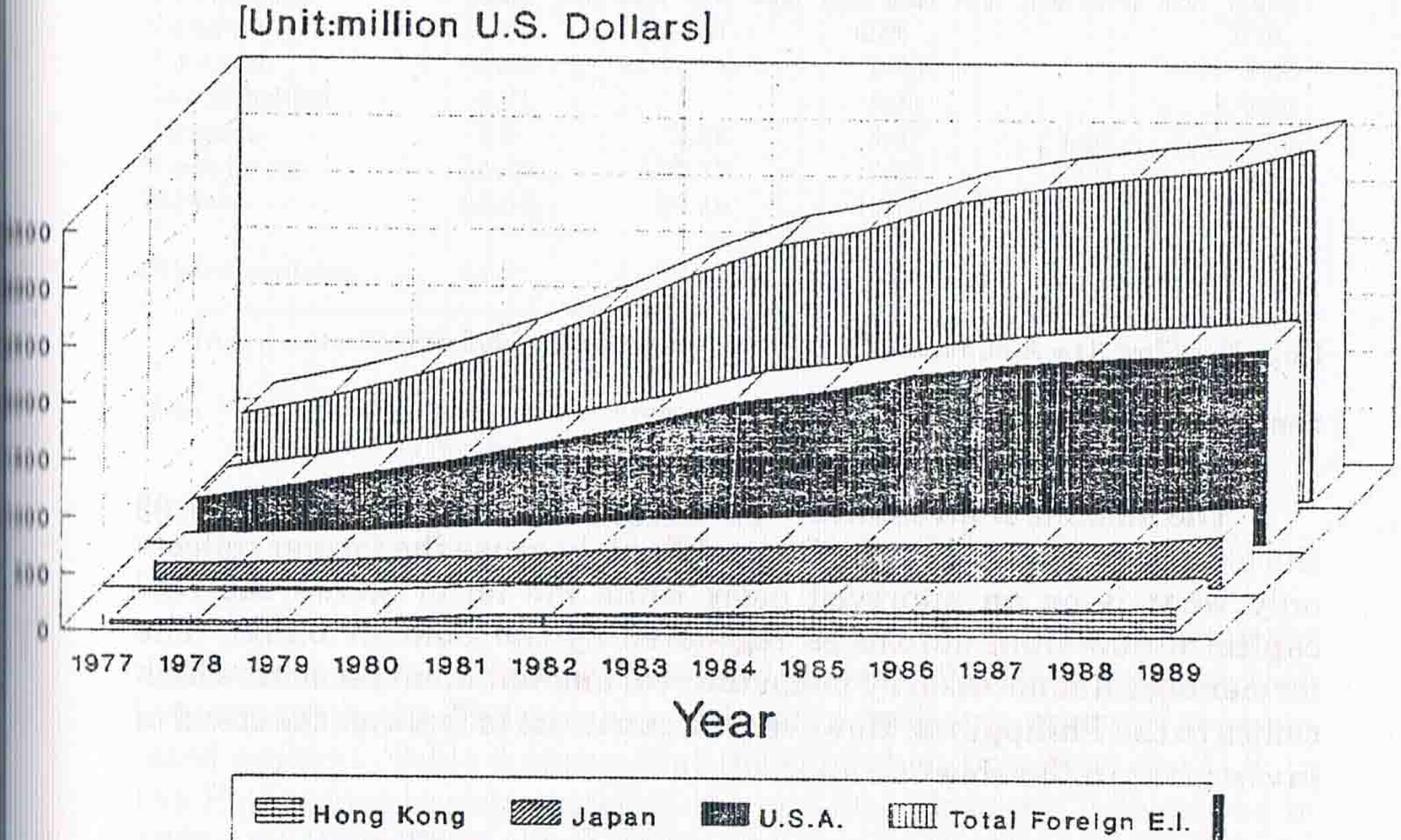
The Philippine Government which has a huge external debt crucially needs to induce foreign direct investment that will not add to the external debt but will promote export-oriented industrialization in order to re-construct the economy. This is also the recommendation of the IMF and the World Bank. The capability of Japanese economic cooperation to promote such type of export-oriented Japanese foreign investment has to be tested here in the Philippines. Let us examine

3. The Characteristics of Japanese Direct Investments in the Philippines Since the 1980s

3.1. Quantitative Trend of Foreign Direct Investment

The data of the Central Bank on registered foreign equity investment show that foreign direct investments in the Philippines stagnated during the mid-1980s but improved starting 1988 (see Charts 9 and 10). Table 3 shows that from 1970 to August 1990, in terms of accumulated amount, the biggest investor was the U.S., followed by Japan and then Hong Kong. Table 3 also shows that the growth rate of investment from Japan is higher than that of the U.S. This trend is clearly seen in Table 4 and Chart 11 which indicate the amount of BOI-approved equity investment. They show that in terms of capital inflow for each year, Japan was the biggest investor in 1989 and 1990 and not the U.S. The growth rate of Japanese investment in 1990 was 115 percent, while that of the U.S. was - 50 percent. Besides the investments of Japan and the U.S., the investments of Hong Kong and Taiwan have also increased rapidly.

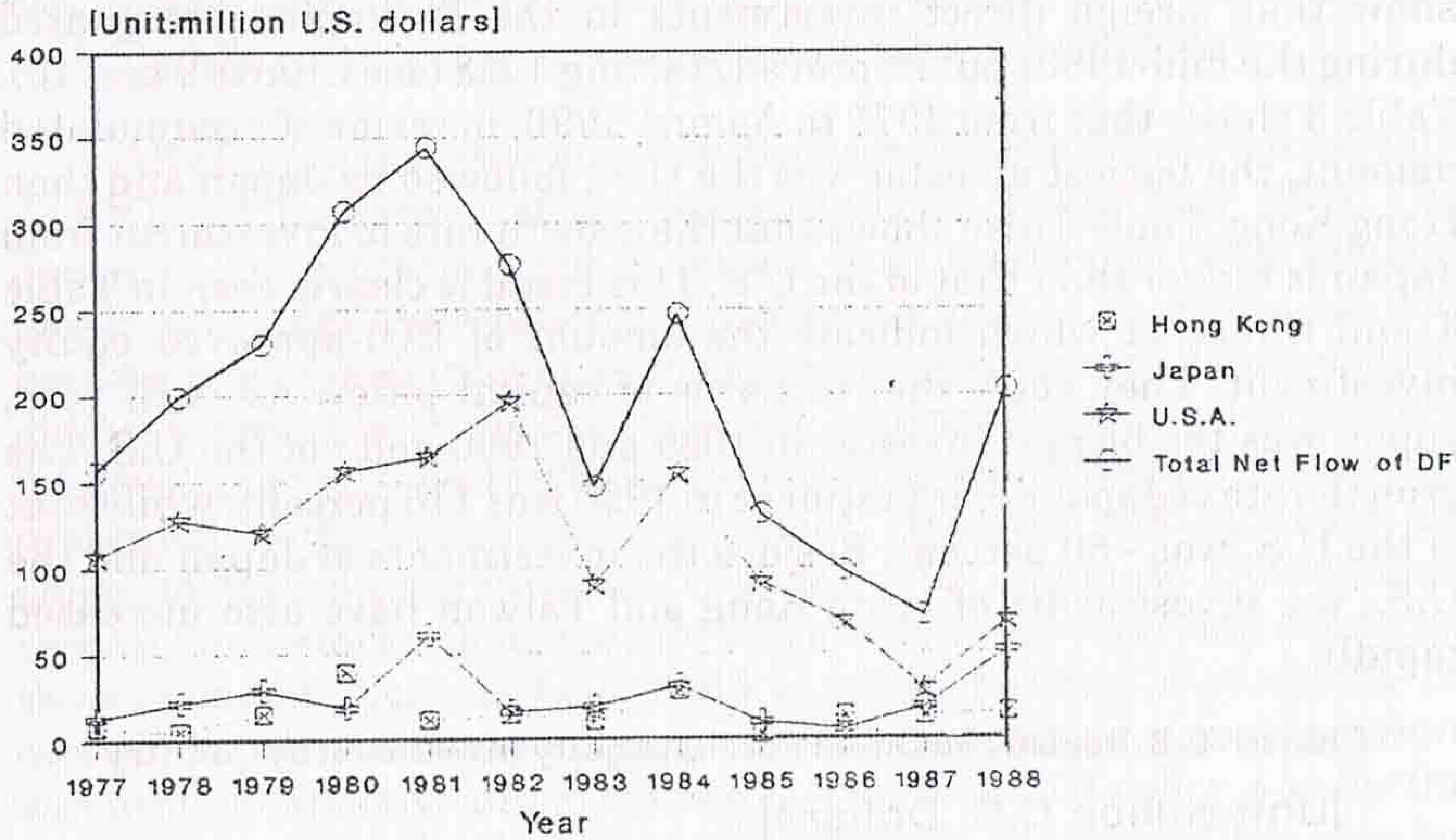
Chart 9 - C.B. Registered Direct Foreign Equity Investment by Country



Note: The figures are the accumulated amount from 1970.

Source: Central Bank of the Philippines.

Chart 10 - C.B. - Registered Direct Foreign Equity Investment by Country: Net Flow



Note: Net Flow (t) = Accumulated E.I. (T + 1) - Accumulated E.I. (t).

Source: Central Bank of the Philippines.

The amount of investment approved by the BOI is not the same as the amount registered by the Central Bank because the former reflects only what is on an approved basis while the latter shows the real capital inflow from abroad as registered by the Central Bank. The former does not necessarily mean the real amount of investment which comes to the Philippines. However, we can use it to forecast the trend of investment in the short term.

These data show that the U.S. is still the biggest investor in terms of accumulated base. However, Japanese investment has increased since the late 1980s. Investments from Asian NICs such as Taiwan and Singapore have increased at the same time.

Table 3 - C.B.-Registered Foreign Equity Investments by Investor Country[1] From February 21, 1970 to Dates Indicated

(Units: million U.S. dollars)

Country	Aug. 1990	% Change	Aug. 1989	% Change	Aug. 1988
TOTAL	3210.32	6.14	3024.59	27.88	2365.25
U.S.A.	1751.2	4.82	1670.75	1.87	1640.03
Japan	466.9	7.99	432.34	13.97	379.34
Hong Kong	217.12	7.03	202.86	11.6	181.8
Netherlands	148.82	1.56	147.12	12.98	130.22
United Kingdom	110.84	5.67	104.89	3	101.83
Switzerland	74.78	13.72	65.76	4.15	63.14
Australia	59.1	4.68	56.46	24.88	45.21
Canada	51.81	8.89	47.58	0.04	47.56
France	42.28	0.26	42.17	0.19	42.09
Republic of Nauru	10.07		10.07		10.07
West Germany	31.91	3.77	30.75	0.99	30.45
Sweden	33.55	24.08	27.04	0.11	27.01
Panama	22.4	5.61	21.21	5.1	20.18
Austria	18.04		18.04		18.04
Singapore	21.58	5.47	20.46	27.48	16.05
Denmark	18.01	0.06	18	7.53	16.74
Luxembourg	13.93		13.93	0.07	13.92
Malaysia	10.83	2.17	10.6		10.6
Bahamas	8.36		8.36		8.36
New Hebrides	8.21		8.21		8.21
Bermuda	8.9	2.65	8.67	3.46	8.38
South Korea	14.38	105.72	6.99	0.29	6.97
Taiwan	23.31	50.48	15.49	226.79	4.74
Other Countries	44.01	19.46	36.84	7.37	34.31

[1]Net of cancellations and adjustments.

Note: 1970 to 1986 data are for investments funded by inward remittance, no-dollar-importations in kind, and conversions into equity of remittable payables.

Source: Central Bank of the Philippines.

Before we discuss the characteristics of Japanese investments which have been increasing considerably since 1988, let's examine U.S. investment in the Philippines which is the largest in terms of accumulated amount. Table 5 shows that the capital outflow from the U.S. to the Philippines has stagnated in the mid-80s. However, it improved in 1988 and 1989. The same trend is exhibited by the Central Bank data. The direct investment position in Table 5 shows the accumulated amount of investment in 1989. This amount is bigger than those of Thailand and Malaysia and smaller than those of Indonesia and Asian

Table 4 - BOI - Approved Equity Investments Under E.O. 226
January to December, 1990

[Unit: thousand pesos]

	Jan. to Dec. 1990	Jan. to Dec. 1989	% Increase (Decrease)
GRAND TOTAL	47615173	39684333	19.98
TOTAL PHILIPPINES	24423439	22203967	10
100% Local	12188884	12187431	0.01
Joint Local	12234555	10016536	22.14
TOTAL FOREIGN	23191734	17480366	32.67
100% Foreign	11718211	8556700	36.95
Joint Foreign	11473523	8923666	28.57
AUSTRALIA AND OCEANIA	355746	521361	(31.77)
ASIA	17623051	11568472	52.34
Japan	7385760	3428109	115.45
Hong Kong	5060144	2886795	75.29
Taiwan	3412444	3232662	5.56
S. Korea	514888	380264	35.4
China	412118	740485	(44.34)
Singapore	333361	514262	(35.18)
Other Asian Countries	504336	585895	30.69
NORTH AMERICA	2457411	3095833	(20.62)
U.S.A	149337	2852294	(50.24)
Canada	1038074	243539	326.25
CENTRAL AMERICA	892345	59728	1394.01
EUROPE	1080746	1594683	(32.23)
OTHERS	782435	640289	22.2

Source: Board of Investments of the Philippines.

NIEs. Table 6 shows capital outflow from the U.S. to the Philippines and direct investment position by industry. It shows that on an accumulated amount basis, the food and related prodution, and the chemicals and allied production industries received the largest amount among all manufacturing industries. The electric and electronics equipment industry comes third, although the capital inflow to this industry was the biggest in 1989.

Table 5 - U.S. Direct Investment in Selected Asian Countries: Capital Outflow: 1982-1989

[Unit: million dollars; inflow (-)]

YEAR / COUNTRY	1982	1983	1984	1985	1986	1987	1988	1989	Total of Direct Investment Position
Philippines	14	164	23	-226	66	9	90	155	1682
Malaysia	375	-83	-109	42	-56	-67	167	-32	1098
Thailand	100	115	200	-42	*	188	-149	116	1279
Indonesia	1026	487	936	179	44	-310	-215	757	3696
Singapore	72	98	230	-59	217	226	5	162	2213
Hong Kong	325	367	375	42	720	321	707	370	5853
Taiwan	67	72	105	3	83	367	204	279	1949
S. Korea	-156	-117	134	51	68	190	237	222	1889

Note: * less than $500,000 (+).

Source: Dept. of Commerce, *Survey of Current Business,* August 1990, Vol. 70 No. 8.

The improvement of capital inflow to the Philippines in the late 1980, specifically the increase of inflow to the electric and electronics equipment industry, is consistent with the trend exhibited by Japanese investment. However, the capital outflow from the U.S. in the late 1980s has not always been concentrated in Thailand and Malaysia. It is different in the case of Japan as will be shown later.

3.2 *Characteristics of Japanese Direct Investments*

Table 7 shows the trend of Japanese direct investments in the Philippines by industry from 1951 up to 1990 which were registered at the Ministry of Finance in Japan.

Japanese investments in the Philippines decreased drastically in 1986. The amount of investment in 1986 was 2.0581 billion dollars which was the lowest since the late 1970s. However, it has rebounded sharply in 1987. The investment in 1988 surpassed that in 1979 which was the biggest from the late 1970s up to 1986. Growth of investment in 1989 was even higher than in 1988. The quantitative trend of Japanese direct investments which was registered at the Ministry of Finance of Japan, is almost the same as the trend exhibited by data on C.B.-registered foreign equity investment during the same period.

Table 6 - U.S. Direct Investment in the Philippines by Industry: Capital Outflow: 1982-1989

[Unit: million dollars: inflow (-)]

Year	All Industries	Petroleum	Manufacturing								Trade	Wholesale Banking	Finance Insurance & Real Estate	Services	Other Industries
			Total	Food & Related Prods.	Chem'ls & Allied Prods.	Primary & Fab'd Materials	Machinery except Electrical	Electric & Electronic Equipt.	Transportation Equipt.	Other Manufacturing					
1982	14	71	-87	D	9	1	D	D	-3	1	-10	28	22	4	-13
1983	164	89	32	15	23	5	0	12	D	D	-11	36	D	3	D
1984	23	-234	106	30	48	1	0	3	D	D	-1	101	16	D	D
1985	-226	-140	-24	-39	-8	*	*	-13	35	1	-3	-77	22	D	D
1986	66	21	84	41	22	1	0	11	2	6	-8	26	-10	2	-50
1987	9	-5	2	1	24	1	-3	-13	2	-10	21	-7	32	5	-39
1988	90	14	85	29	30	3	1	12	1	10	24	43	4	-16	-64
1989	155	6	93	30	38	4	*	44	-32	10	13	41	-5	3	4
Total Direct Investment Position	295	-178	291	107	186	16	-2	56	5	18	25	191	81	1	-162

Note: * less than $500,000(+).
D suppressed to avoid disclosure of data of individual companies.

Source: Dept. of Commerce, *Survey of Current Business*, August 1990, Vol. 70 No. 8.

Table 7 - The Trend of Japanese Investment in the Philippines By Industry: 1951-1990 (4-9)

(Unit: Thousand Dollars)

Industry	1951-77	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (4-9)	Total
Manufacturing															
Processed food	13,398	378	265	101	897	-	-	50	11,243	-	30,300	-	714	573	57,920
Textiles	20,124	170	54	932	34	78	-	-	-	-	828	4,794	537	-	27,595
Wood products-pulp	7,284		306	-	76	-	-	91	-	-	-	856	242	777	9,633
Chemical products	22,962	35,660	4,734	1,796	348	55	50	649	5,600	-	2,887	14,675	10,205	534	100,158
Iron- non-iron	21,407	4,036	11,230	37,155	-	922	3,155	3,505	-	-	516	3,581	9,102	1,585	96,198
Machinery	1,831	1,352	1,107	166	237	-	-	111	165	-	-	5,146	2,359	2,107	
Electrical and electronic products	5,490	21	447	671	541	1,187	330	1,869	-	907	14,069	29,489	54,958	54,442	164,526
Transportation equipment	8,138	37	12,757	6,061	31,298	13,455	127	10,132	23,198	13,137	-	16,461	13,112	14,470	163,388
Others	7,922	1,407	5,170	968	3,141	2,110	176	134	2,127	768	2,723	14,552	36,347	5,967	83,581
Subtotal	108,558	43,226	36,071	47,853	36,575	17,810	4,839	16,544	42,335	14,813	51,325	89,557	127,580	80,457	717,544
Non-manufacturing															
Agriculture-forestry	18,045	8,426	5,249	957	4,084	524	442	-	-	200	-	-	2,600	3,127	43,658
Fish and marine prod.	845	-	382	-	-	-	-	-	-	173	-	1,051	245	-	2,697
Mining	200,350	50	53,405	22,917	27,527	3,461	54,096	16,128	16,901	912	14,632	4,225	3,990	-	418,601
Construction	5,396	-	5,097	417	-	18	328	139	-	-	-	750	4,380	2,589	19,117
Commerce	2,074	606	451	1,142	212	1,181	1,069	254	-	800	3,489	390	6,340	791	18,804
Finance-insurance	17,167	-	-	-	3,210	944	3,647	-	-	-	-	32,860	793	-	58,623
Service	7,398	-	764	2,748	180	7,868	264	10,335	547	3,319	2,931	2,208	23,847	3,092	65,507
Transportation	-	-	-	-	69	2,088	200	265	57	-	-	-	638	-	3,318
Real estate	-	-	-	-	-	242	-	-	87	-	-	1,782	31,571	2,699	36,381
Others	15,997	923	1,629	1,629	40	-	-	-	-	-	-	-	-	-	18,896
Subtotal	267,276	10,005	65,657	29,814	35,325	16,328	60,049	27,123	17,594	5,405	21,053	43,268	74,408	12,282	635,602
Set-up, extensionof office	4,582	24	400	400	46	-	60	1,988	725	362	-	1,653	-	-	10,463
Real estate	516	-	70	250	-	-	-	-	-	-	-	-	-	-	837
TOTAL	380,934	53,476	102,200	78,318	71,947	34,139	64,948	45,655	60,654	20,581	72,379	134,480	201,988	92,744	1,414,449

Source: Ministry of Finance in Japan.

Aside from changes in quantity, the characteristics of Japanese investments have also changed in the 1980s. Once of the characteristics of Japanese investment in the eighties is the rapid increase of the share of manufacturing in total investment. The average share of the manufacturing group from 1951 to 1977 was 28.5 percent. This has increased to 63.2 percent in 1987, 66.3 percent in 1988 and 86.8 percent in 1990 (from April to September). Among all industries in the manufacturing sector, investment for electrical and electronic products took a phenomenal increase. This is another characteristic which was apparent during the late 1980s. The share of the investment for these products in 1951 to 1977 was only a mere 5 percent but gained momentum in the late 1980s. The share was 43 percent in 1989 and 68 percent in the first semester of 1990. In the later part of 1990, there were several big investments in electrical and electronic production, for instance, Sharp (Phils.) Corporation in the production of refrigerators, washing machines and acoustical instruments; Uniden Corporation of the Philippines in the production of scanners, CB radios and radar detectors; Matsushita Communication Industrial Company, Ltd. (the sister company of Precision Electronic Corporation) in the production of floppy disk drives, electric condenser microphones and closed circuit TV cameras; and so on. There was also a substantial increase in investments in transportation equipment production. The share of investment in this area increased from 10 percent in 1979 to 18 percent in the first semester of 1990. As a result, the combined share of electrical and electronic products, and transportation equipment investments leaped to as high as 86 percent in the first half of the year.

Table 8 - Total Number of Projects Approved by the Export Processing Zone Authority: January, 1989-September, 1990

[Unit: million pesos]

January-December 1989			January-September 1990		
Total Project Cost	2046	(100%)	Total Project Cost	650.283	(100%)
Investors:			Investors		
(1) Japanese	1131	(55.3)	(1) Japanese	400.88	(61.6)
(2) Hong Kong	286.61	(14.0)	(2) S. Koreans	108.42	(16.8)
(3) S. Koreans	245.03	(12.0)	(3) Filipinos	86.853	(13.4)
(4) Filipinos	198.26	(9.7)	(4) Taiwanese	27.93	(4.3)
(5) Americans	108.87	(5.3)	(5) Indians	13.72	(2.3)
			(6) Americans	6.94	(1.1)
			(7) New Zealanders	5.76	(0.0)

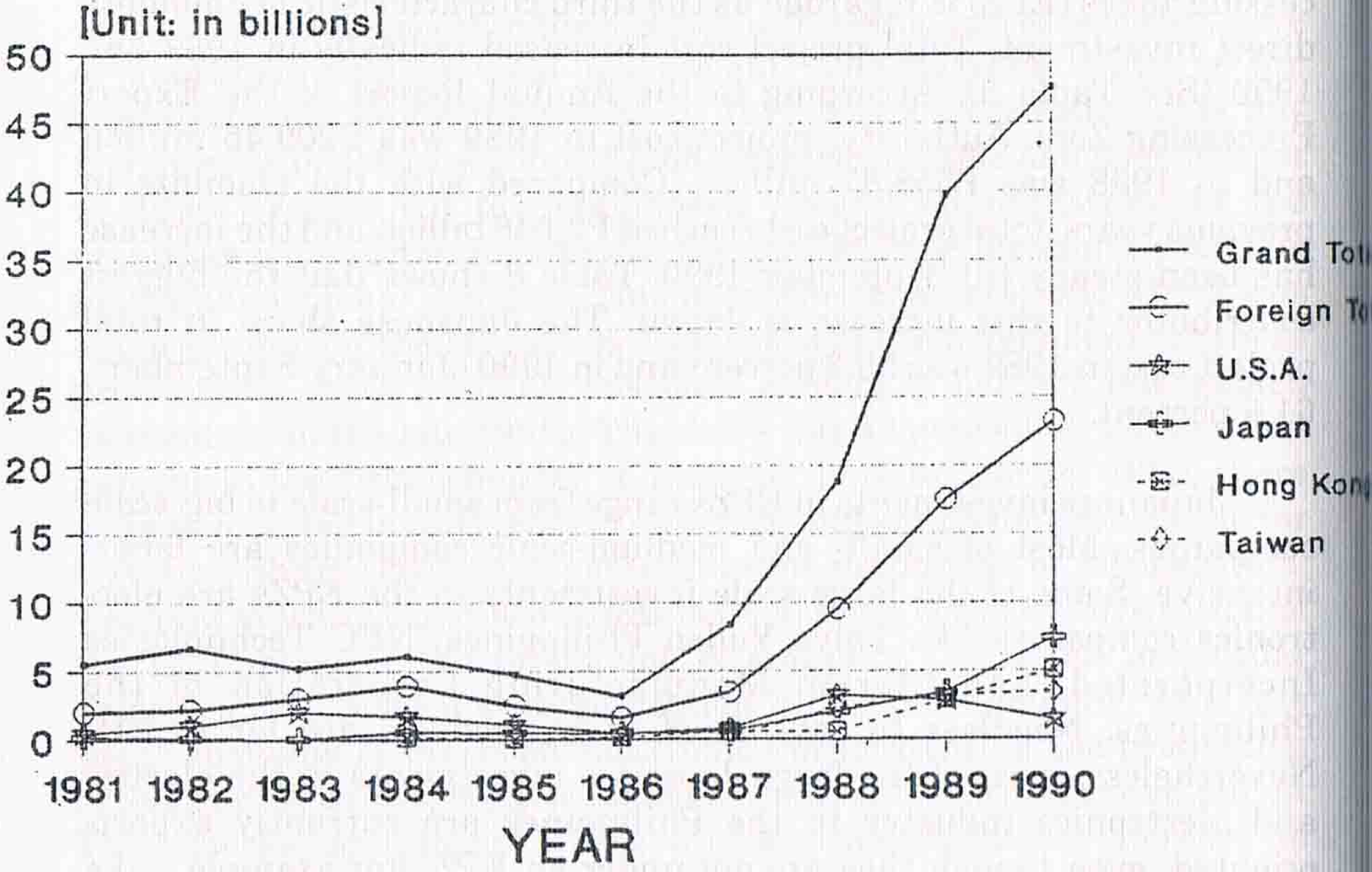
Source: Export Processing Zone Authority.

The obvious increase of Japanese investments in the export processing zones (EPZ) is regarded as the third characteristic of Japanese direct investment. Total project cost increased radically in 1989 and 1990 (See Table 8). According to the Annual Report of the Export Processing Zone Authority, project cost in 1989 was P209.45 million and in 1988 was P558.87 million. Compared with the amounts in previous years, total project cost reached P2,046 billion and the increase has been steady till September 1990. Table 8 shows that the biggest contributor to this increase is Japan. The Japanese share in total project cost in 1989 was 55.3 percent and in 1990 (January-September), 61.6 percent.

Japanese investments in EPZs range from small-scale to big-scale companies. Most of small- and medium-scale companies are labor-intensive. Some of the large-scale investments in the EPZs are electronics companies like Taiyo Yuden Philippines, NEC Technologies Incorpórated, and Clarion Manufacturing Corporation of the Philippines. Needless to say, all of their products are for export. Nevertheless, most of the large Japanese investments in the electric and electronics industry in the Philippines are currently export-oriented, even though they are not under an EPZ. For example, take the case of Uniden Corporation and Matsushita Communication Industrial Corporation all of whose products are exported. The same is true with the expansion projects of Sharp Corporation and Precision Electronics Corporation, although the share of exports in their total production is not so large.

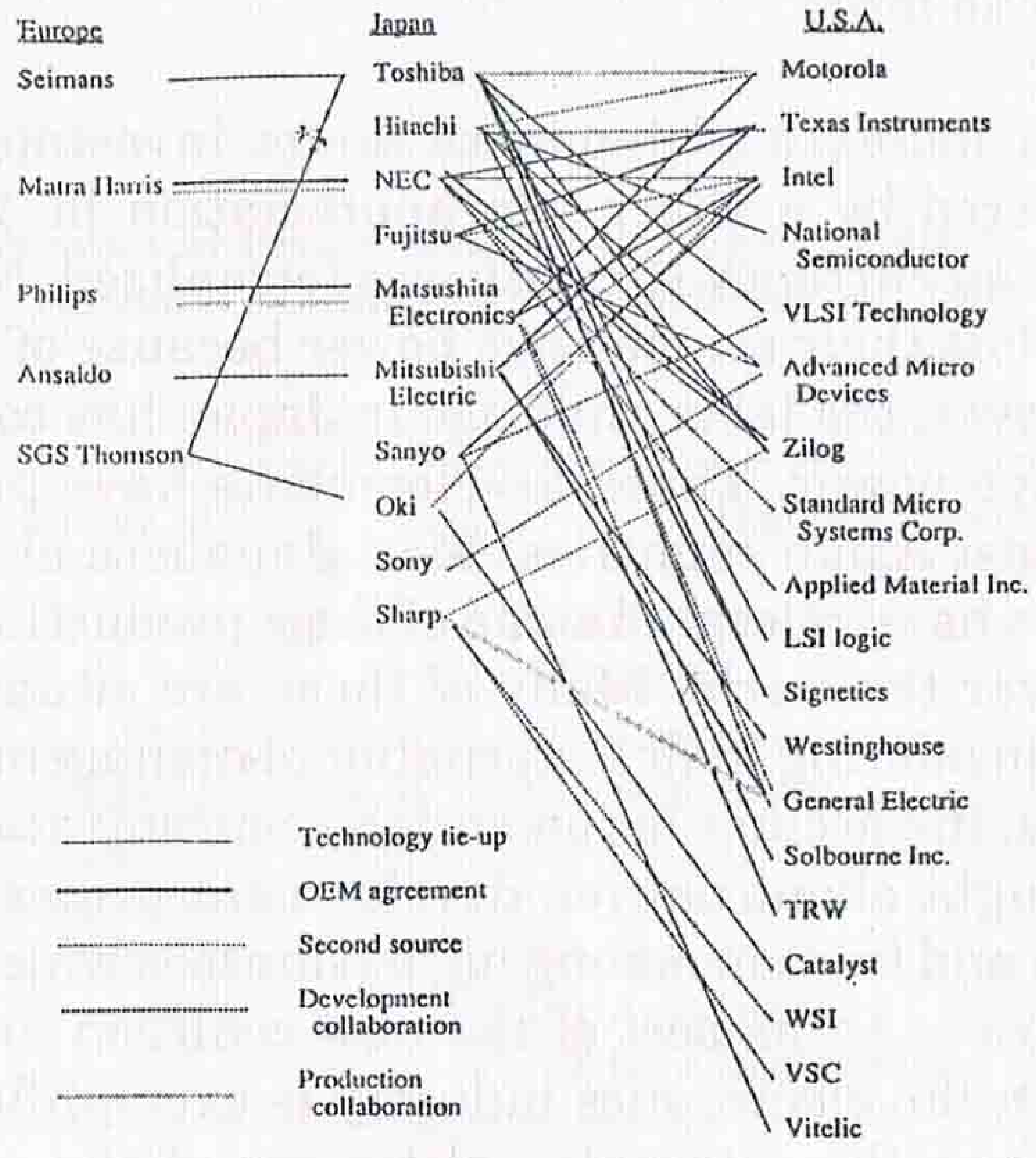
The sudden increase of Japanese direct investment in the late 1980s was triggered by a sharp yen appreciation in 1985 when the Plaza agreement on currency stability was formalized. Many Japanese companies have lost their competitive power because of the high value of the yen. Moreover, the labor shortage in Japan has compounded the loss of competitive power. These developments have pushed them to invest in Southeast Asian countries. Most Japanese electric and electronics industries have relocated some of their production sites outside Japan and all over the world. Many of these are situated in ASEAN countries after considering their in-ternational management strategies. During the 1980s, the accumulation and the concentration of Japanese big business brought about uneven development processes among advanced countries and friction among big businesses which have crossed national boundaries. An as-pect of the new coalition among big businesses engaged in the electro-nics industry is exemplified in Chart 12 quite well. It shows the international tie-ups of the world's leading semi-conductor manufac-turers. We can see many interlinkages among

Chart 11 - BOI-Approved Equity Investment by Country: 1981-1990



Source: Board of Investments of the Philippines.

Chart 12 - International Tie-ups of the World's Leading Semiconductor Manufacturers



Source: JETRO survey.

Japanese big electronics companies, U.S. companies and European companies.

We should not overlook the friction that has arisen among big businesses. Many Japanese companies in the electric and electronic industry have promptly relocated some of their production sites to ASEAN countries to avail of cheaper labor in order to cut down the price of their products and thus regain their competitive power. Their decision on where to invest depends upon profit maximization consideration. We can generally observe this phenomenon in the manufacturing industries of Japan but it is more clearly evident in the electric and electronics industry. Motivated by profit consideration, Japanese companies started to invest vigorously in the ASEAN countries in the late 1980s. However, they preferred to invest in Malaysia and Thailand rather than in the Philippines because of the unstable economic and political situation in the latter. Tables 7, 9, and 10, which show Japanese investment by industry in the Philippines, Thailand and Malaysia, respectively, reveal why they preferred to invest in Thailand and Malaysia. Comparing the experiences of these three countries, a common trend is the rapid increase of investment in manufacturing, specifically in the electric and electronic industry in the late 1980s. However, it can be noted that the amount of Japanese investment in the Philippines is restricted compared with those in Thailand and Malaysia. In 1989, Japanese investment in the Philippines amounted to only one sixth of Thailand's and one third of Malaysia's. This points to another characteristic of Japanese direct investment in the Philippines — the Japanese invested much less than was expected even though the Philippine Government, which has a huge external debt, has always reiterated the importance of foreign direct investments.

The Japanese government has also tried to induce Japanese direct investments in the Philippines by resorting to the New AID Plan, JAIDO, policy dialogue and so on. However, these efforts were not so successful.

Let us now examine some impacts of Japanese direct investment on the Philippine economy. As already mentioned above, the latest trend of Japanese direct investment is an increase in investments in the manufacturing industries. This supposedly has some impacts on Philippine industrialization. But two charcteristics of recent Japanese investment in the Philippines, that is, an increase of export-oriented investment in EPZs and in export-oriented electric and electronics industry, have brought forth some problems.

Table 9 - The Trend of Japanese Investment in Thailand by Industry: 1951 - 1990 (4-9)

(Unit: Thousand Dollars)

Industry	1951-77	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (4-9)	Total
Manufacturing															
Processed Food	36862	2201	5436	1946	2581	428	3267	7527	7877	2447	13073	23271	30491	23439	159851
Textiles	116445	4318	5378	134	350	19524	9860	20843	273	2635	8126	30358	40780	34898	293733
Wood Products-Pulp	2582	445	750	369	338	616	1232	180	678	3173	665	13246	10436	4426	39351
Chemical Products	17450	1231	3157	7037	731	438	4191	6244	4384	65	14960	23329	54571	19825	157618
Iron - Non-Iron	11878	142	4249	3291	3582	6974	503	3966	830	11067	28247	107582	133678	22955	338949
Machinery	3624	4341	2775	726	4824	2365	11903	21055	316	36178	12792	136237	181285	33253	451680
Electrical & Electronic Products	3215	712	1919	924	381	653	1615	16447	4135	21893	91218	207376	243444	78626	672565
Transportation Equipt.	12023	2803	11168	3706	3443	2522	2928	1287	643	2851	12922	23588	16881	14400	111171
Others	11534	1059	1481	4352	2186	46320	2124	1877	5985	6980	28190	61125	77526	47659	298404
Subtotal	215618	17256	36318	22488	18419	79845	37626	79435	25324	87293	210198	626115	789095	278286	2523321
Non-Manufacturing															
Agriculture-Forestry	5977	263	291	125	1777	1144	1693	114	325	2267	4438	10858	11925	11589	52792
Fish & Marine Products	147		73	874	37				214	459	230	1565	3318		6920
Mining	4721							216	110				1820	1331	8200
Construction	2092	5021	2663	1546	4322	1673	2273	4761	5904	9147	3902	16224	47228	8910	115670
Commerce	15689	6594	14174	6992	5368	9501	23830	29768	9730	14307	4752	15451	55873	22288	234323
Finance - Insurance	6764	1729	220	69	528	687	706	3740	6803	3448	3923	9052	12429	44052	96158
Service	10584	490	100		73	222	617	586		4087	2907	57118	150182	104224	330997
Transportation						1100				182	950	13059	28153	8823	52269
Real Estate					90					1715	676	49927	159219	69166	280796
Others	11661	246	701	1200						840					14650
Subtotal	57637	14345	18225	10809	12199	14330	29122	39188	23089	36455	23583	173259	470149	270379	1192775
Set-up, Extension of Office	2964				20		4919				16179	59511	16289	31600	131484
Real Estate	663	46													710
Total	276883	31648	54543	33297	30638	94175	71667	118623	48413	123749	249961	858887	1275534	580267	3848293

Source: Ministry of Finance in Japan.

Table 10 - The Trend of Japanese Investment in Malaysia by Industry: 1951-1990 (4-9)

(Unit: Thousand Dollars)

Industry	1951-77	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (4-9)	Total
Manufacturing															
Processed Food	12924	2331	1454	764	1830	218	2630		673	10098	3418	1471			37820
Textiles	76603	14759	6789	6707	2272	13199	16362		555	89		5785	1335	2126	146585
Wood Products - Pulp	41248	1004	872	1815	503	488	1279	4383		51	1071	7331	7562	14773	82386
Chemical Products	56749	394	972	109366	799	8456	1646	1296	3420	5432	5190	20504	49468	71619	335315
Iron - Non-Iron	25016	1471	1188	2035	2757	26824	6422	72163	9514	6401	10755	22990	45389	25234	258164
Machinery	3173	5607	20	60	442	87	689	699	1822	2259	179	36949	25935	57459	135385
Electrical & Electronic Products	32289	5082	6201	8279	6072	8049	8253	19949	2268	30332	26217	229089	272672	80964	735721
Transportation Equipt.	3848	1175	1987	596	1803	765	73381	5499	3587	2618	84577	4037	2865	4483	191227
Others	15701	2214	2610	2560	1623	1188	628	10082	10943	7284	16385	18042	65357	28460	183032
Subtotal	267554	34041	22096	132188	18103	59276	111293	114071	32790	64568	147796	346202	470586	285115	2105686
Non-Manufacturing															
Agriculture-Forestry	14132	1304	1127	18	3272	4681	2728	451	318	607	90	257	4442		33436
Fish & Marine Products	1009				37								1425		2472
Mining	104312	9200		6071						27959	1142		24514	5937	
Construction	1839	2384	32	116	52	2049	6529	5650	4365	2275	1112	2027	71034	1495	100966
Commerce	7664	591	2023	1496	4489	4887	7835	17830	37072	23630	6300	13499	25091	1995	154409
Finance-Insurance	3631	22	2124	1101	870	1190	2975	1498	1710	33846	811	906	39661	21624	11975
Service	2559		4557	1411	1525	9105	1501	678	713	657	4953	17302	10427	19963	75357
Transportation					480	106	2467	922	377		120	3143		1114	8731
Real Estate						856	3488			4002		3794	25917	30993	69056
Others	14621	127	1156	3932	294	127	818	932	357		906			5185	28461
Subtotal	149771	13631	11021	14149	1102	23004	28344	27966	44916	92980	15438	40932	202515	88305	764000
Set-up, Extension of Office	2903				1920	252		105	1589	487	89				7348
Real Estate	2391	268	338												2999
Total	422620	47942	33457	146337	31047	82534	139637	142143	79296	158035	163324	387135	673101	373421	2880034

Source: Ministry of Finance in Japan.

As analyzed by Warr (1985): "In essence, export processing zones can be thought of as a form of labor export. The degree to which EPZ activities are linked to the domestic economy is so small that the workers can be thought of as essentially outside the country." Thus, we can say that the impacts of the investments in EPZs are very small except for the crea-tion of employment to some extent. The Annual Report of EPZA reveals that the trade balance of EPZs is minimal. We can say that the increase of Japanese investment in EPZs has had minimal impact on Philippine industrialization and cannot contribute to the reduction of the Philippines' trade deficit as much as expected.

The same problems also hold true for investments in electric and electronic companies which are not under EPZ. For example, Uniden Corporation of the Philippines and Matsushita Commercial Industrial Corporation export all of their products abroad and import most of their raw materials from Japan, because they can not get these from the local market owing to their high quality requirements. Besides, some of their production processes are automated, despite the ample surplus labor in the Philippines, in order to match the high quality requirement in the world market. This new trend is also seen in other export-oriented machinery manufacturing industries although it is more evident in the electric and electronics industry. As mentioned above, Japanese big businesses relocate their production sites to the Philippines for profit considerations and not for the promotion of Philippine industrialization.

The impact on Japanese companies producing for the local market is different from that on export-oriented ones. Let's examine the impact on import-substituting Japanese investments. According to my interview with some Japanese-Filipino joint ventures (in the case of companies producing for the local market, foreigners are usually not allowed to be majority owners, so Japanese investors have to enter into joint ventures), their profits increased in the late 1980s. In most cases they have expanded their business, especially during the late 1980s when the Philippine economy recovered from the recession. The president of one Japanese-Filipino joint venture which has many sister companies in Asian countries has revealed that the profit rate of his company is the highest in all the ASEAN countries. He pointed out some characteristics of the Philippine market which enabled his company to earn a high profit: the degree of protection of the local market is higher than in other ASEAN countries and this is enjoyed not only by foreign but also local investors in some industries because of the entrance barriers to the "crowded industries" pointed out by the

BOI. As the seller's market is the local market, they can sell their products as much as they want. However, if the liberalization program will be implemented immediately, he expressed fears that his company, which is the most successful among those in the same business, would not be able to compete with imports especially from Asian NIEs, because of the high prices of inputs which they have to buy here in the Philippines. High import taxes have to be paid and there are so many middlemen who make huge commercial profits. However, his company is preparing for import liberalization by introducing the Japanese subcontracting system which will make use of small and medium scale businesses in the Philippines in order to improve their competitive power. In sum, Japanese-Filipino joint ventures which produce for the local market take advantage of the protected local market.

Japanese companies are well known in the world for creating and utilizing the most progressive and aggressive management strategies such as endless innovations and rationalization, etc. However, this management style is not necessarily universal (or general) but varies depending on the situation. In the case of big Japanese-Filipino joint ventures, management is usually handled by Japanese who did not have to use the progressive and aggressive management style until recently because of the protection given to the local market. Hence they didn't have to experience the stiff competition in the local market. Taking advantage of the non-competitive market conditions of the Philippines which reaped for them huge profits, the Japanese-Filipino joint ventures could afford to veer away from the usual aggressive and progressive management style which is usually associated with the Japanese.

At this point, let us summarize some of the impacts of Japanese investment on Philippine industrialization. First is the quantitative aspect. Considering the limited increase of Japanese investment in the Philippines compared with Thailand and Malaysia, we cannot expect a drastic change in Philippine industrialization like that in Thailand.

Second is the qualitative aspect. Considering the foregoing, we can not expect export-oriented investment such as those in the electronics industry not only in EPZs but also in other places in the Philippines, to impact significantly on Philippine industrialization. The linkage of the export-oriented foreign investments with the Philippine economy is weak because they are usually managed using strategies of their parent companies whose main concern is to create international linkage among their subsidiaries for maximum profit.

In the case of the import-substituting foreign investments, they are supposed to have a little bit stronger linkage than export-oriented ones. Unfortunately, we did not examine all aspects of the linkage or effects of Japanese-Filipino joint ventures which mostly aim to produce for the local market. We should refrain from saying something about the impact of import-substituting Japanese investments. At the very least, it can be inferred from my interviews that we cannot expect from Japanese-Filipino joint ventures the task of changing the uncompetitive and protective market conditions.

Based on interviews conducted, BOI and JETRO predicted that the growth rate of Japanese investment in the Philippines in 1991 will decrease compared with that in 1990. However, some industries such as those characterized by 3K (*kitanoi*: dirty, *kitui*: hard, *kiken*: dangerous) like the electronics software industry, will continue to grow in 1991.

The Japanese press have reported that total Japanese foreign equity investment all over the world decreased by 10 percent in the first semester of 1990 as compared with the same period in 1989. The reasons for the decline are the slack of the yen appreciation and the decline in investment of Japanese financial institutions (*Nihon Keizai Shinbun*, Nov. 29, 1991).

The *Asian Wall Street Journal* (January 8, 1991) has reported that the Japanese investment strategies in Asia, specifically in the ASEAN countries such as Thailand and Malaysia, have shifted from export-oriented to local market-oriented because of the recession in the U.S. and the boom in the Thai and Malaysian economies. Press releases have also failed to give us an optimistic prediction for Japanese investment in the Philippines. A decline in the Philippine economy in 1991 would thus not attract many Japanese investments whose current strategy is to shift focus towards the local markets.

4. Summary and Conclusion

A close examination of Japanese economic cooperation (ODA and foreign direct investments) reveals that the blueprints drawn by the Japanese government, e.g., the open economic cooperation in the Asia-Pacific region described by MITI, the balanced expansion through the formation of an international horizontal division of labor between Asia and Japan drawn by AEP (Agency for Economic Planning), are fraught with problems.

Firstly, Japan's ODA does not play a successful role at present in inducing such Japanese direct investments in the Philippines.

Furthermore, our examination of the recent trends in Japanese direct investments in the Philippines raises the following questions:

If Japanese direct investment in manufacturing industries would increase henceforth, can we call it an international horizontal division of labor? Or, does it merely take advantage of the Philippines as a supplier of parts? We can see the characteristics of intra-firm trade there, can't we? Does it only use the Philippines as an export processing zone? Even if the rapid globalization of Japanese capital brings about a balanced expansion through international horizontal division of labor between Asia and Japan, would the Philippines be able to participate in this?

These questions call to mind further problems which Japan and the Philippines have to consider more deeply.

On the Philippine side, it should be kept in mind that the increase of Japanese direct investment in the Philippines is not the real solution to the industrialization problems in the Philippines such as the stagnation of the industrial structure, the lack of interlinkage in manufactures, uncompetitive and protected market, and so on. This must be kept in mind in the face of the Philippine government's eagerness to induce foreign direct investment, especially from the Japanese. In order to carry out Philippine industrialization, needless to say, the formulation of the appropriate industrialization policies and their implementation by the Philippine Government are crucially needed.[4]

After a close scrutiny of the Philippine's political economy, appropriate policies have to be identified and then implemented. This is beyond the scope of this paper. However, at the very least, it can be said that social structural reform, i.e., reform that will move the country from the domination of a few vested interests to a more equitable distribution of goods, is the prerequisite for industrialization. The

[4]When the Government decides on the industrialization policies, there are some crucial points to be considered carefully. One point is how to break the non-competitive and protected local market. Another point is to define the role of the state in the Philippine economy. An additional point is to determine the extent to which foreign investments should be liberalized.

policy of inducing foreign direct investment does not automatically bring about social structural reforms in the Philippines, but its impact on Philippine society should not be discounted.

In the case of Japan, given that the structure of the world economy has changed drastically during the 1980s, Japanese economic cooperation has come to a turning point. Japan cannot behave in the same manner as before when the Pax Americana was still stable.

Both the public and private sectors have tried to promote economic cooperation. However, a close examination of Japan's economic cooperation with the Philippines reveals that it does not function so well. Because of this, there is an inconsistency between the intent of total capital and the behavior of individual capital. The two are not always in harmony. In the case of the Philippines, Japan's ODA does not help to adjust this discrepancy and to induce a lot of Japanese investments in the Philippines. As earlier mentioned, the blueprints of the balanced expansion or of the open economic cooperation in the Asia-Pacific Region drawn up by the Japanese government represent the interests of Japan and not necessarily the interests of participant countries in the Asia-Pacific region. For instance, there is an inconsistency between Japan's interest and the expectations of the Philippines as already mentioned.

Faced with the stagnation of industrialization in the Philippines, some Japanese as well as Filipino businessmen secretly believe that strong state power such as that under the Marcos regime is what is needed to attract foreign capital and be able to carry out Philippine industrialization. However, we must be cautious in advocating this. Many precedents show that the implementation of industrialization dependent on foreign capital under strong state power did not necessarily lead to an improvement in the standard of living of the masses but to instability and inequity in the society.

An alternative attitude to that advocated in the blueprints of the Japanese government or the advocacy of strong state power should be developed by those involved in Japanese-Filipino economic cooperation. In order to realize a better alternative for carrying out economic cooperation, a consideration of the economic and political structural reforms of Japan is essential. At present, the U.S. government strictly requires Japan to implement structural adjustment for the former's interest. The final target of the U.S. is to reduce the competitive power of Japanese companies and to reduce Japan's exports to the U.S. market.

There are some requirements which would be beneficial to the Japanese populace such as the shortening of work hours, supplying more social infrastructure for the communities, and not for the industries, cutting down the price of consumer goods in reforming the structure of Japan's market, etc.

However, it is essential for all Japanese to participate actively in Japan's reform process. The new alternative way of economic cooperation in the Asia Pacific region necessitates a real structural reform of both the Japanese and Philippine economy.

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