

**THE IMPACT OF JAPANESE REPARATIONS PAYMENTS
on the
PRIVATE SECTOR OF THE PHILIPPINE ECONOMY**

by
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I INTRODUCTION

In compliance with the Reparations Agreement between Japan and the Philippines signed on May 9, 1956, Japan agreed to supply the Philippines with goods and services, the total value of which would be equivalent to 550 million U.S. dollars. The supply was divided as follows: \$500 million in the form of goods and complementary services, \$30 million in the form of services and \$20 million in cash.¹ Reparations payments were to be made by Japan in lump sums. The first payment consisted of \$25 million paid annually for the first ten years after the signing of the Agreement. The second payment consisted of \$30 million pay annually for the succeeding ten years.

On August 13, 1971, the National Economic Council (NEC) decided² that the remaining balance of the reparations account of the Philippines, amounting to \$175 million, should all be channeled to the *public* sector beginning with the 16th year schedule.³ This meant permanently banning the private sector from procuring services and capital equipment via reparations, although the provisions of the Reparations Act give priority to the awarding of reparations to the private sector, and that as much as 60 per cent of the total value of reparations can go to that sector.

¹The cash payment was later agreed to be given in the form of goods, by both governments.

²As per National Economic Council (NEC) Resolution No. 31-71.

³Prior to this decision, the 16th Reparations Schedule had already been approved. The National Economic Council also included the following qualification in Resolution No. 31-71. "Provided that in the case of the 16th year Reparations Schedule only such projects of the private sector in which the government has already committed itself under a perfected contract shall be given allocations; the rest of the allocations are given to projects of the public sector."

In a letter to President Ferdinand E. Marcos dated August 1971, Chairman Gerardo P. Sicat of the National Economic Council stated that the Council arrived at the decision to ban further reparations awards to the private sector after considering that "reparations is a national patrimony and so should be utilized so as to benefit the greatest number of people, not just a few private end-users; 2) reparations payments can and should be utilized so as to augment the limited resources of public projects; 3) during the inaugural meeting of the Consultative Group of Countries to the Philippines held last April, the Philippines found a need to utilize resources that are at her compound for development purposes meaning in part the Reparations; 4) the arrearages in the payments to private end-users for the reparations goods amounting to P71 million makes it imperative for the Government to stop further allocations to the private sector; 5) the remaining balance of reparations estimated at \$175,221,221.57 as of May 31, 1971, can have a great impact on the economy if it is channeled to development projects in the public sector; and 6) the private sector, aside from Reparations has other sources of financing and can avail of the various incentives provided by existing laws."

Since this new policy of the National Economic Council signifies the end of the award and procurement of reparations goods and services for the private sector, an assessment of the impact of Japanese Reparations payments on the private sector, from the beginning of the reparations program in 1956 to its end in 1971, therefore, is possible for the author.

The author intends to assess the impact of Japanese reparations on the private sector of the economy from 1952-1971. More specifically she will summarize the results of an industry study conducted in connection with her Masters thesis⁴. The industry study attempts to quantify the economic contribution of private firms awarded reparations goods in terms of employment generated, additional output produced, dollars earned or saved, comparing these with industry totals whenever possible. The analysis was carried out in industrial sectors, following the sectoral classification of firms used by the Reparations Commission.

The results of this industry study will be taken together with results of some measures of the effect of reparations such as (1)

⁴Based on the author's M.A. thesis submitted to the Department of Economics, University of the Philippines in April 1972. ●

average annual ratio of reparations to imports; (2) the ratio of reparations investment to total investment by industry; (3) the rate of utilization of reparations goods; and (4) the rate of delinquency of users to gauge the impact of reparations payments to the private sector.

A brief background of reparations payments to the Philippines is presented in Section II, while the results of the industry analysis and of our four measures listed above are summarized in Sections III and IV, respectively. The summary and conclusions are given in Section V.

II. BACKGROUND OF JAPANESE REPARATIONS PAYMENTS TO THE PHILIPPINES

The year 1971 represented the fifteenth year the Philippines has received payments for war damages from Japan in the form of reparations goods and services. Since payments were to start upon approval of the Reparations Agreement signed on May 9, 1956, and since the total period within which the payments were to be made was 30 years, 1971 then marks the end of three-fourths (3/4) of the reparations period.

Table 1 below presents total reparations payments made from the start of reparations program in 1956 until the end of the 15th year, March 31, 1971:

Table 1

Status of Reparations Payments as of March 31, 1971 Summary

I. Amount of reparations obligations of Japan . . .	\$ 550,000,000.00
II. Contracts concluded between suppliers and the Philippines:	
A. 1st year up to end of 14th year	365,773,634.38
B. 15th year, until March 31, 1971	8,923,866.11
Total, 1st to 15th year	374,706,500.49
III. Fund not net obligated	\$ 175,293,499.51

Table 2

STATUS OF REPARATIONS AS OF MARCH 31, 1971

	<u>Total</u>	<u>Capital Goods</u>	<u>Consumer Goods</u>	<u>Technical Services</u>
I. Amount of Reparations Obligation of Japan	\$550,000,000.00	\$500,000,000.00	\$20,000,000.00	\$30,000,000.00
II. Contracts concluded between suppliers and the Republic of the Philippines:				
A. First year up to end of Fourteenth Year:				
1) Pure Reparations Contract	351,603,025.09	321,158,950.45	7,741,997.22	22,702,077.42
2) Deferred Payment Contracts, including interests —				
a) Telecommunications Project	7,933,185.55	7,933,185.55	—	—
b) MRR-Cagayan Valley Extension Project	6,237,423.74	6,237,423.74	—	—
c) Total deferred payment contracts, including interest	14,170,609.29	14,170,609.29	—	—
3) Total	<u>365,773,634.38</u>	<u>335,329,559.74</u>	<u>7,741,997.22</u>	<u>22,702,077.42</u>
B. Fifteenth Year:				
1) July 23, 1970 up to end of last month	7,852,706.34	6,731,299.19	—	1,121,407.15
2) This month, March 1-31, 1971	1,080,159.77	1,078,763.77	—	1,396.00
3) Total	8,932,866.11	7,810,062.96	—	1,122,803.15
C. Total Contracts	<u>374,706,500.49</u>	<u>343,139,622.70</u>	<u>7,741,997.22</u>	<u>23,824,880.57</u>

A more detailed table, showing the total amounts broken down into capital goods, consumer goods and technical services can be found in Table 2, on the following page. The summary above shows that out of the \$550 million reparations obligation of Japan, \$365.7 million was paid in the form of goods and services from the first year up to the end of the 14th year. For the 15th year, representing the period from July 23, 1970 to March 31, 1971, \$8.9 million was paid, making total payments from the beginning of reparations to March 31, 1971 equivalent to approximately \$374 million. Therefore the remaining balance of the \$550 million obligation of Japan amounts to about \$175 million.

To provide some basis of comparison of the Philippines' reparations program with that of other countries, Table 3 presents data⁵ regarding Japan's reparations to its four claimants: the Philippines, Burma, Indonesia and Vietnam.

Table 3

JAPAN'S REPARATIONS TO ITS FOUR CLAIMANTS

Country	Amount	Period	Annual Payment	Effectivity
PHILIPPINES	\$550 M	20 years	\$25 M - 1st 10 yrs. \$30 M - 2nd 10 yrs.	July 23, 1956
Burma	\$200 M	10 years	\$20 M	April 16, 1955
Indonesia	\$223 M	12 years	\$20 M - 1st 11 yrs. remainder on 12th	April 15, 1958
Vietnam	\$ 39 M	5 years	\$10 M - 1st 3 yrs. 4.5 M - last 2	Jan. 12, 1960
TOTAL	\$1,012 M			

After the signing of the San Francisco Peace Treaty on September 8, 1951, Japan forged two kinds of agreements: one calling for direct reparations in the form of goods and services; the other calling for an

⁵From "Japan's War Reparations — Achievements and Problems", Study Group, *Asian Affairs*, Asia Kyokai, Vol. 4 no. 2, March, 1960, p. 105.

indirect form labelled "economic aid with no compensation". The Philippines, Indonesia, Burma and Vietnam were categorized under the direct type, while Laos, Cambodia, Thailand, Burma and South Korea were classified under the indirect type. Table 3 above shows the amounts and periods of reparations payments of the claimants receiving reparations of the direct type.

Of the four claimants, the largest recipient of reparations payments from Japan was the Philippines, which was allotted more than double the amount that went to Burma and Indonesia, and more than 14 times that was awarded to Vietnam. Of the four claimants, only the Philippines is still currently receiving war damage payments from Japan, the reparations programs in the other three having terminated: Burma in 1965, Indonesia in 1970, and Vietnam in 1965.

As of October 31, 1971, the total value of goods and services received by the Philippines from Japan as reparations was \$347,484,933.47. The distribution of this total is shown in Table 4 showing a summary of the goods and services received from 1950 to 1971.

As can be seen in part (i) of Table 4, of the total of goods received 97 per cent was valued at \$337,986,098.66. This was in the form of goods, mostly capital goods, and only 3 per cent came in the form of technical services, valued at \$9,494,834.86. Part (ii) shows that the distribution of reparations goods and services between the government sector and the private sector is not too lopsided, with each getting more or less one half of the total amount allocated (50 per cent to the government sector and 44 per cent to the private sector).

Part (iii) of the table breaks down the total award of reparations to the government sector. The public sector got \$195,077,585.14 in seven categories. Part (iv) breaks down the total award of reparations to the private sector. The biggest share in the government sector went to Category VI, Buildings and Roads and Bridges Construction, taking up almost 40 per cent of the total award to the government sector. Category VI in the private sector representing Transportation and Communication Projects got the largest share of the total award to the private sector in the amount of \$152,407,348.33, accounting for almost 50 per cent of the total award to the private sector.

It will be noted that the bulk of total capital goods awarded to the private sector has gone to only two of the seven categories, namely

Table 4

SUMMARY OF REPARATIONS GOODS AND SERVICES RECEIVED
1956-1971

<u>TOTAL VALUE</u>	<u>GOODS</u>	<u>SERVICES</u>
\$347,484,933.47	\$337,986,098.66 (97%)	\$ 9,494,834.86 (3%)

<u>TOTAL VALUE</u>	<u>GOVERNMENT</u>	<u>PRIVATE</u>
\$347,484,933.47	\$195,077,585.14 (56%)	\$152,407,348.33 (44%)

Summary of government sector awards:

Category I.	Agricultural and Fishery Development . .	\$25,861,132.26
II.	Electrification and Corollary Industries .	5,652,556.06
III.	Mineral Resources Development Projects	517,567.78
IV.	Industrial Development Projects	5,245,468.43
V.	Transportation and Communication Development	21,034,746.35
VI.	Buildings and Roads and Bridges Construction	74,866,183.43
VII.	Other Projects	53,078,723.30
VIII.	Technical Services	9,001,206.53
	Total	\$195,257,594.14

Summary of private sector awards:

Category I.	Agriculture and Fishery Development . .	\$ 8,304,064.41
II.	Electrification and Corollary Industries .	251,291.54
III.	Mineral Resources Development Projects	2,761,839.50
IV.	Industrial Development Projects	53,180,090.29
V.	Small Scale and Cottage Ind. Projects . .	3,374,500.17
VI.	Transportation and Communication Projects	75,552,454.32
VII.	Other Projects	8,274,710.50
VIII.	Technical Services	497,628.28
	Total	\$152,407,348.33

Industrial Development Projects and Transportation and Communication Projects. These two categories together received practically 85 per cent of the total capital goods awarded to the private sector until October, 1971. Electrification and Corollary Industries received the smallest share, having been awarded less than 1 per cent.

III: INDUSTRIAL ANALYSIS OF REPARATIONS TO THE PRIVATE SECTOR

A. Method of Analysis

Based on data provided by the Reparations Commission and answers to questionnaires sent to the 227 private firms and individuals awarded reparations goods, an analysis of reparations to the private sector was made on an industry level. The questionnaire sought data from each firm regarding the specific description and value of their reparations equipment, their annual output, employment, dollar earnings and/or savings, and so on, attributable to their reparations goods. The data from each firm was to be added to similar data of firms within the same industrial classification, then compared with the industry total. The contribution of reparations to the growth of each industry, as well as to the whole economy could then be shown quantitatively.

In spite of the poor response rate to the questionnaires (less than 10 per cent), other sources such as reports of the Inspection and End-Use Evaluation Department of the Reparations Commission provided enough statistics to at least roughly indicate the contribution of reparations in terms of the industry as a whole.

B. Results of the Study

The main findings of the industry study of reparations payments to the private sector are as follows:

- (1) The contribution of reparations is greatest in the shipping industry;
- (2) Aside from shipping, the impact of reparations on three other industries is substantial, although it is less to that of shipping. The three other industries: the cement industry, the textile industry and the pulp and paper industry;

- (3) The contribution of reparations to all other industries can be considered minimal.

Reparations Contribution to the Shipping Industry

The Reparations Commission awarded, as of the end of 1971, a total of 24 ocean-going vessels to 13 shipping firms, totalling ₱1,386,430.09. The total amount awarded for shipping vessels was represented 81.2 per cent of the total award for transportation and communications and 40 per cent of the total capital goods awarded to the private sector, indicating that shipping ranked high in priority in the awarding of reparations goods by the Reparations Commission.

The consequence of this was that there has been a marked increase in the participation of Philippine overseas bottoms in shipping, which in 1966 at start of the reparations program was only 1.62 per cent of the entire shipping trade. In that year, Japan ranked first with 37.82 per cent of trade going to her ships, America next with 12.94 per cent, followed by Britain with 12.4 per cent. The Philippines ranked eighth.

Philippine participation in international shipping increased largely as a result of the Philippine Overseas Shipping Act of 1955 which provided for financial assistance to the shipping industry through the National Development Corporation (NDC) and the Reparations Commission for the construction, purchase or acquisition of ocean-going vessels. It increased from 1.56 per cent in 1955 to 15 per cent in 1968, the year when the last reparations-acquired ship was put in operation. The increase in Philippine participation in the Asian Philippine trade was even more impressive, increasing by 50 per cent over the same period.⁶

Table 5 shows that the percentage of reparations participation in imported cargo loaded by Philippine ships (total import cargo per ship loaded by reparations ships divided by total import cargo loaded by all Philippine ships) increased from 7 per cent in 1958 to 80 per cent in 1961, while the percentage of reparations participation in export cargo loaded by Philippine ships also increased from 1 per cent in 1957 to 60 per cent in 1961, as shown in Table 6.

⁶As a result, the Japanese shipping sector started to complain against the awarding of reparations to ocean-going vessels.

Table 5

REPARATIONS PARTICIPATION IN CARGO IMPORTED TO THE PHILIPPINES

YEAR	TOTAL CARGO				% of Phil. Participation	TOTAL CARGO LOADED BY REPS. SHIPS			% of Reps. Participation
	Inward Cargo		Loaded by Phil. Ships			Voyages	Cargo (tons)		
	Voyages	Cargo (tons)	Voyages	Cargo (tons)			Voyages	Cargo (tons)	
1955	3,744	3,365,813	134	73,824	2				
1956	4,304	4,168,036	137	65,186	2				
1957	4,584	3,565,587	202	114,573	3	4	8,760	7	
1958	4,429	2,901,061	231	162,200	6	28	77,570	48	
1959	4,085	3,713,417	246	309,533	8	44	154,600	50	
1960	4,738	4,154,666	374	231,303	6	50	124,061	54	
1961	4,605	4,922,273	505	459,496	9	69	360,286	80	
1962	4,715	5,121,978	637	242,147	5	63	257,889		

CARGO EXPORTED FROM THE PHILIPPINES

YEAR	TOTAL CARGO				% of Fil. Participation	TOTAL CARGO Loaded by Reps. Ships		% of Reps. Part to Cargo Loaded by Phil. Ships
	Outward Cargo		Loaded by Phil. Ships			Voyage	Cargo (ton)	
	Voyage	Cargo (ton)	Voyage	Cargo (ton)				
1955	3,882	5,791,110	139	248,218	4			
1956	4,414	7,045,681	158	116,948	2			
1957	4,672	5,929,086	192	168,146	3	2	2,398	1
1958	4,173	5,594,638	198	185,156	3	26	40,777	22
1959	4,133	5,386,242	238	212,597	4	46	92,803	42
1960	4,956	6,787,667	356	378,257	6	53	152,896	40
1961	4,695	6,903,291	496	474,846	7	65	274,557	60
1962	4,776	7,242,831	549	1,160,126	16	66	275,340	24

Source: Annual Report Inspection and End-Use Evaluation Department, Reparations Commission

In Table 7, a comparison is made between data on Repairs Acquired ships and data regarding the shipping industry as a whole to serve as indicators of the repairs contribution to the industry

Table 7

COMPARISON OF REPAIRS SHIPPING DATA
WITH INDUSTRY DATA

	<u>No. of Ships</u>	<u>No. of Shipping Firms</u>	<u>Gross Tonnage</u>
Repairs-Acquired ^a	24	13	151,049.88
Industry Total ^b	113	38	718,539.00
Percentage:	21.2%	34.2%	21%

Source: ^aRepairs Commission

^bPrivate Development Corporation of the Philippines,
Ocean Shipping Industry, April, 1970.

The share of repairs-acquired ships in the entire shipping industry was quite substantial. In terms of number of ships, repairs-acquired ocean-going vessels made up a little more than one-fifth of the total number of ships in existence. Since the 24 repairs ships were awarded to only 13 shipping firms, the proportion of repairs-acquired ship owners to the total number of shipping firms in the entire industry was even greater, accounting for more than one-third.

Even in terms of gross tonnage, a comparison of the total gross tonnage of all repairs ocean-going vessels put together with the total gross tonnage of the Philippine shipping industry showed that repairs ships made up a full 21 per cent of the industry gross tonnage. The major role of repairs payments in the development of the shipping industry was not surprising considering that of all industries, the shipping industry has had the largest share of repairs payments, making up 40.4 per cent of the total awarded repairs to the private sector.

Reparations Contribution to Other Industries

Aside from shipping, the contribution of reparations to three other industries could be considered substantial, although they got smaller appropriations compared to shipping. These were the cement industry, the textile industry and the pulp and paper industry, which received \$21.7 million, \$10.3 million and \$8.5 million, respectively. For all other industries, the contribution of reparations was insignificant.

The Cement Industry

The cement industry ranked relatively high in the procurement of reparations goods, with the acquisition of four cement plants valued at \$21.7 million. This was 40.8 per cent of the total capital goods awarded for industrial development projects. The following were the recipients of cement plants through reparations, from 1956 to 1971:

<u>Reparations Awardee</u>	<u>F.O.B. Value (\$)</u>
1. Universal Cement Company	\$ 6,991,110.78
2. Filipinas Cement Corporation	6,236,559.21
3. San Jose Cement Corporation	4,496,999.99
4. Continental Cement Co.	3,996,950.12
Total	<u>\$21,721,619.10</u>

It is noteworthy that only two of the four companies listed above are currently in operation, namely: Universal Cement Co., and Filipinas Cement Corporation. The other two, San Jose Cement Corporation and Continental Cement Corporation have never been productive. San Jose, whose cement plant arrived in 1961, has not yet delivered its plant. The plant is now stored in different warehouses including that of the Camp Aguinaldo warehouse, mainly because of the financial incapacity of the awardee. Continental Cement, whose plant arrived in 1967 and was delivered in 1969 has "plant construction in progress" until the present time.

A comparison of data on reparations-acquired cement plants with the cement industry data is shown in Table 8.

Table 8

**COMPARISON OF REPARATIONS CEMENT DATA
WITH INDUSTRY DATA OF 1969**

	No. of Firms		Rated Capacity Annual, million bags
	Total	In operation	
Reparations-Acquired ^a	4	2	19.20
Industry Total ^b	12	12	84.75
Percentage	33%	16%	11%

Source: ^aReparations Commission

^b*Position Paper on the State of the Philippine Cement Industry*, Economic Development Foundation, Makati, Rizal, 1970.

It can be seen that the total of cement plants awarded through reparations make up one-third of the total number of plants in existence. However, since two of the four cement plants awarded are not in operation, the reparations contribution to the cement industry, in terms of operative plants is only 16 per cent. Of the total industry capacity of 84.75 million bags, the two reparations plants, Universal Cement Company and Filipinas Cement Corp. are capable of producing 11 per cent of the industry capacity.

The fact that San Jose Cement Corporation and Continental Cement are inoperative makes 40 per cent of the total reparations award for cement plant unutilized. Added to the opportunity cost of not making use of \$8,493,950.11 worth of cement plants are the costs of storage which the government has to bear at present, which have to be borne by the reawardee, in case the plants can be reawarded to other firms. Considering that (a) the plants and plant parts have depreciated from so many years of storage and non-use, (b) that the plants are no longer covered by a guarantee from suppliers since they are guaranteed only until one year after acquisition and (c) that the reawardee is expected to pay whatever storage costs have accumulated on the plants, it seems unlikely that these plants will be reawarded in the future.

The Textile Industry

As of the end of 1969, the Philippine Textile Industry was made up of 15 fully integrated textile mills. Of these 15 mills, two were reparations-acquired, namely that of Lirag Textiles and Consolidated Textile Corporation. Atlas Textile Development Corporation was also a reparations awardee, but it was not fully integrated since it had only spinning operations. Adding together the data concerning these three firms, it is possible to make some comparisons between the data on reparations-acquired textile plants and those of the entire textile industry.

Table 9

COMPARISON OF REPARATIONS ACQUIRED TEXTILE PLANTS WITH THE ENTIRE TEXTILE INDUSTRY

	Spinning		Weaving		Finishing	
	No. of Firms	No. of Spindles	Annual Est. plant output (lbs.)	No. of Looms	Annual output (yds.)	Est. Annual Output (yds.)
Reparations-Acquired ^a	2	50,600	7,600,000	1,560	37,800,000	51 M
Industry Total ^b	14	859,904	175,400,000	17,649	450,000,000	572 M
Percentage:	13.3%	5.8%	4.3%	8.8%	8.4%	8.9%

Source: ^aReparations Commission

^b"The Philippine Textile Industry", *Business Day*, Aug. 17, 1971

Table 9 above shows that, in terms of number of integrated firms, the share of reparations-acquired plants was quite substantial, making up 13.3 per cent of the total number of integrated firms in existence. However, in terms of output capacity, reparations-acquired plants accounted for only 4.3 per cent, 8.8 per cent and 8.9 per cent of annual output for spinning, weaving and finishing, respectively. This is understandable when one considers that reparations investment in textile machinery (P40.4M) is only 3 per cent of the total investment in textile machinery of P1,320 million from 1956 to 1970.

The Pulp and Paper Industry:

Of the 18 pulp and paper mills in the Philippines, six acquired their plants through reparations. They are the following:

<u>End-User</u>	<u>Reparations Equipment</u>	<u>Value (\$)</u>
1. Arco Pulp and Paper Mills	Pulp and Paper Plant	\$ 682,884
2. Eastern Paper Mills	a) Pulp and Paper Plant b) Machinery and Parts for pulp and paper plant	1,472,000 249,800
3. Worldwide Paper Corp. (ex-C. G. Nazario & Sons)	Pulp and Paper Plant	1,325,840
4. United Paperboard Prod. (ex-Forum Trading)	Pulp and Paper Plant	444,000
5. Premier Paper Corp.	Cigarette Paper Plant	852,450
6. Rustan Mfg. Corp.	a) Pulp and Paper Plant b) Pulp and Paper Plant c) Replacement Parts	3,448,000 103,474 No cost
Total		\$ 8,578,400

Of these six awardees, Rustan Mfg. Corp., which received the biggest allotment from reparations (valued at \$3.5 million) is non-operational due to the sub-standard performance of its plant, (its actual output is below the rated capacity), and because of financial difficulties. The other five pulp and paper companies have discontinued production of pulp because they have found it cheaper to import pulp for their plants from Taiwan rather than produce themselves. Therefore, none of the pulp plants awarded through reparations are currently in operation, simply because of the uneconomic scale of plant applied for and awarded to each mill. The 1969 Annual Survey of Manufactures of the Bureau of Census and Statistics shows zero production of pulp in the entire country, indicating that all pulp mills (seven in all) in the country, which acquired reparations or not, are idle.

⁷Annual Survey of Manufactures, Bureau of Census and Statistics, Manila, Preliminary, 1969.

Table 10 provides data, relating to the contribution of reparations to the pulp and paper industry.

Table 10

COMPARISON OF REPARATIONS PULP AND PAPER DATA WITH INDUSTRY DATA

	No. of <u>Mills</u>	<u>Annual Rated Capacity (tons)</u>	
		<u>Paper</u>	<u>Pulp</u>
Reparations-Acquired ^a	6	31,260	40,240
Whole Industry ^b	18	188,900	84,700
Percentage (1/2) ^c	<u>33%</u>	<u>16.5%</u>	<u>47.50%</u>

Source: ^aReparations Commission

^bMonge, Francisco P., "The Philippine Pulp and Paper Industry", *Industrial Philippines*, Vol. XX, No. 3, March 1970.

^cReparations-Acquired divided by whole industry.

It can be seen that the reparations contribution in terms of the number of mills is quite substantial, accounting for a full one-third of the total number of mills in existence.

With respect to annual rated capacity, reparations-acquired machinery are capable of producing 16.5% of the total paper-producing capacity of the industry, and 47.5% of the total pulp-producing capacity of the industry. However, as has been mentioned earlier, none of the pulp plants awarded through reparations are currently in operation. If all pulp plants were fully operational, almost one-half (1/2) of the total production of pulp would be filled by reparations-acquired machinery. Since pulp is a major input in the manufacture of paper, local production of pulp, if priced competitively, would decrease the importation of pulp correspondingly, and again the share of reparations-acquired pulp plants would be almost 50 per cent of the dollar savings. The problem at hand therefore, is how to make the scale of plant of pulp firms big enough to enable them to achieve economies of scale

sufficient to compete with imported pulp. The solutions that come to mind are either: (a) the consolidation of several pulp firms to achieve the desired scale of plant; or a more drastic measure, (b) confiscation or purchase by the state of several or all pulp plants. What is important is the opportunity cost of the non-operation of the existing pulp plants in the country.

All Other Industries

For all other industries, the contribution of reparations can be considered insignificant. This is true for logging, fishing, agriculture, mining, food processing, electrification, communications, as well as small scale industries. The main reasons for the almost negligible effect of reparations on these industries are:

- (a) the low rate of utilization of reparations goods; and
- (b) the small percentage of reparations investment in a particular industry compared to that of the total investment in the mentioned industry.

An estimated 40% of reparations goods received by the private sector, composed mostly of durable equipment, has remained unutilized and unproductive. This low rate of utilization as well as the ratio of reparations investment to total investment is discussed more in detail in Part IV together with some other measures of the impact of reparations.

IV. SOME MEASURES OF THE IMPACT OF REPARATIONS

The effect of reparations payments on the Philippine economy can be measured roughly by several means, each of which taken by itself might not be thoroughly reliable, but if taken all together, might serve as a sufficient *indicator* of the impact and efficiency of these war damage payments. The measures the author will consider are the following:

- (a) the average annual ratio of reparations to imports;
- (b) the ratio of investment through reparations to total investment, by industry;
- (c) the rate of utilization of reparations goods; and

(d) the rate of delinquency in accounts of end-users.

1 Average annual ratio of reparations to imports

Reparations payments, like foreign aid, enable a recipient country to increase its imports of foreign goods and services beyond what could otherwise be permitted by its export earnings. Therefore, the reparations enable the recipient country to increase its aggregate domestic expenditure out of a given national income. The extent to which this expenditure is increased may be roughly estimated by comparing reparations payments received with the recipient's gross national product, as was done in the previous section. Similarly, the extent to which the trade balance is supported can be roughly estimated by comparing the reparations remittances with the recipient's current import volume.

Table 11 lists the total amount of reparations received by each of the principal beneficiaries for a particular period, as well as the average annual ratio of these remittances to each country's imports. The recipients in the table include seven countries that received reparations from Japan. It also lists the three countries that received reparations under the Italian Peace Treaty, and Israel. The importance of Germany's reparations program tends to be understated since it fails to include most of the country's cash remittances for personal indemnification and restitution, especially to those living outside Israel.

The table shows that reparations were clearly important to Israel in the years after the signing of the Luxemburg Agreement. Over the entire 13-year period, transfers from Germany accounted for more than *one-fourth* (1/4) of the country's total imports. At the height of the program, in 1960 and 1961, a full one-half (1/2) of import volume consisted of reparations shipments and purchases financed for personal indemnification and restitution.

The impact is rather less dramatic for other recipients, but nevertheless noticeably significant in some cases. Among the beneficiaries of the Italian program, Ethiopia seems to have profited most, in relative if not in absolute amounts: almost 5 per cent of Ethiopian imports over the second postwar decade was supported by reparations remittances from Italy. Greece also gained support from these payments, particularly from 1950 to 1952, when reparations constituted 7 1/2 per cent of imports. The recipient of Japanese reparations who benefited considerably more than the others is

Table 11

**RATIO OF REPARATIONS RECEIVED TO IMPORTS
OF RECIPIENT COUNTRIES**

(amounts in millions of dollars, ratios in percent)

Country	Years When Reparations Received	Amount of Reparations Received	Ave. Annual Ratio of Reps. to Imports
From Germany:			
Israel	1953-65	1,738.6 ^a	27.1
From Italy:			
Ethiopia	1956-65	40.2	4.9
Greece	1949-60, 1962 (1950-52)	107.9 (76.0)	2.3 (7.6)
Yugoslavia	1951-52, 1955-65	100.2	1.4
From Japan:			
Burma	1955-65	205.4	7.8
Cambodia	1959-65	4.0	0.6
Indonesia	1958-65	147.2	3.0
Laos	1959-60 1962-64	2.8	2.2
Philippines	1956-65 (1957-60)	196.7 (107.9)	2.8 (4.1)
South Vietnam	1960-65 (1961-62)	39.0 (25.9)	2.4 (5.0)
Thailand	1962-65	11.2	0.4

^aincludes both cash payments for personal indemnifications and restitutions to persons resident in Israel, and transfer of goods and services to the Government of Israel under the Luxemburg Agreement, net of payments to Jewish organization abroad made by the Government of Israel under that Agreement.

SOURCE: From data compiled by Benjamin Cohen in *Reparations in the Postwar Period: A Survey*, International Finance Section, Department of Economics, Princeton University.

Suma, with almost 8 per cent of its imports supported by reparations. The Philippines and other countries like South Vietnam, Indonesia and Laos show ratios which seem relatively less significant, but the data nevertheless indicates that these countries' balances were supported to some extent by their receipt of war damage payments. Insofar as reparations payments have afforded several of the beneficiaries an often quite considerable increase of imports, they have probably helped these countries to accelerate their internal rates of economic growth.

4 Ratio of reparations investment to total industry investment

The contribution of Japanese reparations payments to the growth of specific industries in the Philippines can be gauged by comparing the value of reparations-procured machinery in a particular industry with total investment in that industry for a particular period. This is done in Table 12.

Only eight industries are considered due to the limitations set by the data in column 2. The figures for column 2, total investment per industry, are taken from the national income accounts, particularly the table on gross domestic capital formation in durable equipment, by types. Of the many industries that have received reparations goods and services, it is only the above eight for which total industry investment data are available. Column 3 shows the percentage of reparations investment to total investment, by industry.

It can be seen from column 3 that reparations have contributed most impressively to the shipping industry, with a total of P297 million invested in ocean-going ships, tug-boats, steel barges and fishing boats, compared to the total of P1,270 million industry investment, accounting for almost one fourth (1/4) of total investment on ships and boats from 1956 to 1970. Pulp and paper, printing and bookbinding machinery rank a poor second, reparations goods making up 9.2 per cent of the total of P380 million invested in this class of machinery. Considering that more than 40 per cent of reparations pulp and paper mills are unutilized, the contribution of reparations to this industry will be even less significant.

The ratios of reparations investment to total investment for the six other industries are: sawmill and logging machinery, 4.9 per cent; textile machinery, 3 per cent; construction and mining machinery, .5 per cent; agricultural machinery, .3 per cent; airconditioning and

Table 12

RATIO OF REPARATIONS INVESTMENT TO TOTAL INDUSTRIAL
INVESTMENT FOR THE PHILIPPINES, 1956-1970

Industry Category	Reparations Investment (1)	Total Investment (2)	Percentage (1)/(2) (3)
Agricultural Machinery	P 820,866	P 268.7 M	.3%
Construction and Mining Machinery	13,811,296	2,733.0 M	.5%
Pulp and Paper, Printing and Bookbinding Machinery	35,169,396	380.7 M	9.2%
Textile Machinery	40,462,417	1,329.3 M	3.0%
Airconditioning and Refrigeration Eqmt.	928,094	825.0 M	.1%
Sawmill and Logging Machinery	10,243,040	206.4 M	4.9%
Generators and Trans- formers and Switch- gear	251,291	994.5 M	.02%
Ships and Boats	297,109,853	1,270.0 M	23.0%

Source: a) reparations investment (column 1) — Reparations Commission
b) total investment (column 2) — From National Income Accounts, 1956-1970, Table on gross domestic capital formation, *Statistical Reporter*, Office of Statistical Coordination and Standards, National Economic Council, Manila, January-March, 1969 and April-June, 1970.

refrigeration machinery, .1 per cent; and generators, transformers and switchgear, only .02 per cent. Except for its contribution to the shipping industry, which is quite substantial, the impact of reparations on each of the industries under consideration (in terms of investment) is very small indeed, ranging from less than one per cent to 5 per cent.

Rate of utilization of reparations goods

Although a total of \$152.4 million worth of reparations goods and services has been received by the private sector from 1956 to 1971, an estimated 40% of these goods received, mostly durable equipment, has remained unutilized and unproductive. Table 13 shows the rate of utilization of reparations goods received for each of the seven categories. The rates of utilization were computed based on data gathered from the Inspection and End-Use Evaluation Department of the Reparations Commission, supplemented by replies of some firms to a mailed questionnaire.

Table 13 shows that the rate of utilization (value of reparations goods utilized divided by the total value of the goods awarded for that category) varies from a low, low rate of 0% to a high rate of 100%. These extreme percentages are in some cases due to the small number of end-users in those categories, such that if one private firm was the only awardee for that category (as in the case of Glass Container Plants), then its being in operation gives the category automatically a 100% rate of utilization. Noteworthy for their high rates of utilization are Textile Plants and Cargo Vessels, awarded \$10,374,500 (to 5 end-users) and \$61,386,430 (to 13 end-users), respectively, with all the end-users in both classes making full use of their reparations goods. In between these 0%-100% extremes, the average rate of utilization is 59%. This low rate indicates that only a little more than half of the goods received are actually operative and that approximately \$62.48 million worth of these capital goods are unproductive. This means an economic loss for the country not only of \$62.4 million but a lot more, considering that the raw materials they could have provided have to be imported instead, that some of them could have earned some badly needed foreign exchange for the country, that they could have provided additional employment opportunities, etc.

There are several reasons for this low rate of utilization, the most important of which is the effect of decontrol in 1961, which adversely affected firms in two ways:

(a) Decontrol made the exchange rate and credit climate different for the firms in the planning stage (when reparations goods were applied for and feasibility studies were made) and in the delivery stage. The favorable climate existing in the early years of the reparations program was not only due to the exchange rate of P2:\$1,

Table 13

RATE OF UTILIZATION OF REPARATIONS GOODS

Category	Total Value Received	Value Utilized	Percentage Utilization
I. Agriculture and Fisheries Development			
A. Logging and Sawmill Veneer and Plywood Equipment	\$2,626,420	\$2,442,571	93%
B. Fishing Vessels & Equipment	5,730,637	2,922,624	51%
C. Agricultural Equipment	89,489	89,489	100%
II. Electrification & Corollary Industries	251,291	150,774	60%
III. Mineral Resources Development	2,761,839	2,761,839	100%
IV. Industrial Development			
A. Pulp and Paper Plants	8,578,463	4,975,508	58%
B. Cement Plants	21,721,619	13,467,403	61%
C. Ceramics Plants	607,626	—	0%
D. Steel and Iron Works	2,912,664	1,281,572	44%
E. Food Processing Plants	777,843	466,705	59%
F. Chemical Plants	3,785,334	2,801,147	76%
G. Glass Container Plants	1,050,000	1,050,000	100%
H. Textile Plants	10,374,978	10,374,978	100%
I. Embroidery and Burlap Plants	3,425,240	1,712,620	26%
V. Small Scale and Cottage Industry Projects	3,374,500	2,409,241	57%
VI. Transportation and Communications			
A. Cargo Vessels	61,386,430	61,386,430	100%
B. Tugboats and Steel Barges	9,064,946	4,169,875	47%
C. Drydocks and Automotive Machine Shop	4,882,248	2,362,901	49%
D. Communications	278,829	—	0%
VII. Other Projects	8,274,710	2,664,120	38%

AVERAGE RATE OF UTILIZATION* — 59%

*Weighted according to the number of end-users in each class

also to the unrestricted financing facilities then existing. The shift to the new rate of P3.90:\$1 and tighter credit greatly affected a great number of reparations awardees, especially those in the small category, 80% of which failed to take delivery of their reparations goods upon their arrival from Japan. A table showing a list of goods that have not been claimed by their awardees can be found in the Appendix. Aside from the opportunity cost of these idle reparations goods (in terms of productivity foregone), is the accumulated cost of storage of these overstaying reparations goods in the customs sheds and piers as well as in the customs bonded warehouses. These accumulated storage charges are likely to serve as a deterrent to the awardees and transfer of these goods to other qualified end-users, thereby reducing the possibilities of their ever being productive.

(b) Another reason for the low rate of utilization of reparations goods is the unavailability of spare parts for the repair of reparations equipment. The sub-standard performance of the reparations machinery received was also a reason cited by some end-users as to why they are either not making use or only partially making use of the plant and equipment. For example, Eastern Paper Mills, Inc.'s grinding and fibrolation machinery was not satisfactorily attaining the desired degree of grinding and fibrolation, resulting in inferior kraft paper that could not meet accepted standards. Other companies that complained of the sub-standard performance of their machinery are: Lupel, Inc., which claims that the castor oil processing machine it received is not quite suitable for the purpose and therefore is currently inoperative; Rustan Pulp and Paper Mills, which claims that the actual output of the pulp mill it received is below the rated capacity; Tansiong Motor Supply, which claims that of the 7 pieces of machinery it received, 1 piece was of the wrong specifications, rendering the whole project inoperative; and Mayon Ceramics, whose dinnerware making machinery could not reach the rated capacity.

Rate of delinquency of end-users

As of the end of 1970, the total arrearages of reparations end-users were P119.5 million, of which P78.4 million or 65% was owed by the private sector, and P41.1 million or 34.4% by the government sector. Table 14 gives the delinquency rates of the different categories of reparations goods, both in terms of the number of end-users, and in terms of value.

Table 14

RATES OF DELINQUENCY OF REPARATIONS END-USERS

CATEGORY	(1) Total No. of End-Users	(2) No. of De- linquent End-Users	(3) Percent- age (2/1)	(4) Total Value Received	(5) Value of Delin- quency
I. Agri. & Fisheries Dev.					
A. Logging & Sawmill	6	5	83%	\$ 2,626,420	\$ 10,243,040
B. Fishing Vessels & Eqpmt.	21	18	85%	5,730,637	22,349,488
C. Agricultural Eqmt.	2	2	100%	89,489	349,007
II. Electrification & Corol- lary Industries	4	3	75%	251,291	980,037
III. Mineral Resources Dev.	4	3	75%	2,761,839	10,771,174
IV. Industrial Dev.					
A. Pulp & Paper Plants	6	4	66%	8,578,463	33,456,008
B. Cement Plants	4	2	50%	21,721,619	69,126,200
C. Ceramic Plants	3	3	100%	607,625	
D. Steel and Iron Works	5	3	60%	2,912,664	11,359,390
E. Food Processing Plants	3	2	33%	777,843	3,033,587
F. Chemical Plants	5	4	80%	2,785,334	14,762,803
G. Glass Container Plants	1	1	100%	1,050,000	4,095,000
H. Textile Plants	5	3	80%	10,374,978	40,462,417
I. Embroidery & Burlap Plants	4	3	75%	3,425,240	13,358,438
V. Small Scale & Cottage Ind.	100	61	61%	3,374,500	14,584,906
VI. Transportation & Communications					
A. Cargo Vessels	13	8	61%	61,386,430	239,407,077
B. Tugboats & Steel Barges	16	14	87%	9,064,946	35,353,291
C. Drydocks & Automotive Machine Shops	5	2	40%	4,882,248	19,040,770
D. Communications	1	1	100%	278,829	1,087,433
VII. Other Projects					

On the average, the delinquency rate is approximately 23% indicating that almost 1/4 of the total value of reparations goods and services awarded to the private sector since 1956 has remained uncollected in spite of the easy installment terms specified by the Reparations Law. Reparations allocations can, in effect, be considered as a government subsidy for the following reasons:

- (a) the rate of interest charged is only 3%, and the down payment required of the end-users is only 5% of the freight on board (FOB) cost of the equipment received; on the other hand, private banks normally charge 8% interest, aside from the collateral requirement;
- (b) a 2-year grace period is allowed for the reparations awarded, i.e., interest and amortization are collectible 2 years after

bonds have been received; commercial banks have no such concession;

- (a) delinquencies are liberally tolerated by the government, but not by banks.

Despite these easy terms of payment, the rate of delinquency has reached enormous proportions. In fact, with the low rates of interest and the low penalty rate for delinquency (also 3%), it is understandable why delinquent end-users are likely not to pay their obligations and instead invest their money in more profitable ventures.

It is significant to note that the total rates of interest that end-users have to pay (for amortization and delinquency) is very much lower than what the government would have earned by the use of the money that it should have received. The loss is even more when we consider the provisions of Section 3 of the Reparations Law, which states that:

"Proceeds from the sale of reparations goods and utilization of services, together with interest earned, shall be constituted into a Special Economic Development Fund, out of which Congress may appropriate, from time to time, such amounts as may be necessary to constitute a Special Trust Fund which shall be available to the Development Bank of the Philippines (DBP) and the Philippine National Bank (PNB) for loans for economic and industrial development projects as well as for construction, reconstruction, repair and/or improvement of public school buildings. . ."

The proceeds from the sale of reparations goods and services is decreased by the same proportion that the rate of delinquency is increased. Therefore, the higher the delinquency rate is, the less funds there are for economic development projects and loans.

Since the high rate of delinquency can be attributed to the above-mentioned deficiencies in the Reparations Law (allowing rates of interest and penalty lower than the average market rate of interest) as well as to laxity in the collections from reparations grantees, the loopholes have to be plugged if delinquency is to be decreased.

SUMMARY AND CONCLUSIONS

Beginning with the 16th Reparations Schedule (1971-1972), the remaining amount of \$175 million is to be allocated totally to the government sector. This means banning the private sector which has received \$152 million (or 44% of total reparations payments) in the past 15 years. This paper is an assessment of reparations payments received by the private sector from the start of the reparations program in 1956, to what can be thought of as the end of the reparations program for the private sector in 1971. Following are the main conclusions of the analysis:

- (1) The industry analysis of reparations indicates that:
 - (a) The contribution of reparations is greatest in the shipping industry;
 - (b) Aside from shipping, the impact of reparations on the other industries; namely: the cement industry, the textile industry, and the pulp and paper industry is substantial although to a much smaller extent;
 - (c) For all other industries, the contribution of reparations can be considered negligible. This is true for logging, fishing, agriculture, mining, food processing, electrification, communications, as well as for small industries. The main reasons for the almost negligible effect of reparations on these industries are:
 1. the low rate of utilization of reparations goods;
 2. the small percentage of reparations investment in that particular industry compared to total investment in that industry.
- (2) Our measures of the effect of reparations in Part IV yield the following results:
 - (a) The ratio of reparations investment to total investment by industry proved to be generally low, the exception being for the shipping industry. These results tend to agree with our findings in our industry study, that it is only in shipping where reparations has contributed significantly, all other industries being affected by reparations minimally.

- (b) The ratio of reparations remittances to imports, which is a rough measure of the extent to which the trade balance of a country is supported (i.e., the extent to which reparations enables a country to increase its imports beyond what would otherwise be permitted by its current export receipts), while quite high for some countries like Israel, Ethiopia and Greece, was relatively low for the Philippines and other countries like Cambodia, Thailand and Yugoslavia.
- (c) The average rate of utilization of reparations goods is 59%. This low rate indicates that only a little more than one half of the goods received are actually operative and that approximately \$62 million worth of these capital goods are unproductive. This low rate of utilization is the main reason why reparations-acquired goods and services have had a very minimal effect on the economy in general.
- (d) Total arrearages of reparations end-users was P119.4 million as of 1970, of which P78.4 million or 65% was owed by the Private Sector, and P41 million or 35 per cent by the Government Sector. The average delinquency rate is 23 per cent, indicating that almost 1/4 of the total value of reparations goods and services awarded to the private sector has remained uncollected. To the extent that the proceeds from the sale of reparations goods and services is decreased by the same proportion that the rate of delinquency is increased, less funds are available for economic development projects and loans the higher the delinquency rate.