

PHILIPPINE ECONOMIC DEVELOPMENT AND JAPAN IN THE FUTURE

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RECENT HISTORY IN the Philippines represents a dramatic break from traditional barriers to development which have stymied vigorous potential. The break came in the form of the decision of President Ferdinand E. Marcos to declare martial law in September 1972 both to put certain political problems under control and to bring about a more rapid transformation of the society and economy. The problems that led to this decision have been best explained by President Marcos in two recent books, *Today's Revolution: Democracy* and *Notes on the New Society*.

The magnitude of reforms brought by martial law has signaled the future directions and faster pace of the Philippine economy in the 1970s. Never in the history of the Philippine Republic has there been a more development-oriented government as now where the principal executive, supported by a team of government executives, has devoted so much time in facilitating communication of development policies with interested foreign investors. Thus, the decade before 1980 represents an exciting phase in the development of the Philippines.

These directions to higher development and what they mean to Japan's role in Southeast Asia form the substantial point of discussion in this paper. At the same time, the current problem of the international energy crisis—its effect on the growth of Japan and subsequent repercussions on the Philippine economy—will be discussed.

The forces of transformation on the Japanese economy for a high level of technology, consumption, and industry, will have enormous effects on Philippine development because of links between the two countries. Philippine development will definitely continue these connections with Japan in this decade and for many years afterward.

Even as the Philippines continues to diversify in the context of social growth and trade objectives, Japan will still play a sensitive role in her industrialization program.

A. *Structural Changes in the Philippine Economy*

For the next decade, structural change in the Philippine economy will come from two main areas: (a) the agricultural sector, involving increased productivity that will continue to release a surplus of labor for industries to absorb; and (b) the industrial sector which will come from the expansion of export-oriented and labor-intensive types of industries, and the internal integration of potential

industrial linkages. The thrust of development for the Philippine industrial sector will be aided by the efforts in agriculture which can provide a sound base for industrial undertakings in the country.

The intensification of agricultural production will raise rural incomes and demand for wage goods produced by the industrial sector. It will also provide the base of supply which may fit into the growing demand for agricultural products of a highly industrialized country like Japan.

B. *Philippine-Japan Bilateral Trade*

To see what the future will be requires retrospection into past relations. Historically, the growth of the Philippine economy since the 1950s has been influenced by the expansion of the Japanese economy. Although the Philippine trade pattern had been dominated by the United States, the gradual expansion of trade with Japan became, by the late 1960s, a substantial one-third of total Philippine trade, the same volume as that with the United States. In the future, the role of Japan as a principal partner for Philippine trade will continue to increase.

The level of trade relations between the Philippines and Japan, however, the Philippines have remained on a "raw material supplier-manufactured goods importer" basis. On the import side, Japan is a principal source of machinery and other durable goods; on the export side, only in the area of raw material exports did Philippine shipments to Japan expand consistently.

During the period of rapid Japanese economic expansion in the 1960s, a number of Philippine raw materials assisted in fueling the boom. Japanese heavy industries consumed a lot of the mineral wealth of the Philippines, including copper and iron. Exports of copper ore and concentrates can be analyzed by using Table I, which also shows the state of other major Philippine exports to Japan.

TABLE I
PHILIPPINE EXPORTS TO JAPAN, 1949-72, SELECTED YEARS
(F.O.B. value in million U.S. dollars)

	1949	1955	1960	1965	1970	1972
Bananas	—	—	0.01	—	4.95	23.72
Logs and lumber	0.49	29.61	72.81	126.60	192.34	134.04
Copper concentrates	—	5.20	18.23	42.17	156.13	148.42
Total exports to Japan	11.34	60.95	131.61	217.56	420.75	373.44
Total Philippine exports	247.83	400.64	560.38	768.44	1,061.70	1,105.54

Source: Central Bank of the Philippines.

Since 1949, copper concentrate exports to Japan expanded to a point that by the 1960s, they accounted for about one-third of the value of exports to Japan. Recent discoveries will continue to give copper a high place in exports. But the future policy rests on the improvement of the local processing content of copper; hence, the reasons for the decision of the government to set up copper smelters in the future.

The exploitation of Philippine timber wealth was designed to supply logs and

lumber to the Japanese market. As clearly indicated in Table I, timber products exports are as substantial in revenue earnings as copper.

However, the rapid exploitation of Philippine forests has led to a deterioration of forest reserves and to a genuine threat to the ecological balance of the country's forests, valleys, and cities. As a result, greater emphasis is being placed on domestic processing of wood products prior to export and on reduction of the volume of log shipments before they are finally banned by the end of the decade.

Growth of other Philippine exports to Japan has been varied. Bananas became a principal export to the Japanese market and will continue to be so in the future. The other main exports include centrifugal sugar and molasses, copra, iron ore and concentrates, coconut, plywood and other woodworks, abaca, gold and silver, copra meal and cake, unmanufactured tobacco, and petroleum and petroleum products.

Other items like shrimp and fishery products have begun to appear on the export list. In the next decade, certain agricultural products such as fruits, feed grains, and processed food will have stronger potential to penetrate the Japanese market.

As mentioned earlier, the Philippines continues to purchase manufactured goods and machinery from Japan in return for sales of raw materials. Among the major imports are mining, construction, and industrial machinery; organic and inorganic chemicals; electric machinery and apparatus; fish and fish preparations; textile yarns and thread; and manufactures of metals. The pattern of Philippine import trade from Japan is shown in detail in Table II, for illustrative purposes.

TABLE II
PHILIPPINE IMPORTS FROM JAPAN, 1955-72, SELECTED YEARS
(F.O.B. value in million U.S. dollars)

Principal Imports	1955	1960	1965	1970	1972
Chemical elements and compounds	0.73	1.90	5.58	10.87	20.94
Machinery other than electric	3.90	17.03	38.04	73.18	67.65
Base metals	13.50	23.15	51.15	85.98	74.82
Transport equipment	1.08	81.95	29.56	43.26	58.95
Textile fibers not manufactured into yarn	0.06	0.33	5.09	18.13	24.08
Explosives and miscellaneous chemical materials and products	0.26	2.31	5.41	21.21	23.28
Electric machinery, apparatus, and appliances	0.78	2.51	14.18	16.95	20.42
Total imports from Japan	43.43	159.46	195.47	344.87	390.79
Total Philippine imports	547.73	603.87	807.57	1,090.12	1,229.59

Source: Central Bank of the Philippines.

C. *Agricultural Gain Potentials for the Philippines*

As Japan contrives to industrialize, her agricultural activity will diminish further in proportion to total economic activity. This is the inevitable outcome of further labor resource transfer from agriculture into industry and service activities and is a characteristic of all economic transformations. Thus, at the frontier of

future trade possibilities lies the vast potential of imports of agricultural products by Japan.

The magnitude of imports of agricultural products by Japan rose considerably in the 1960s. Table III shows this. Food and agricultural products, \$1.9 billion

TABLE III
TOTAL JAPANESE IMPORTS OF AGRICULTURAL PRODUCTS
FROM THE WHOLE WORLD

(In million U.S. dollars)

	1962	1967
Total merchandise trade	5,637.0	11,664.0
Food and agricultural products	1,911.1	3,417.3
Food and live animals	701.8	1,733.1
Live animals	3.4	7.7
Meat and meat preparation	14.6	88.3
Dairy products and eggs	16.2	74.4
Fish and fish preparation	13.9	132.1
Cereals and cereal preparation	373.5	885.1
Fruit and vegetable	56.2	194.5
Sugar, etc. and honey	135.2	178.2
Coffee, tea, etc.	47.5	84.0
Feeding stuff	34.8	72.0
Misc. food preparation	6.5	16.8
Beverages and tobacco	38.7	71.8
Beverages	2.6	8.0
Tobacco	36.1	63.8
Crude materials	1,139.3	1,561.8
Hides and skins	63.7	82.5
Oilseeds	200.6	415.1
Natural rubber	108.9	102.3
Textile fibers	737.2	895.8
Crude material	28.9	66.1
Animal and vegetable oils	31.3	50.6
Animal fats	21.2	36.4
Fixed vegetable oils	8.5	9.8
Processed oils	1.6	4.4
Forest products	361.9	1,086.5
Wood and lumber	319.5	939.1
Pulp and waste paper	42.3	116.1
Wood worked, n.e.s.	0.1	31.3
Agricultural requisites	76.4	135.7
Crude fertilizers	33.9	53.6
Manufactured fertilizers	32.0	45.5
Insecticides	3.4	9.1
Agricultural machinery	7.1	27.4

Source: FAO, *Trade Yearbook* (1968), p.493, Table 127.

in 1962, were \$3.4 billion by 1967. This will continue to rise on a quantum basis in the future. The biggest import component among these are "food and live animals" which rose from \$0.7 billion in 1962 to \$1.7 billion in 1967, and crude materials like textile fibers, oilseeds, and natural rubber which grew from \$1.1 billion to \$1.56 billion during the same period. Wood and lumber products account for a large portion of imports, amounting to \$0.9 billion by 1967.

Surely, in all these imports, there will be growth in demand as well as consequent substitutions in relative magnitudes which will favor not only countries with good agricultural potential but also those countries that process agricultural products.

While many other countries in the world can fill this demand, the geographical location of the Philippines give it an advantage over others. Moreover, the expansion of agricultural productivity and diversification of product in the Philippines will gain from this phenomenon.

Philippine agriculture has tremendous growth potential both in providing the necessary food supply of the nation and of producing a surplus for export. As a general rule, the Philippines is a net food exporting country especially in the area of non-staple products like sugar, fish, and coconut products. Enormous room for agricultural export expansion is foreseen with the projected higher demand of the Japanese for food and feed items.

In this connection, feed grains like corn, sorghum, and other commodities would become very important crops. Fruits like melons, bananas, pineapples, papaya, and other exotic tropical fruits (to which Japanese taste patterns may be developed) will also enjoy vast importance as their potentials would be fully exploited. Fish products will also experience a boom as more and more are demanded by Japan.

D. *Southeast Asia, the Philippines, and Japan in the Future*

The very high level of development Japan achieved in the last decade led to many symptoms of enormous readjustments. Labor costs went up, the Japanese yen enjoyed a surge in value (held in check only temporarily by the present oil crisis), and questions of basic social and economic priorities (e.g., pollution, social costs, domestic housing inadequacy, foreign aid, and others) are being debated. All this discussion by the Japanese will have implications for possible structural changes in Asian countries, the Philippines included. They certainly will point out new directions for the growth of these economies.

It is expected that the current oil crisis will require many policy reconsiderations by Japan's leaders. Being highly dependent on natural raw material resources from developing countries (mostly in Asia) for her industries, Japan has to structure her foreign policy in terms of promoting the development of diversified overseas resource sources via international aid and economic cooperation. It is predicted that a logical consequence of these problems will be Japan's greater regional complementation and economic cooperation within Asia.

It may be that a conscious effort on the part of Japan to slow down the growth of industrialization could arise not only from the problematic fuel issue but also

from a purely ecological reason—the lower tolerance limit now to the introduction of so-called polluting industries. As a possible consequence, Southeast Asian countries can specialize in the rational distribution of some heavy industries. At the same time, the ecological issue is just one question contending with the need to improve income and employment among the poorer regions in Asia.

Although it may be expected that Asian countries like the Philippines, will continue to be suppliers of raw materials, agricultural products and labor-intensive industrial products for many years, economic specialization will nevertheless occur in the respective industrial patterns of the regional economies within the context of a larger regional economy. At the same time, the development of regional economies will bring about an undertaking of greater complementary productive activities by Asian industrial countries like Japan and other Northeast Asian countries, including China. This will usher in a mutually rewarding economic relationship.

It would be folly to assume that all the above transitions will come about without friction, irritation, and even misunderstanding—an arena of relations no longer necessarily governed by economics.

A most possible indication of the kind of future relations that will occur among Asian countries in respect to Japan may be gleaned from the heterogeneous reception received by Premier Tanaka in his tour of Southeast Asian countries in 1974.

To explain the various ways in which he was received is to say the obvious. Japan has almost always been under suspicion by her Asian neighbors in terms of business dealings. This stems from the old fear of economic domination by Japan, with its many potential noneconomic undertones. The general pervasiveness or presence of Japanese manufactures as principal items of industry or consumption (e.g., electronics, machineries, clothing apparel, etc.) has created the impression that Southeast Asia, more so by individual country, is merely a small partner in a large venture with a larger partner. This is, of course, gleaned from the pattern of trade between Japan and her Asian neighbors where the Asian countries supply the raw materials for things they would buy back in terms of highly-priced manufactured items—“made in Japan.”

Economic forces, however, could lead inevitably into a triangular trade structure within the Asian region, within the context of the Philippines, Southeast Asia, and Japan. First, there will be increasing interregional trade between the Philippines and her Southeast Asian neighbors. Second, a great proportion of Southeast Asian trade with Japan will be captured by the Philippines and, third, the direct trade between Japan and the Philippines will result in various internal trade linkages of the latter with other Asian countries. All these are the results of growing intraregional trade within Southeast Asia of the Philippines, the continued rapid pace of Philippine-Japanese trade, and the programs of expansion in commerce and industry within the Philippines.

Within the context of these efforts, the Philippines and other Asian countries look forward to the liberalization of trade in Japan, corresponding with the reduction of trade tariff and nontariff barriers against the many products of

manufactures these countries are selling or can potentially sell to Japan. Indeed, while a generalized system of preferences for less developed countries has recently been approved by Japan, there are limitations in this program which will inhibit the potential of many countries from being fully realized, especially in the area of manufactured exports (labor-intensive and resource-intensive industries) that have expansionary potentials for Philippine industries as well as for most Southeast Asian countries.

E. Japanese Development Assistance

On the aspect of development assistance, Japan as an industrial power can play a big role in bringing about harmony and stability in Asian progress. Her contribution to the expansion of world trade must be complemented by the provision of technical and financial assistance to poorer or less-developed nations.

In the 1960s, Japan's development assistance to the Asian region was commendable. She supported the capitalization of the Asian Development Bank (ADB), extended official development assistance to various regions and assisted in the expansion of supplier's credit to other countries. The ADB in turn has agreed to support the construction of power units in the Mindanao area in an effort to build up the proper infrastructural foundations for socioeconomic progress.

On another front, the Philippines also avails of direct bilateral loan assistance from Japan. In 1971, specifically, the Philippine government started to acquire significant amounts of Japanese assistance in the form of non-project or commodity loans as well as project loans. Through the efforts of the newly-created Consultative Group for the Philippines chaired by the World Bank and represented by countries like Japan, the United States, Australia, Spain, New Zealand, the United Kingdom, and Germany, the Japanese government increased her level of assistance to the Philippines.

The Consultative Group has always provided a forum for the discussion of development programs and assistance that donor countries can give to developing nations like the Philippines. The Group also aids in acquainting the international community with the needs and priority areas of developing countries so that assistance resources can be channelled accordingly. In this connection, a total of \$140 million in project and commodity loans (\$65 million and \$75 million, respectively) has been committed by Japan to the Philippine development program, with the commodity loans becoming interesting models in themselves for similar loans extended to other countries.

Project loan assistance is being geared towards the accomplishment of various priority projects vital to the development of the country. As of early 1973, an amount of \$7.8 million from the first Japanese project loan is still unutilized while the second project loan package on the order of \$35 million is being set for irrigation, flood control, and other major infrastructural projects.

Cooperation on projects financed by development assistance promises to be an avenue of resource transfer from Japan during this decade. It is hoped that this avenue would become a major catalyst in achieving the acceleration of private

projects in agriculture and industry, the products of which will be destined for trade with Japan.

The proposal made in official circles in Japan about the creation of a ministry in charge of official development assistance is probably the next step in accenting the new role of Japan as a significant donor country in terms of official development assistance. This will be a step in the direction of activating loan and technical assistance programs not only to the Philippines and the rest of Southeast Asia but also to the less developed countries in the world.

F. *Some Issues in Philippine-Japan Economic Relations*

It is inevitable that with the magnitude of trade flows between Japan and the Philippines, lively issues of a bilateral character will develop. These center on trade, investment, and other economic matters.

For years, a treaty negotiated with Japan on friendship, commerce, and navigation remained unratified by Manila, despite the acceptance of the proposed treaty in Tokyo. Thus, during the 1960s, Philippine-Japan economic relations more or less "floated" informally without the aid of a formal treaty. One major development in recent months was the ratification of the treaty, thereby signaling the formalization of economic relations between the two countries.

Such "formalization" does not obliterate the issues of the future, which have something in common with the bilateral relations of each Southeast Asian country with Japan. Some dimensions of these issues are likely to be reflected in the following examples.

The growth of commerce between the Philippines and Japan is likely to accentuate the needed transformation of the Philippine trade pattern—from the "raw-material supplier" status to the respected status of an exporter of manufactures and processed agricultural products. Another aspect is the entry of Japanese capital into Philippine economic ventures. The rules of investment in the Philippines are spelled out in local-investment laws. Foreign ventures are encouraged in preferred industries as defined in the national investment priorities plans administered by the Board of Investments. All these, including the expansion of international tourism in the country, will bring about unprecedented contacts between Philippine and Japanese nationals.

The expansion of such contacts will naturally be accelerated by the rapid transformation planned for the Philippine economy under the New Society programs of President Marcos. So long as Japan is mindful of the economic and social objectives of the Philippines (and all other Southeast Asian countries, for that matter) it is likely that prolonged contacts can be mutually rewarding in an economic sense—as a result of the beneficial effects of more trade and capital flows and from other noneconomic standpoints.

Official awareness of the various issues involved in Philippine-Japan relations and periodic dialogues between private citizens, businessmen, traders, and scholars may very well serve as the mechanism for strengthening these contacts. As such, mutual self-respect in friendly business dealings can be sustained.