Japanese Trade and Investment in the Philippines

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Japanese trade with the Philippines can be traced back to 1567. The Spanish conquistador Miguel Lopez de Legazpi, in a report to Philip I of Spain, wrote:

> These islands are visited every year by the Chinese and Japanese for trading purposes .... The natives of Luzon and Mindoro are Moros. They purchase goods brought by the Chinese and Japanese for purposes of sale among the inhabitants of the Philippine Islands. [1]

In the province of Pangasinan, which became one of the regular trading posts of the Japanese besides Manila and Cagayan, the port of Agoo came to be known as the "Japanese port". [2]

During the sixteenth century, Japanese vessels from Nagasaki set sail for Manila at the end of October or May, taking advantage of the prevailing north wind. Their cargoes consisted of wheat flour, salted meat, folding screens, cutlery, armor, pears, swords and other arms, copper, gold-lacquered wares, fans, paper, stone ink-palettes, etc. The Japanese ships left Manila in June or July, bringing back with them raw silk which had been imported into Manila by Chinese merchants, gold, deer skin, beeswax, hemp palms, wine, tea-caddies, mirrors, textiles, sugar, buffalo horns, coral, as well as goods imported into Manila from Spain. [3] Some problems arose in the relations between the Philippines and Japan, most especially over the control of communication and trade with foreign countries instituted by the Tokugawa Shogunate in the seventeenth century. Nonetheless, trade between the two countries continued uninterrupted.

Because of the brisk commercial activities initiated by trading with Japan, there grew a Japanese colony, named Dilao, in the outskirts of Manila. In 1623, it had a peak population of 3,000, mostly composed of merchants, clerks, and some laborers. [4]

The influx of Japanese immigrants to the Philippines increased in the first half of the twentieth century, especially in Davao province. In a 1923 census, 921 Japanese were registered in Davao; in 1932, this grew to 13,000. The Japanese government even extended financial assistance to these immigrants amounting to the cost of passage to the Philippines. Even before 1930, Japanese immigration to the Philippines became greater than to any other country, except Brazil. [5]

During the pre-war period, Japanese shops could be found along the main commercial districts of Manila and Davao, although Japanese products were considered of low quality because they were seen as mere imitations of Western goods, particularly American.

After the war, the Japanese population in the Philippines dwindled to only a score of individuals. Japanese merchants were discouraged to set up shop once again in

Manila and elsewhere because of the animosity that grew among majority of Filipinos towards Japan, which had occupied the country.

In the sixties, Japanese investment started to filter again into the Philippines, though investors avoided the retail trade, as Filipinos' bitter memories of the last war were still vivid. The atmosphere of conducting business became especially difficult for the Japanese as they became the first target of investigations by the Philippine Congress for income tax violations and other irregularities. This encouraged some Japanese businessmen to resort to under-the-table deals to avoid harassment and punishment by the law. [6]

The presidency of Ferdinand Marcos in 1966 was a boon to foreign investment in the economy. Several laws, opening the door wider to foreign investment, were enacted during the first term of the Marcos administration: the Investment Incentives Act (IIA) of 1967, which created the Board of Investments (BOI), the Foreign Business Regulations Act in 1968, and the Export Incentives Act of 1970. The IIA allowed foreign equity of up to 100 percent in the so-called pioneer areas of investment, those that propose to manufacture products and use a design, formula, scheme, method, process or system of production not yet available in the Philippines. In non-pioneer fields, foreign ownership could likewise go up to 100 percent if the supply-demand gap in these areas has not been fully taken up. [7] It also encouraged joint ventures with foreign investors that "would utilize a substantial amount of domestic and raw materials".

After Marcos' declaration of martial law in 1972, the Treaty of Amity, Commerce and Navigation with Japan was ratified in December 1973. This resulted in the dramatic upsurge of Japanese investment in the Philippines, which grew some 379 times from 0.40 million dollars in 1970 to 151.57 million dollars in 1976. From being number three among foreign investors in the country (next to the US and the United Kingdom), Japan rose to second place in 1976 and 1979. [8]

Mamoru Tsuda, in his book, **A Preliminary Study of Japanese-Filipino Joint Ventures**, revealed that Japanese-Filipino joint ventures, defined as Philippine-registered firms with both Filipino and Japanese equity participation, amounted to 1.07 billion pesos in 1976. Investments in these firms were actually 94.7 percent of Central Bank-reported Japanese investments in the country, which amounted to 1.13 billion dollars based on the exchange rate at that time. [9] It would seem that Japanese businessmen preferred to invest in joint ventures rather than to set up and fully own firms as Americans in the country were wont to do. This may because they wanted to remain inconspicuous in the Philippine business world because of the social prejudice developed against them as a result of the war.

Tsuda's data further showed that 96.9 percent of total Japanese investments in 105 major firms (based on subscribed capital, Japanese subscribed capital and commercial performance) of the 385 Japanese-Filipino joint ventures in the study were made by 77 major Japanese corporations. The majority of these leading investors were members or affiliates of the 13 big business groups of Japan. Of these, some were Japan's major *kigyo-shudans*: Mitsui, Mitsubishi, Sumitomo, Sanwa, Fuyo, and the Dai-ichi Kangyo Bank. The rest were members or affiliates of minor *zaibatsus*, better known as the *konzerns*. [10]

Japanese Investments

A 1986 survey by the Japanese Chamber of Commerce and Industry in the Philippines (JCCIP) and the Japan External Trade Organization (JETRO) of 276 Japanese- Filipino joint ventures revealed that firms which the six big Japanese *kigyo-shudans* invested in had a total paid- up capital of 5.6 billion pesos, or 61 percent of a total 9.2 billion pesos paid-up capital of all the 276 firms combined. According further to the study, there were 83 wholly-owned Japanese enterprises, but these were merely head offices of Japanese corporations investing in joint ventures, found mostly in Makati, the hub of the corporate community in the Philippines. [11]

Among the domestic corporations which the big *kigyo-shudans* invested in would be those which have consistently belonged to the top 1,000 corporations in the country, such as Atlas Consolidated Mining (a joint venture with Mitsubishi); Engineering Equipment (Mitsubishi); Atlantic Gulf and Pacific Co. of Manila (Fuyo); Far East Bank and Trust Co. (Mitsui); Insular Bank of Asia and America (Dai-ichi Kangyo Bank); Petrochemical Products, Inc. (Sumitomo), and Rizal Commercial Banking Corporation (Sanwa).

In terms of extent of exposure and operations, Mitsubishi led with 13 joint venture-firms; followed by Fuyo (10 firms); Sanwa (six); Mitsui (three); Sumitomo (three); and Dai-ichi Kangyo Bank (three). Some of the Japanese leading *konzems* with equity in Philippine joint-ventureships were: the Nichimen Corp., Kawasaki, Nissan, Kanetmatsu Gosho, Toyo Menka, Fuji Electric Co., Hitachi, Matsushita, Nippon Steel, and Daiken Kogyo Co. [12]

Small and medium-sized Japanese businesses have also been encouraged to invest overseas since the seventies due to rising wages and cases of labor shortage in Japan. This trend continued to the 1980s, as observed by a JETRO White Paper on World Direct Investment: "Spurred by the yen's strong value (since the Plaza Agreement in 1985 among the Group of Five industrialized countries - author's note) [13], overseas investment by small and medium-sized Japanese businesses increased from 318 cases in 1985 to 599 cases in 1986, signaling the advent of a second wave of overseas investment by such firms." [14]

Pasar Brochure 1988 - 1989

PASAR copper smelting plant, Leyte

In the JCCIP-JETRO survey, 190 of the 276 firms studied were joint ventures with small and medium-sized Japanese businesses, i.e., those which did not list any of the six major *kigyo-shudans* and *konzerns* as stockholders. Small and medium-sized Japanese businesses in the Philippines have been found mostly in the manufacturing and service sectors, particularly in the export of garments and Philippine handicrafts. The Japanese have, however, preferred to use Filipino and Chinese front men in their ventures.

Total investment by the Japanese in the Philippines increased by 80.6 percent from 1986 to 1988 (22.2 million dollars in 1986 to 115 million dollars in 1988). [15] This was primarily due to the increasing strength of the yen in the world market, and partly to what Japanese business perceived to be a more favorable political and business climate, after the downfall of the Marcos regime in 1986. [16]

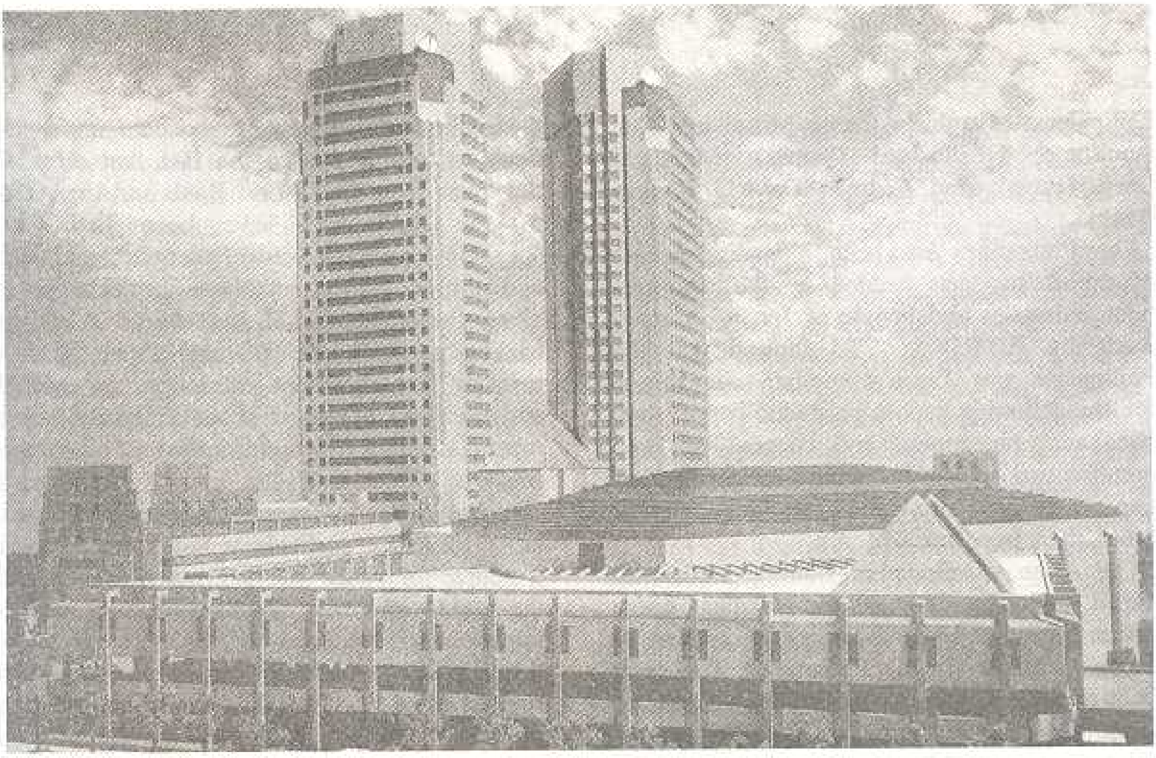
As of 31 March 1988, total accumulated investment of the Japanese was 985 million dollars or 14.86 percent of total foreign investment in the Philippines. (This represented 0.71 percent of total Japanese foreign investment overseas, which amounted to 139 billion dollars in 1988, particularly in the following countries: North America, 37.87 percent {US, 35.99 percent, Canada, 1.87 percent}; Europe, 15.11 percent; Asia, 19.13 percent; South America, 18.08 percent; Oceania, 4.77 percent; Africa, 2.87 percent, and the Middle East, 2.21 percent. [17])

It can be seen from the table of the distribution of Japanese-Filipino joint ventures that overall, Japanese business has preferred to go into manufacturing and commerce, although it has maintained its traditional presence in mining and quarrying, as seen in

Table 1. Number of Japanese Capital-Affiliated Domestic Corporations (1986).

	No. of Companies	Per Cent
Agriculture, fisheries, forestry, and hunting	22	8.0
Mining and quarrying	7	3.0
Manufacturing	110	41.2
Construction	19	7.0
Commerce	68	25.5
Transport, storage, and communication	9	3.4
Services	31	11.6
TOTAL	266	100.0

Source: **Business Directory: Japanese Capital-Affiliated Domestic Corporations and Wholly-owned Japanese Enterprises in the Philippines**, JETRO Manila and the Japanese Chamber of Commerce and Industry of the Philippines, February 1986, p. XII.


Kawasaki Brochure

Kawasaki Steel, Chiba

its interests in Atlas Consolidated Mines, the PASAR copper smelting plant in Leyte (Visayas) and the Kawasaki Steel sintering plant in Surigao (Mindanao).

Its presence has also been felt in the fishing industry, with the setting up of what is called the "Japanese fishing village" at Navotas, Rizal, the country's fish center. Hundreds of Filipino fisherfolk have been displaced from their work as a result of the establishment of this village in 1977. Japan's fishing and canning trawls operate all over the Philippine oceans, especially along the coast of Southern Luzon. What is ironic about Philippine openness to Japan's entry into its fishing industry is that a great part of the country's fish imports from Japan comes from its own seas.

Japanese Trade

Japanese investment and trade in the country are closely linked with Japanese manufacturing activities here, which are aimed at producing goods for the export market. The trend since the seventies has been for the Philippines to buy materials and accessories for the manufacture of products for export to industrialized countries, including Japan. (Appendix 1) Thus, the role that the Philippines plays with regard to imports from Japan is to serve as a mere trading post for the export activities of Japanese business and other multinationals. Since the early seventies, there has been an emphasis, upon recommendation by the World Bank (which coordinates with the Japanese-dominated Asian Development Bank) on so-called non-traditional Philippine exports like semi-conductors and garments. Such emphasis has been promoted by foreign and local technocrats as part of the country's export-oriented industrialization program. The export of semi-conductors has dramatically increased, such that only 14 of the total 49 firms engaged in this line of industry accounted for 32 percent of total Philippine exports in 1983. [18]

Japan is the Philippines' second most important trading partner, yet this has not been a satisfying relationship for the latter. From 1983 to 1987, the Philippines' terms of trade with Japan registered a trend of - 2.2286. [19] Japan's top *sogo-shoshas* or trading firms of the *kigyo-shudans* are all operating in the

Philippines: Mitsubishi Corp,; Mitsui and Co.; Sumitomo; Nissho-Iwai (Sanwa); Marubeni Corp. (Fuyo); and C. Itoh (Dai-ichi Kangyo Bank).

The Philippines has been a leading source of export products needed by the resource-poor industries and people of Japan. A study made by JETRO in 1983 showed that the Philippines was Japan's number one source for the following export products: copper ore, bananas, pineapples, and coconut oil; and number two source for fruits, molasses, lumber, chromium ore, and metallic materials other than iron ore. [20]

The Asian Development Bank (ADB), with Japan and the US as the leading quota holders, has served to advance the interest of Japanese traders in the Philippines. The great bulk of ADB's loans to the Philippine government has been for infrastructure and energy-related projects which facilitate the extraction and transport of badly- needed export products to Japan. [21]

With the increasing power of the yen, the Philippines in the coming years is most likely to continually suffer a trade deficit with Japan. The policy of import liberalization of the Aquino government will further exacerbate the situation with the entry of more Japanese products into the Philippine market, even those which are produced locally like canned fish. Overall, Japan has gained greater advantage in its trade with the Philippines due to the latter's abundant resources which Japan's booming industries urgently require.

Implications of Japanese Business Activities

Contemporary Japanese investment and trade have introduced to Philippine society the trends of modern technology, but at the price of dampening the enthusiasm of the Philippine government to implement a basically self-reliant industrialization program. Dependence on foreign technology from Japan and elsewhere has been encouraged among domestic industries. A nationalist industrialization program has become more difficult to launch due to the fact that most of the loans from the World Bank and the ADB to the Philippines have been tied, and specified for infrastructure, energy-related, and agricultural projects. These projects move along the objectives of the country's leading trading partners, the US and Japan, geared towards more efficient extraction, processing, and transport of export products, basically raw materials, to support these advanced countries' industries.

In the seventies, Japan turned more and more to Asia, particularly Southeast Asia, as a source of vitally needed raw materials. In the words of former Prime Minister Tanaka, implementing stepped-up Japanese presence through direct investment in the ASEAN region is a policy of "resources securing diplomacy". [22]

Thus, Japan's economic policy towards the Philippines is to regard the latter as playing a role in what some neo-classical economists have called the new international division of labor. In this scenario, the less developed countries with abundant resources have to accept the fate of being a trading post and supplier of raw materials and semi-processed goods to industrialized countries. Meanwhile, in order to concretize this scenario, the capitalist leaders of the industrialized countries pressure Philippine legislators -- through "loan politics" -- to enact laws which will secure their presence in the economic arena. Because of their greater capacity for capitalization, such big Japanese businesses as the *zaibatsus* and American multinationals are able to influence the direction that the Philippine economy would take. They are able to accomplish this better through their affiliations and contacts with the leading multilateral lending institutions, the IMF, the World Bank and the ADB, from which the Philippines has been acquiring huge loans.

Since the seventies, all general economic programs of the Philippine government have worked for an export-oriented industrialization strategy (EOI) and the opening of the market to foreign investment. The Aquino administration has expanded this policy by vying for greater free trade through extensive import liberalization.

The EOI, greater influx of foreign investment, and import liberalization have become the bane of small- and medium- sized businesses. A World Bank-recommended policy in the EOI strategy is to discriminate against local export businesses -- which it believes cannot compete in the international market -- through the imposition of control and disapproval of loans to such firms. Those mostly affected have been fully-owned Filipino businesses with no international network; they have been retrenching and laying-off workers due to losses caused by scarce capital. In 1984, for instance, 92,167 workers were retrenched or laid off by mostly small- and medium-scale firms, which could not compete with the big corporations. [23]

Thus, it is big business, which includes the *zaibatsus'* affiliated firms, which have been favored by the EOI policy. On the other hand, the result of increased foreign investment and import liberalization has been to ease out products made by fully-owned Filipino firms from the local market. In the supermarkets, groceries and even small stores, one could hardly find a locally-produced item. The leading consumer items in the Philippines are all of foreign brands: food, soap, toothpaste, appliances, shoes, clothes, books, cars, etc. The Japanese are dominant in the appliance, automotive, and canned fish industries. More unfortunate for Filipino entrepreneurs is that foreign investors derive most of their capital from local banks. Japanese businessmen are the biggest foreign borrowers from Philippine banks next to the Americans and the Chinese. [24]

Another reason why Japanese businessmen have been transferring some of their investments to the Philippines is to avoid Japan's strict anti-pollution laws, which have been highlighted by mass actions of concerned citizens. A case in point is Kawasaki Steel, which has put up a sintering plant in Mindanao. This sintering plant is considered to be the biggest single Japanese investment in the Philippines, and at first glance would seem to assist the country's industrialization activities. The construction of the same plant, however, met heavy opposition from concerned Japanese citizens in Chiba, Japan, the original site of the plant. Kawasaki's operations in Chiba, by causing heavy pollution which harmed the atmosphere, have already claimed scores of lives.

Towards Greater Self-Reliance

Having discussed the ill effects of government policies in foreign trade and investment vis-a-vis Japan, it is by no means suggested that the Philippines adopt an autarkic attitude towards the Land of the Chrysanthemum. It is only to explicate the disadvantages of a business relationship which does not consider the relative strengths of those who are making the bargain. The Philippines, being the weaker party, must, above all, protect its own interests. It should be able to assert and maintain its capacity for self-subsistence while forging economic relations with other countries. The Philippines must not rely on a policy of generating growth which makes it an appendage of the Japanese and US economics. Strategies like the EOI and import liberalization, and encouragement of foreign investments perpetuate an artificial economy which cannot sustain itself. Such programs should be thoroughly reexamined by any government that desires to create a proud and self- reliant people. Whether the Aquino government is capable of achieving this is the question.

Notes

1. Sei-chi Iwao, "Early Japanese Settlers in the Philippines", reprinted from *Contemporary Japan*, Vol. XI, Nos. 1-4, p. 5.

2. *Ibid.*, p. 5.

3. *Ibid.*, p. 33.

4. *Ibid.*, p. 26.

5. Nasario Rabanes, **Comparison of Chinese and Japanese Interests in the Philippines**, 1937, p. 23.

6. Interview with Mr. Osawa, a noted Japanese businessman in the Philippines and owner of ASIA BROTHERS, exporter of furniture and handicrafts, 4 April 1989.

7. Limjoco, Angel F., Director, SEC, "The Role of Multinational Corporations - A Philippine View", speech delivered at the Public Opinion Leader Lectures, Hongkong, 2 May 1977, p. 1.

8. Mamoru Tsuda, **A Preliminary Study of Japanese-Filipino Joint Ventures**, Foundation for Nationalist Studies, 1978, p. 3.

9. *Ibid.*, p. 154.

10. Ten other *kigyo-shudans* are relatively new, having emerged only in the post-war era, in contrast to the six major *zaibatsus*. The former group's line of business is mostly manufacturing, unlike the six whose network's activities may range from investment in small pawnshops to the manufacture of jets.

11. **Business Directory: Japanese Capital-Affiliated Domestic Corporations and Wholly Owned Japanese Enterprises in the Philippines**, JETRO Manila, and Japanese Chamber of Commerce and Industry of the Philippines, Inc., (Makati, Metro Manila, February 1986), p. 70.

12. *passim*.

13. The Plaza Agreement concluded in Tokyo, Japan, approved: (1) foreign exchange rate realignments; (2) efforts to cope with protectionist pressures; (3) expanded role of direct investment; and (4) response to restructuring of industries. The Group of Five industrialized countries are: the US, Japan, Great Britain, West Germany, and Italy.

14. JETRO, "White Paper on World Direct Investment", Summary, 1988, p. 5.

15. Data from the Philippine Department of Trade.

16. Interview with Mr. Osawa, 4 April 1989.

17. Data from the Philippine Department of Trade.

18. Institute for Labor and Manpower Studies (ILMS), Industry Study, Department of Labor, 1986.

19. Data from the Department of Trade.

20. JETRO, 1983.

21. Loans granted by the Asian Development Bank to the Philippines (1969-82).

22. Okada Osamu, "Japan's Economic Thrust into Southeast Asia: An Overview of Japanese and ASEAN Trade, *Prisma, The Indonesian Indicator*, No. 13, June 1979, p. 16.

23. Selected Labor Industries, Labor Statistics Service, Department of Labor, December 1985, Manila.

24. The Department of Economic Research, Philippine Central Bank.

Appendix 1. Top Ten Imports from Japan.

Description	1987 Quantity	1987 FOB Value(US$)	1987 CIF Value (US $)	1988 Quantity	1988 FOB	1988 CIF
1. Other materials and accessories imported on consignment basis for the manufacture of semi-conductor devices (GK)	719686	78115500	79391115	787743	103500584	105031743
2. Other parts, n.e.s., of the electronic components falling within group 776 (GK)	497700	57671075	58768399	9759	76981163	81067182
3. Cold-rolled sheets and plates, not further worked, of a thickness of less than 3mm, other than of high carbon or alloy steel (NK)	80979741	35168716	37087354	436210	65452636	66665101
4. Fabrics imported on consignment basis for the embroidery or manufacture of outer garments(sq.m.)	15096003	33189138	34490568	13698	61897148	65663274
5. Tinned sheets and plates of steel (other than of high carbon or alloy steel) (NK)	41598937	29745435	32185442	91754284	49954984	52441625
6. CKD components when imported from one or more countries for assembly of trucks upon prior authorization and certification of the Board of Investments (NO)	3025	26394217	27904615	925110	34463913	35455547
7. Components, parts and/or accessories, imported from one or more countries for assembly of passenger cars by participants in the Prog. Car Mfg. Prog. upon prior auothorization and certification of the Board of Investments(NO)	6872	25332634	27134106	12070555	29202886	30342760
8. Gifts, donations and articles for relief, educational, scientific, and charitable purposes(GK)	31184567	24366117	26116572	39457668	24013244	25808815
9. Other materials, accessories and supplies imported on consignment basis for the manufacture of products n.e.s. (GK)	243423930	21557833	23559339	37140634	23465168	25591372
10. Iron or steel coils for re-rolling, of other than high carbon or alloy steel (NK)	57753619	19904820	20962017	95066401	20587929	25513310

GK - gross kilogram
NK - net kilograms
NO - number
FOB - freight on board
CIF - FOB + insurance

Source: **Department of Trade, Philippines**

Appendix 2. Major Exports to Japan (fob value in US$).

Commodity	1987 Quantity	1987 Value	1987 Share(%)	1988 Quantity	1988 Value	1988 Share(%)
1. Shrimps and prawns, fresh, chilled or frozen (NK)	12124415	125477302	12.75	8685614	80881524	9.54
2. Bananas, fresh (GK)	603349511	93814005	9.53	647575321	97665025	11.52
3. Copper concentrates (NK)	317062689	92458625	9.39	285584207	67571305	7.97
4. Gold from copper ores and copper concentrates (OZT)	192331	82180174	8.53	178686	61804502	7.29
5. Iron agglomerates (sinters) (NK)	4016907710	75877892	7.71	3472684281	83255249	9.82
6. Bars, rods and slabs, neither polished nor coated, unworked, of copper (NK)	46861434	72740831	7.39	41057255	53946104	6.36
7. Lauan, white (CU DH)	136523869	29139932	2.96	97260991	16784837	1.98
8. Fatty alcohols (NK)	26452027	23625215	2.40	24906081	21999947	2.59
9. Pineapples, fresh (GK)	155121873	22536187	2.29	151002842	19526466	2.30
10. Other ferro-alloys, n.e.s. (NK)	46310500	22457475	2.28	40745000	19061112	2.25

Source: Department of Trade, Philippines