

Japanese Foreign Direct Investment in the Philippines

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It is believed that foreign direct investments are beneficial to the host country for a variety of reasons. It is in this light that Japanese FDI is examined. Our survey results, interviews and other published sources indicate that Japanese firms contribute positively to the economy by providing employment, improving technology and promoting export trade, among others. It is noted that Japanese firms are profitable and compare well with the performance of those in the top 1,000 corporations. If Japanese FDI is doing well in the country and is contributing positively to the economy, how can they be attracted to locate here? Political and economic stability is a major factor to consider. The infrastructures needed for efficient and cheap operations are also important considerations for locating here. Export promotions should also be encouraged instead of import substituting industries. The availability of low cost, educated and highly trainable work force knowledgeable in the English language gives us comparative advantage over our Asian neighbors. The Philippines must harness its resources not to miss the current wave of investment if it wants to catch up with its ASEAN neighbors. Otherwise it may find itself sliding backwards and be completely left out of the global market.

1. Introduction

It is believed that capital inflows from direct investments are beneficial to the host country as they bring economic well being. They are seen to improve the host country's balance of payment and provide the necessary foreign exchange. *FDI* also brings with it greater employment and greater trade between the host country and the parent firm country, as well as greater trade among countries within the region (Asian Development Bank, 1994). Moreover, *FDI* is seen as an agent in the transfer of technology and skills not available in the host country, which can enhance efficiency, hence, competitiveness and profitability of the local industries. The latter is especially important with the ratification of *GATT*, which will make where competition more pronounced.

While we can not establish a direct linkage between foreign direct investment and a country's economic well being, it does appear that countries, especially developing economies, which have relatively high *FDI* also have higher growth rates in their gross domestic products (*GDP*)¹ as shown in Table 1. Besides, it is widely accepted that foreign investment has played a key role in the

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¹ A surrogate for size and growth of the market, one indication of a country's economic well being.

industrial development of many countries throughout the world (Aldaba, 1994). Thus, we assume that in general, more foreign direct investment is good for the host country.

This paper looks at Japanese foreign direct investment in the Philippines and its possible contribution to economic development. This is based on the premise that higher *FDI* is good for the country.

2. Global Foreign Direct Investment

Global foreign direct investments increased rapidly in the second half of the 1980s, reaching around US\$200 billion in 1990. *FDIs* in industrialized countries increased from \$31 billion in 1982 to \$173 billion in 1990, a 458% jump in eight years while it increased from \$10 billion in 1986 to \$36 billion in 1991 in developing countries, a 260% increase in five years. The biggest global investor is the United States.

3. Japanese Foreign Direct Investment

Japan entered the fray in 1951 but severe restrictions imposed by balance-of-payments deficits impeded *FDI* until 1965 when restrictions were loosened as a result of balance-of-payments surpluses. Japanese *FDIs* really took off in 1972. During this year and in the next, *FDI* was higher than in the preceding 20 years.

Another factor which led to the growth of Japanese *FDI* was the appreciation of the Japanese yen. The exchange rate was pegged at 360Y=US\$ at the end of World War II. By the end of 1973 the rate was 272Y=US\$. By 1988 it appreciated to 128Y=US\$ and by early 1995 it surged to \$84=US\$. In addition, wage increased as Japanese economy grew rapidly. This made production costs much lower in the neighboring countries.

Japanese *FDI* peaked in 1989 at around \$68 billion but contracted from 1990 onwards, with the collapse of the Japanese "bubble" economy. It decreased continuously to \$34 billion in 1992, a 100% decline in three years (Table 2).

Industrialized countries got a big and an increasing share of Japanese *FDI* until 1989. However, 1990 saw a big shift in Japanese *FDI* from industrialized to developing countries. From 1990 to 1992, investment in North America and Europe declined annually from 72.1% in 1989 to 63.4% in 1992. The US suffered the biggest loss with a 56% decline from 1989 to 1992, but it was still the biggest recipient of Japanese *FDI* with \$14.6 billion of investment in 1992. In fact during the period 1951-92, Japanese *FDI* in the US comprised 40% of total investment, more than twice as big as its total investment in Europe. The heavy concentration in the US was to counteract trade restrictions and minimize trade friction by producing locally in the host country instead of importing finished goods from Japan. The wisdom of this strategy is more apparent in the nineties with the US becoming more protective of its local industry due to its unfavorable balance-of-payments vis-à-vis Japan.

Investment in Developing Countries. From 1951 to 1970 Japanese *FDI* in developing countries was 50% of total *FDI*. However, from 1971 to 1991 investment in developed countries outpaced that in developing countries such that the cumulative investment from 1951 to 1992 was 64% for industrialized countries and 36% for developing countries. However, there was a shift in 1990 in favor of developing countries.

Among the developing economies the preferred area of investment was Asia, garnering 42% of Japanese *FDI* to developing countries in 1951-1992. This was probably prompted by its proximity to Japan which is a target market, the low cost of labor (as compared with that of Japan) and the ease in transporting necessary production components from Japan to the host country.

The newly industrialized countries (*NIEs*) of Asia - Hong Kong, Korea, Singapore and Taiwan - saw an increase in Japanese *FDI*, from \$2,581 million in 1987 to \$4,902 million in 1989, a 47% increase, with concentration in labor-intensive industries. These countries were used as production bases for exports, mainly to the USA, which offered preferential treatment for products from developing countries. By 1989 the Asian *NIEs* were no longer eligible for this preferential treatment and so *FDI* inflows to these countries declined drastically, especially in the manufacturing sector.

While investment in industrialized and *NIE* countries continued to decline since 1989, investment in *ASEAN* increased in 1992 and is expected to increase, albeit slowly. The biggest recipient of Japanese *FDI* was Indonesia, with a \$1.8 billion investment in 1992. Cumulative investment from 1951-1992 was \$14.1 billion for Indonesia, \$5.9 billion for Thailand, and \$4.8 billion for Malaysia; the Philippines tailed behind with only \$1.9 billion.

China attracted a substantial share of total *FDI* to Asia in the late eighties, except for 1990 after the Tiananmen incident in 1989, but investment picked up again in 1991 and 1992. This trend is expected to continue. China is seen as a big market in the future.

Other developing countries in Latin America, Africa, and Oceania also got some share of Japanese *FDI*. The Middle East accounted for a minimal share of Japanese investment while the emerging economies of former socialist countries of Eastern Europe are beginning to attract Japanese investment. These countries were attractive either for their low production cost or as tax havens. Mexico is a favorite because of its proximity to the United States while the Caribbean countries are attractive as tax havens.

Sectoral Distribution of Japanese FDI. The shift occurred not only in the regional distribution of *FDI* but also in the sectoral distribution. From 1951-80, the primary sector accounted for 25% of *FDI*. However, in 1986-90 this dwindled to 3%. The primary sector's loss was the tertiary sector's (finance and services) gain, from 29% in 1951-80 to 69% in 1986-90 (Table 3). During the period 1951-88, the US had the biggest share of Japanese *FDI* in the manufacturing sector, due to the relatively high economic growth of the country as well as the desire to respond quickly to the rapidly changing demands of the local market. Besides there was always the threat of trade friction between Japan and the US.

Investment in the primary sector was predominant in developing countries from 1951-80, accounting for 32% of *FDI*. This was to take advantage of the rich natural resources, especially those of Asia. This, however, diminished during the years, such that by 1986-90 the primary sector accounted for only 3% of total investment. The manufacturing sector garnered 43% of *FDI* in 1951-80 but this also decreased to 23% in 1986-90. Investment in the tertiary sector increased from 13% in 1951-80 to 70% in 1986-90 (Table 4). As the Japanese firms got entrenched in the host country, auxiliary services like finance followed, to cater to the needs of the other firms.

4. Foreign Direct Investment in the Philippines

Foreign Direct Investment. The Philippines has been traditionally linked with the United States since it became a colony of the latter in 1898. Free trade between the two countries started at the beginning of the century. Even after its independence in 1946, the Philippines has always looked at the US as a special trading partner and the latter has remained the top foreign investor in the country even to this day, although its importance has been declining since the 1980s.

After World War II the Bell Trade Act was enacted, providing for free trade between the Philippines and the US for eight years. This was revised in 1955 by the Laurel-Langley Agreement, providing for gradual imposition of tariffs between the two countries until 1974 when 100% duties would be imposed.

Table 5 shows the net flows of foreign direct investment in the Philippines from 1949 to 1992. In the fifties import substitution industries dominated the *FDI* in response to the economic policy of the country. This was characterized by exchange controls and the adoption of a protective tariff structure to promote the manufacture of import substitutes, a policy from which the early sixties suffered. *FDI* inflows started to rise only with the passage of Republic Act (RA) 5186, otherwise known as the Investment Incentives Act of 1967. Net investments picked up the following two years but the country underwent economic and political upheavals which led to a balance of payments crisis in 1969. In addition, the impending termination of the Laurel-Langley Agreement in 1974 created some uncertainty. The enactment of the Export Incentive Act of 1970 did not seem to have any impact at all on foreign investment since the net inflows were negative during that year and in the next two years. The situation improved somehow with the imposition of martial law in 1973. However, after it peaked in 1977, it declined again, registering a negative flow in 1980. (These negative inflows may have been caused by US firms withdrawing their investment because of the unstable and uncertain political condition of the country.) Except for 1981 and 1983 that the net inflows remained stagnant until 1985. It was only in 1986 when net investments increased dramatically after the restoration of the democratic process under President Aquino, following the deposition of Marcos. The pattern of the *FDI* was reflective of the political and economic climate of the country.

Investments peaked in 1988 as a result of the government's debt to equity program. Foreign loans could be converted to equity in Philippine firms. The situation reversed again in 1990 with the near successful coup of 1989 and seesawed since then up to 1992.

During those years several laws were promulgated to encourage foreign investors. Notable among these were the Investment Incentives Act of 1967 and the Omnibus Investments Code of 1981, the Foreign Investments Act in 1991 and a foreign exchange liberalization law in 1994.

A comprehensive trade liberalization program was embarked upon in 1980 as part of the World Bank and International Monetary Fund-backed Structural Adjustment Program. The purpose of this was to remove import restrictions, break down tariff barriers, among others, to encourage export-oriented industries to attract *FDI* and earn much needed foreign exchange. However, while government pronouncements seemed to favor export production, trade policies provided a strong bias for import-substitution (Aldaba). The data of the Board of Investment (BOI) approved *FDI* projects showed a bias towards the manufacturing sector which had high effective protection rates (EPR) as Table 6 indicates.

Sectoral Concentration of FDI. In terms of sectoral concentration, *FDI* in the Philippines is heavy on the manufacturing sector with its share rising from 39% in 1973 to 52% in 1992. This, in turn, is concentrated in chemical products, food processing, petroleum and coal, transport equipment, and machinery and appliances. Machinery, appliances, and supplies industry was conspicuously absent from 1973 to 1987 and appeared only in 1988 with a .08% share, which increased to 5.5% in 1992. Since Japanese *FDI* in this industry is going up, it is presumed that the increase is due mostly to Japanese investment. The increase in the machinery and appliance industry is not surprising considering that these sectors had high EPRs as Table 6 and 6.1 show.

On the other hand, the tertiary sector, dominated by banks and other financial institutions declined in importance, from 45% in 1973 to 12% in 1992. The Philippines failed to become a financial center in the region even with the enactment of Presidential Decree (PD) 71 which allowed minority foreign participation in banking and finance, and PD 1034 which created an offshore banking system in the Philippines. This is surprising because in other countries, the growth of the tertiary sector followed the growth of Japanese investment in the country. It may be that the level of investment in the secondary sector does not warrant yet the support services needed from the tertiary sector.

Sources of FDI. While the United States remain the top foreign investor of the Philippines, its total *FDI* has been declining gradually in favor of Japan. US *FDI* to the Philippines declined from 69% of total *FDI* in 1986 to 34% of total *FDI* in 1989, while that from Japan increased from 8% in 1986 to 25% in 1989. However, this investments pales in comparison with Japanese investments in the other three *ASEAN* countries. Cumulative investment for 1951-92 stands as follows:

Indonesia	3.7% of total Japanese FDI
Thailand	1.5%
Malaysia	1.2%
Philippines	0.5%

Considering that *FDI* is good for the country, what could be the reason for the unfavorable position of the Philippines as a host country for Japanese *FDI*?

5. Japanese Firms Operating in the Philippines

To get an insight into Japanese *FDI* in the Philippines we looked more closely at Japanese firms or subsidiaries operating in the Philippines which are ranked among the top 1, 000 firms in 1993.

There were 58 Japanese firms in the top 1,000 corporations. Seventy per cent of these firms improved their ranking relative to 1992. Of these Nissan Motor and San Technology made the biggest leaps (from being excluded in the top 5000 in 1992 to being no. 80 and 351 in 1993, respectively. Toyota Autoparts and Shinryo (Phil.) likewise made substantial improvements. The remaining 30% slid into lower rankings in 1993 relative to their 1992 position.

The Japanese firms operating in the Philippines are leading in some industries. Among the top 5,000 corporations in 1993, a Japanese firm is the sole player in the nickel ore mining industry, in the transport equipment industry Japanese firms account for 69% of the number of firms, in

general engineering and construction, 60%. They account for 50% of the number of firms in the glass and glass products, in office, household furniture and appliances, and in the manufacture of professional and scientific equipment. However, they still lag behind in the tertiary sector like financial intermediaries and banks. They are notably absent in agricultural food production, cement, and communications.

Between 1992 and 1993, the average sales of Japanese firms in the top 1,000 firms jumped by 30%, from P 939 million to P 1.2 billion. This resulted in a 20% increase in the share of Japanese firms in the sales of the top 1,000 firms in 1993, up by 1.14 percentage points. Ninety per cent of the firms in the top 1,000 registered profits. The average profitability of profitable firms was 7.1% but was pulled down to 6% by the losses of the remaining 10%. This 6%, however, was better than the 5.8% registered for 1992 and was only three percentage points below the 9.1% figure for all the top 1,000 firms in that year. Total asset utilization of these Japanese firms increased from only 10% in 1992 to 35% in 1993, whereas the figure for all the top 1,000 firms remained at a much lower 4.2% during the same period. This indicates a high rate of efficiency of Japanese firms. These figures seem to indicate that Japanese firms in general are operating profitably in the Philippines. Why then, is the country not attracting more direct investments from Japan?

6. Survey of Japanese Firms in the Philippines

In addition to examining the performance of the Japanese firms in the top 1,000 corporations in the Philippines, we conducted a survey of Japanese firms operating in the Philippines. We distributed personally some 100 survey forms and got a 20% response rate. While the number seems small, the respondents are leaders in the industry. Fifty-five per cent belong to the top 1,000 corporations of the Philippines in 1992. Sixteen belonged to the manufacturing sector. (Some responses were incomplete so that the figures may not always add up to twenty firms.)

General Information. The surveyed firms were established in the Philippines from 1968 to 1992, the majority having been established in the late seventies or early eighties either as subsidiaries of Japanese firms or as joint ventures with Filipino firms.

Financial Information The total paid-up capital in 1992 of 13 responding firms was \$60 million, a sharp increase of 76% from \$34 million in 1987. The combined stockholders' equity of the 12 firms in 1992 totaled \$100 million. The total assets of these 12 firms amounted to \$180 million in 1992, with \$60 million invested in plant and equipment. The Japanese had majority ownership in the manufacturing firms while the Filipinos retained majority ownership in the other firms.

The more common source of financing for these firms was retained earnings. This is consistent with the response in the survey conducted by Eximbank Japan (EXIM Review, 1993) that Japanese firms would like to rely more on internal financial resources instead of borrowing. This might be due to the strict lending policies of Japanese banks and a shrinking international capital market. In fact, only a few companies responded that they availed of loans in 1992, in which case, the domestic loans were more predominant than foreign loans. Domestic loans were sourced from private financial institutions. None borrowed from government banks. Foreign financing came from Japanese parent companies.

Average sales of the firms increased from 1987 to 1992 by 127% from \$11 million to \$25 million. While these firms catered to the local market they also used their plants in the Philippines as production bases to export to their parent companies in Japan and also to sister companies not only

in Asia but in North America and in Europe as well. This seems to bolster the theory that Japanese *FDI* locate their production bases in Asia and the *ASEAN* in general, to take advantage of lower production costs and export the product back to Japan and to their sister companies in North America. Table 7 shows the distribution of purchasers of Japanese products by region. While North American subsidiaries produce mostly for the domestic market (94% of Japanese production in North America is sold therein), *ASEAN* production bases produce for export. Thirty-five per cent of production is geared for the export market. This, however, is expected to change as the firms in Asia are expected to increasingly gear up sales in the domestic market.

The firms operated profitably in the Philippines. From negative profits on their first year of operation, profits steadily rose from 1987 to 1992, posting a 92% increase in average income after taxes. Manufacturing firms reported an average net income ratio of 6% in 1992 while other firms reported an average net income of 10% for the same year. This compares favorably with the performance of firms in the top 1,000 corporations and is certainly better than the average income ratio of Japanese firms worldwide (Table 8). Return on total assets was 11.5% for manufacturing firms and 12% for others in 1992 while return on equity averaged 156% for manufacturing firms and 38% for other firms for the same period.

Human Resources and Technology Transfer. This section looks at the employee profile and industrial relations practices of respondent firms. The total number of workers reported in different sections may not tally because some respondents did not answer all the questions. Although this reduces the "strength" of the data, the figures may still be considered meaningful inasmuch as they are taken to represent trends rather than exact numbers.

As expected of the manufacturing firms, the production department accounted for the majority of workers in the respondent firms - 73% of the total work force. They were all Filipinos. The majority of these were high school graduates with technical/vocational training. Some were college graduates. The other departments each accounted for six to seven per cent of workers. All employees in the administrative staff, however, were college graduates.

Ninety-four per cent of the employees were permanent employees. Two thirds of the employees were male which can be expected of manufacturing firms.

The work force was relatively young, with 95% belonging to the age group 15-39. Those above 40 constituted less than 6% of the total work force. Almost half of the workers were in the 20-29 age group.

Most of the technical staff were employed by their company for 1-10 years while a few had stayed with their company for 11-30 years. Majority of the production workers had also been with their company for a long time. The impression that one gets is that employee turnover is low.

Ninety-one per cent of the firms practiced job rotation, mostly of production workers. Some companies allowed worker participation but only with regard to labor-management relations, workers' rights and welfare, and quality improvement, production methods and marketing.

The perception of respondents with regard to their own technology as compared with that of Japan were unanimous in their belief that Japanese technology was superior to local technology. However, they considered their technology as comparable with their counterparts in other *NIE* and *ASEAN* countries.

There were only a few Japanese consultants among the respondent firms.

7. *Analysis of Japanese Firms in the Philippines*

Based on our analysis of the Japanese firms in the top 1,000 corporations, our survey results, interviews and other published sources, it does appear that Japanese firms are doing well in the country. The question then is whether these firms are contributing positively to the Philippine economy.

We cannot establish direct linkages between Japanese *FDI* performance and its contribution to the Philippine economy but we can make some inferences regarding their relationship.

One perceived contribution of *FDI* to the host country is technology transfer. Japanese industrial relations practices lead us to believe that this is happening in the Philippines although on a small scale basis. One well-established Japanese labor practice is long term employment. This brings with it job security on the part of the employee. Workers have more incentive to perform well in the long run and not simply work for short term gains. They are also assessed by many supervisors over a long period of time hence there is less room for incorrect judgments in personnel decisions. From the point of view of the firm, it is willing to invest in human capital because it can expect to get long term returns from its investment in terms of increased productivity. Long-term employment especially allows firms to practice job rotations to develop the workers' multi-task skills and to expose workers to different aspects of business and production operations. New productivity-enhancing technologies can also be introduced with minimal worker opposition or concern about job losses (Nakamura and Vertinsky, 1994). In this setting technology transfer can be effectively attained.

These practices seem to be borne out by our survey results. There is a low turnover of employees among Japanese firms and job rotation is practiced in practically all the firms surveyed. Total quality management which requires close-to-zero defect rates in all stages of the production process requires production workers to actively participate, often in teams, in solving local production problems. Production and maintenance are vested in the same people. This is possible because workers are familiar with many aspects of the production process as a result of job rotation.

Another Japanese practice which brings about technology transfer is the practice to locate production facilities overseas only when they have been proved to operate reliably in Japan (Nakamura & Valcarcel, 1995). Production workers in the host country are then expected to maintain the machinery for which the necessary training is provided. Some employees are sent to the mother firm in Japan for training and upon their return to their countries they are expected to train other production workers (Nakamura, 1993). Again this is justified on the grounds of long-term commitment to the company. Considering that Filipino workers are an educated work force (with at least 10 years of schooling) and highly trainable (according to interviews) it seems reasonable to assume that technology transfer does take place in the Japanese firms, although not to the same extent as in other countries, as indicated by the lower number of Japanese expatriates in the Philippines as compared with that of other *ASEAN* countries (Table 9). But this may be due to the limited extent of operations of Japanese *FDI* in the country. It is expected that more *FDIC* would bring in more technology transfer.

One indication which shows that employees of Japanese firms are perceived to be technologically competent is the most often cited reason for resignation (if ever they resign) - transfer to another company. It makes sense for competitors to hire away trained workers from Japanese firms for a higher pay without paying for training cost. Thus, Japanese firms become training grounds for local skilled workers. From the country's point of view, the spillover of skilled personnel from Japanese firms can be a means for the diffusion of much needed skill and technology at the worker level (Nakamura & Valcarcel, 1995).

These industrial relations practices seem to have positive effects. Some survey respondents perceive their firms to be as technically sophisticated as their counterparts in other *ASEAN* countries. This is encouraging considering the small number of Japanese supervisors in Philippine firms (Table 9). The Philippines has the lowest number among the Asian countries. This may be an indication that the type of technology and skill transfer which requires extensive training by Japanese parent firms' personnel has not yet taken place in the Philippines. This lack of technologies transferred from Japanese firms is considered one reason why the Philippines was not able to take advantage of its devalued currency (35% devaluation of the peso against the Japanese yen) after the Plaza accord in 1986 for increasing its nontraditional manufactured exports to Japan (*JETRO*, 1988, cited in Nakamura & Valcarcel, 1995). This is probably one area where local *FDI* should be encouraged - to bring in more technically skilled people to hasten technology transfer.

FDIs are also perceived to bring in the much needed foreign exchange. This is very important especially in times of foreign exchange crisis such as the one which occurred in 1983. Import restrictions were then imposed, resulting in the shortage of imported production materials. Raw materials could only be imported if the foreign exchange was sourced from abroad. This resulted in the closure of many US firms. Surprisingly, only a few Japanese firms shut down their operations. Production for exports of local subsidiaries were strengthened and export oriented operations were switched to contract manufacturing for which procurement of raw materials and parts was easily obtainable (Nakamura & Valcarcel, 1995).

It is also said that *FDI* increase foreign trade between the host country and the parent firm's country and it promotes active trade within the region, as well. This seems to be the case with Japanese *FDI* in the Philippines. Of the \$2.38 billion import of Japan from the Philippines in 1993, machinery and equipment accounted for \$540 million compared with what used to be major exports: bananas (\$334 million) and metal ores and scrap (\$369 million) (Nakamura & Valcarcel, 1995). If the trend in the appliance industry is also any indication, the share of the Philippines in Japanese imports of electric washing machines increased from 7.3% in 1988 to 36.5% in 1991 (Tanaka, 1993). In 1990, intra-Asian exports including Japan increased by 12.8% whereas worldwide exports increased only by 5.8% (Asian Development Bank, 1992).

Finally, it cannot be denied that the employment generated by these *FDI* can help bring about the upliftment of the economic well-being of the people. This, in turn, can generate demand in the market and can fuel the economy.

The foregoing analysis seems to indicate that the Philippines has much to gain with Japanese *FDI* in the country. How then can we attract them to locate their subsidiaries in the Philippines?

8. Determinants of Japanese FDI

There are many reasons put forward for locating Japanese *FDI* in a specific country. On the macro level the economic and political stability of a country, coupled with adequate infrastructures are necessary. Strong export expansion and domestic demand favor increased investment in a country. A reliable price and exchange rate level of the host country also attract foreign investors as they reduce uncertainty in the future. In the case of Japan, however, the rapid currency appreciation has propelled Japanese investment abroad because of the high cost of production at home.

On the firm specific level, the locational factors are considered important.

Profitability plays a crucial role in investment decision. Japanese firms in Asia are profitable compared with their counterparts in industrialized countries, notably North America. The average profitability ratio of Japanese overseas subsidiaries from 1961-90 was 1.03%. The average profitability ratio of Japanese firms in the top 5,000 firms in the Philippines for 1993 was 6%. This is an attraction for Japanese firms to locate here.

Asian countries serve as production bases for the export market, including export to Japan. It is not that easy to find local suppliers to meet the needs of Japanese manufacturers, hence the need to import intermediate products from Japan. Hence, proximity to the home country is another important factor.

The presence of low-wage labor and potential for increased local sales attract Japanese *FDI* to Asian countries. This is becoming more important in the wake of the rapid appreciation of the yen (84Y=US\$ in May 1995).

Finally, adequate infrastructure is necessary for Japanese investors. Without the necessary transportation and communication facilities as well as adequate water and electricity supply, production is hampered and is a big disincentive for foreign investors.

Is the Philippines ready for the opportunities offered by Japanese *FDI*? Do we have the right climate for increased Japanese *FDI*?

On the political level, it seems that the government has moved in the right direction - setting up the necessary trade structures for attracting foreign investors, like liberalization of foreign exchange. Exchange rate of the peso has also somehow stabilized. The result is rather evident in the increase in the growth rate of GNP. However, there is still a lot to do in terms of infrastructure development. We need more transportation and communication facilities. Without these, business transactions are hampered and gains achieved in other areas like low cost of labor, can be wiped out, negating our competitive advantage.

One important factor which determines location of Japanese *FDI* is the low cost of labor as this affects the bottom line figure. In a 1992 survey conducted by Eximbank, mother firms of Japanese *FDI* indicated a strong intention to enjoy low-cost labor in *ASEAN* countries. The same survey said that Japanese companies are increasingly interested in Indonesia and the Philippines where these companies enjoy low-cost labor as compared with that of Thailand and Malaysia. It is intriguing however, to note that these same respondents ranked Indonesia second as the most popular destination country for investment while the Philippines was ranked eleventh (Tejima, 1993). One possible reason is the lack of knowledge of Japanese investors about the Philippines. In a recent

interview with some Japanese security analysts who visited the country, we asked precisely this question. Their answer was that Japanese investors hear mostly bad news about the Philippines. Their own experience was a case in point. They had a completely different idea about the Philippines before they came here. On this subject, it seems that the media has a lot of self-examination to do with respect to projecting a negative image of the Philippines.

One advantage of the Philippines over its Asian neighbors is its educated work force (with at least 10 years of schooling) coupled with their knowledge of the English language. Some Japanese executives in the Philippines indicated in an interview that the Filipinos are highly trainable. This, with the knowledge of the English language, is a very positive point for the country in attracting *FDI*.

Japanese *FDI* in Asia is expected to grow due to their advantageous position as export bases to developed countries with a shift in location from relatively high labor wage countries (Thailand and Malaysia) to relatively low labor wage countries such as Indonesia and the Philippines (Tejima, 1993).

A major consideration for locating Japanese *FDI* in a country is also the country's potential as a local market. The Eximbank survey as well as Aldaba's study point this out (Tejima, 1993, Aldaba, 1994). If the economic condition of the Filipinos will improve (partly because of *FDI* which brings about employment), then we can expect demand in the local market to expand. With a population of nearing 65 million, the Japanese firms have barely scratched the surface of its potential market. As our survey results show, profitability of Japanese firms in the Philippines is higher than the average profitability of the top 1,000 corporations, and higher than that of firms in developed countries.

9. Conclusion

It appears the Japanese *FDI* flows to the Philippines will continue to grow. Japan is looking more towards its Asian neighbors for export production bases as well as markets. The proximity of the Philippines to Japan, its low production costs vis-à-vis Japan as well as other *ASEAN* countries, presence of an educated and highly trainable work force with knowledge of the English language are factors favoring Japanese investment in the country.

In addition to the above, however, we need trade policies which favor export promotion instead of simply concentrating on import substitution. This does not mean that import substitutes are to be eliminated but that undue emphasis may not be given to it at the expense of export promotion. To this must be combined a long-term economic and political stability and a well developed infrastructure. These provide a climate both conducive to business and investor confidence (Aldaba, 1994).

The challenge posed by *GATT* for greater competitiveness through efficiency should spur us to become more efficient in our operations. Instead of turning back towards protectionism the country should pursue a policy of competitiveness in the world market.

Given the right climate, the Philippines can attract Japanese *FDI*. The country has already missed out in the massive wave of foreign investment that occurred in the 1980s. If it misses out on this present opportunity, it may never be able to catch up with its Asian neighbors, let alone maintain its present position.

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Table 1
 FOREIGN DIRECT INVESTMENT INFLOWS AND GROWTH RATES
 OF REAL GROSS DOMESTIC PRODUCTS OF SELECTED COUNTRIES
 1987 to 1992

Country	1987	1988	1989	1990	1991	1992
China	\$2,314 <i>10.21</i>	\$3,194 <i>11.3</i>	\$3,393 <i>3.6</i>	\$3,487 <i>5.1</i>	\$4,366 <i>7.6</i>	\$11,156 <i>13.2</i>
Indonesia	\$385 <i>4.9</i>	\$576 <i>5.8</i>	\$682 <i>7.5</i>	\$1,093 <i>7.2</i>	\$1,482 <i>6.9</i>	\$1,777 <i>6.4</i>
South Korea	\$601 <i>11.5</i>	\$871 <i>11.3</i>	\$758 <i>6.4</i>	\$715 <i>9.5</i>	\$1,116 <i>9.1</i>	\$550 <i>5.1</i>
Malaysia	\$423 <i>5.4</i>	\$719 <i>8.9</i>	\$1,668 <i>9.2</i>	\$2,332 <i>9.7</i>	\$3,998 <i>8.7</i>	\$13,609 <i>7.8</i>
Philippines	\$307 <i>4.3</i>	\$936 <i>6.8</i>	\$563 <i>6.2</i>	\$530 <i>2.7</i>	\$544 <i>-0.5</i>	\$228 <i>0.6</i>
Singapore	\$2,836 <i>9.4</i>	\$3,645 <i>11.1</i>	\$2,887 <i>9.2</i>	\$5,575 <i>8.8</i>	\$4,888 <i>6.7</i>	\$6,730 <i>6.0</i>
Thailand	\$352 <i>9.5</i>	\$1,105 <i>13.3</i>	\$1,775 <i>12.2</i>	\$2,444 <i>11.6</i>	\$2,014 <i>8.1</i>	\$2,116 <i>10.4</i>

Legend: \$ signs indicate million US dollars

Figures in bold italics represent *GDP* growth rates in real terms

Source: Balance of Payments Statistical Yearbook, 1994, International Monetary Fund (various tables)

Table 2
 JAPANESE FOREIGN DIRECT INVESTMENT OUTFLOW BY REGION
 (in Billion Dollars)

Region	1987	1988	1989	1990	1991	1992
North America	15,357	22,328	33,902	27,192	18,823	14,572
USA	14,704	21,701	32,540	26,128	18,025	13,819
Latin America	4,816	6,428	5,238	3,628	3,338	2,726
Asia	4,868	5,569	8,238	7,054	5,936	6,425
NIES	2,581	3,264	4,902	3,354	2,202	1,921
Korea	647	483	606	284	260	225
Taiwan	368	372	494	446	404	292
Hong Kong	1,072	1,662	1,899	1,784	925	735
Singapore	494	747	1,902	840	613	669
ASEAN	1,030	1,967	2,782	3,241	3,083	3,198
Indonesia	545	586	631	1,105	1,193	1,676
Thailand	250	858	1,276	1,154	807	658
Malaysia	163	388	673	724	880	704
Philippines	72	135	202	258	203	160
China	1,227	296	438	349	579	1,070
Middle East	63	260	66	27	91	709
Europe	6,576	9,117	14,808	14,294	9,371	7,061
England	2,473	3,956	5,239	6,805	3,588	2,948
Germany	403	409	1,083	1,241	1,116	769
France	330	463	1,136	1,257	817	456
Spain	283	161	501	321	378	332
Netherlands	829	2,359	4,547	2,744	1,960	1,440
Africa	273	653	671	551	748	238
Oceania	1,413	2,668	4,618	4,166	3,278	2,406
TOTAL	33,364	47,022	67,540	56,911	41,584	34,138

(Prepared by the Exim Bank of Japan with MOF's Notification Base Statistics)

Source : Tajima : Future Prospects of Japanese Foreign Direct Investment (FDI) in the 1990s, Based on the Trend and the Features of Japanese FDI in the 1990s, Exim Review, 1993, p. 47.

Tajima : Japanese Foreign Direct Investment in the 1980s and the Prospects for the 1990s, Exim Review, 1992.

Note : Total for Asia does not correspond to total of NIEs, ASEAN and China.

Table 3
 JAPANESE GLOBAL FOREIGN DIRECT INVESTMENT (FDI) BY SECTOR
 (in billion US\$)

	1951-1971		1981-1985		1986-1990	
	US\$ bil.	%	US\$ bil.	%	US\$ bil.	%
Primary Sector	1.1	25	5	11	5.7	3
Manufacturing	1.2	27	11.8	25	57.2	25
Finance	0.5	11	11	23	97.7	43
Services	0.8	18	16.5	35	60.2	26
Others	0.8	18	2.9	6	6.4	3
TOTAL	4.4	99	47.2	100	227.2	100

Table 4
 SECTORAL DISTRIBUTION OF JAPANESE FDI TO DEVELOPING COUNTRIES

	1951-1971		1981-1985		1986-1990	
	US\$ bil.	%	US\$ bil.	%	US\$ bil.	%
Primary Sector	5.4	27	3.9	18	1.9	3
Manufacturing	8.6	43	5.1	23	13	23
Finance	1.7	8	9.5	43	19.8	35
Services	1	5	2.4	11	19.7	35
Others	3.5	17	1	5	2.3	4
TOTAL	20.2	100	21.9	100	56.7	100

Note : Finance includes insurance and real estate, Primary Sector includes agriculture, forestry, fishing and mining. Services includes commerce, transportation and other services.

Source: Ministry of Finance, Japanese Foreign Direct Investment World Bank Policy Research Working Paper 1213, 1993, pp. 8 and 14.

Table 5
NET FOREIGN DIRECT INVESTMENT FLOWS IN THE PHILIPPINES

Year	Inflow	Outflow	Net Invest ment	Year	Inflow	Outflow	Net Invest ment
1949	6		6	1971	5	9	-4
1950	2		2	1972	4	26	-22
1951	5*		5	1973	119	55	64
1952	22*		22	1974	92	64	28
1953	43*		43	1975	152	27	125
1954	44*		44	1976	185	41	144
1955	59*		59	1977	236	20	216
1956	46	15	31	1978	134	34	100
1957	56	16	40	1979	146	126	20
1958	55	37	18	1980	119	221	-102
1959	83	37	46	1981	248	73	175
1960	107	59	48	1982	194	177	17
1961	73	75	-2	1983	255	143	112
1962	26	53	-27	1984	137	120	17
1963	23	57	-34	1985	124	107	17
1964	74	63	11	1986	186	46	140
1965	18	28	-10	1987	439	113	326
1966	74	72	2	1988	1077	91	986
1967	103	54	49	1989	961	118	843
1968	266	82	184	1990	706	226	480
1969	225	95	130	1991	798	144	654
1970	7	5	-2	1992	1364	627	737

*Net inflows

Table 6
EPR AND FDI CONCENTRATION
(All Industries)

	% Share in Total CB-Reg'd FDI	% Share in Total BOI - Approved Projs.	EPR (Tariffs)	EPR (price compari son)
Manufacturing				
1965	ND*	ND	51	
1974	34.31	ND	44	
1979	53.39	ND	40	
1985	49.1	75.71	37.97	73.35
1986	48.05	59.56	34.03	60.17
1988	47.86	76.41	33.13	54.95
1989	48.21	69.76	34.29	53.91
1990	48.66	53.2	34.29	53.91
1991	51.28	60.86	33.94	55
1992	51.71	54.64	38.27	53.41
Mining				
1965	ND	ND	-17	
1974	8.26	ND	-13 to 16	
1979	13.51	ND	0	
1985	26.24	0.93	2.81	-0.2
1986	27.16	0	1.54	-1.99
1988	27.14	0.38	1.54	-1.99
1989	26.73	4.54	-2.06	-2.06
1990	26.06	4.03	-2.06	-2.06
1991	23.95	1.45	2.68	2.68
1992	22.34	2.32	2.69	2.68
Agriculture, Fishery & Forestry				
1965	ND	ND	17 & -26**	
1974	1.81	ND	9	
1979	0.99	ND	1	
1985	1.74	1.44	6.56	9
1986	1.67	5.21	1.24	5.03
1988	1.63	7.22	1.42	5.21
1989	1.53	3.69	2.38	6.17
1990	1.63	1.35	2.38	6.17
1991	1.46	2.95	5.73	7.58
1992	1.35	1.9	4.74	6.91

* No data

** -26 for Forestry and 17 for Agriculture

Source : Aldaba, Foreign Direct Investment in the Philippines : A Reassessment

Table 6.1
EPR & FDI CONCENTRATION IN THE MANUFACTURING SECTOR

	% Share in Total CB-Reg'd FDI	% Share in Total BOI Approved Projs	EPR (tariffs)	EPR (price comp)
Chemicals				
1965	ND	ND	13 to 94	ND
1974	7.48	ND	-7 to 221	ND
1979	14.61	ND	15 to 227	ND
1985	12.16	4.89	66.23	152.74
1986	17.5	30.21	49.09	119.77
1988	13.06	22.09	74.99	119.77
1989	11.04	3.28	74.99	112.86
1990	11.55	3.5	62.6	112.86
1991	11.96	5.81	58.18	108.89
1992	8.7	1.35		184.51
Food				
1965		ND	15 to 400	ND
1974	7.88	ND	-49 to 3371	ND
1979	12.26	ND	-6 to 495	ND
1985	16.9	9.35	33.71	34.49
1986	7.21	0.73	31.18	31.66
1988	0.17	2.05	29.89	30.29
1989	5.61	1.19	30.43	30.48
1990	9.02	1.45	30.43	30.48
1991	5.6	2.52	29.87	29.93
1992	6.73	0.26	28.11	28.27
Basic Metal Products				
1965	ND	ND	ND	ND
1974	ND	ND	47	0 to 27
1979	3.08	ND	84.1	47 to 176
1985	2.94	1.28	54.84	179.79
1986	14.2	1.71	54.84	55.3
1988	2.99	2.4	71.64	55.3
1989	2.01	2.43	71.64	71.42
1990	3.75	0.6	77.45	71.42
1991	4.33	0.94	76.55	77.23
1992	2.19	1.57	76.55	76.34
Textiles				
1965		ND	43 to 330	ND
1974	2.39	ND	-4 to 78	ND
1979	1.93	ND	106	ND
1985	1.72	0.92	24.66	70.25
1986	1.96	5.25	19.06	61.09
1988	3.73	4.87	19.06	22.41
1989	3.51	14.83	9.24	9.24

1990	3.25	13.51	9.24	9.24
1991	3	2.41	7.88	7.88
1992	5.13	2.44	7.88	7.88
Transport Equipment				
1965	ND	ND	77 to 533	ND
1974	0.2	ND	9 to 127	ND
1979	3.38	ND	118	ND
1985	6.36	16.97	48.39	239.61
1986	2.44	5.57	33.9	169.47
1988	1.8	4.48	33.9	169.47
1989	2.94	1.76	36.62	103.1
1990	3.56	9.94	36.62	103.1
1991	4.41	3.55	35.99	102.46
1992	12.2	10.11	28.66	95.51
Petroleum & Coal				
1965	ND	ND	45	ND
1974	0.08	ND	16 to 21	ND
1979	0.02	ND	1 to 38	ND
1985	2.1	1.08	28.83	150.88
1986	2.72	0	33.68	159.18
1988	1.43	0.01	33.68	159.18
1989	0.86	6.15	38.8	160.15
1990	1.67	0	38.8	160.15
1991	2.77	27.12	38.8	170.71
1992	0	0	40.73	172.63
Machinery & Appliances				
1965	ND	ND	77 to 533	ND
1974	ND	ND	9 to 127	ND
1979	ND	ND	118	ND
1985	ND	33.71	48.39	289.61
1986	ND	11.45	33.9	169.47
1988	1.71	24.68	33.9	169.47
1989	15.99	24.44	36.62	103.1
1990	(3.4)	14.32	36.62	103.1
1991	17.83	7.4	35.99	103.46
1992	16.62	16.57	28.66	95.51

Sources : (EPR Estimates)

Power & G. Sicat, "Industrialization in the Philippines". Discussion Paper no. 70-11, UPSE, April 24, 1970.

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Quinto, M.T., "EPR Methodology". TC-PIDS Joint Research Project. Staff Paper Series no. 86-08.

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Table 7
 PURCHASES OF JAPANESE PRODUCTION BASES BY REGION
 1992 Survey
 (Units : %)

Location	PURCHASER							TOTAL
	NIES	ASEAN	Other Asia	Japan	North America	EC	Latin America	
NIES	72.9	3.6	0.3	14.7	6.6	1.9	0	361
ASEAN	7.4	63.6	1	15.5	100.4	2	0	393
Other Asia	3.1	0	57.3	35.4	4.2	0	0	96
North America	0.6	1.1	0.4	3.6	93.8	0.2	0.2	466
EC	0.4	0	0.4	1.9	2.6	94.8	0	267
Latin America	0	0.8	0	9.2	12.3	4.6	73.1	130

Source : Exim Review, Vol. 13, No. 1, 1993, p. 70.

Table 8
 AFTER-TAX-PROFIT-TO-SALES RATIO OF JAPANESE OVERSEAS SUBSIDIARIES
 BY SECTOR & REGION
 (Average of 1961-1990, Percentage)

	North America	Latin America	Asia	Middle East	Europe	Oceania	Africa	TOTAL
Mining	-31.5	11.55	-0.01	4.41	-1.97	4.55	0.26	5.41
Agriculture, Forestry & Fishery	-12.65	-17.72	1.72		-0.79	-2.03	1.19	-0.92
Food	0.17	1.91	2.43		-11.43	4.51	-5.37	3.56
Lumber & Pulp	2.05	12.05	-2.27		-0.91	4.37		5.03
Textile	-2.29	6.57	2.34	-12.43	0.4	0.97	0.34	1.47
Ferrous Metal	-0.16	-13.32	11.79	-4.71	2.71	0.82	1.91	-0.46
Nonferrous	1.17	6.53	2.31		4.53	3.02	4.39	5.76
Chemicals	-0.15	5.1	3.08	8.55	2.42	3.94	-11.77	3.71
Electrical Machinery	0.67	2	3.39	-10.56	-0.11	1.09	0.91	2.03
Transport Equipment	-8.36	1.06	0.57	2.88	0.85	0.7	1.31	0.47
Miscellaneous Machinery	0.43	-5.54	1	0.23	-0.81	1.43	-0.64	-0.27
Precision Machinery	-0.79	2.75	3.13		-1.2	3.01		2.47
Other Manufacturing	-2.41	3.7	4.23	7.53	2.95	2.71	3.42	4.98
SUBTOTAL	0.95	1.77	2.87	7.41	1.61	2.93	1.44	2.49
Commerce & Trade	0.37	0.65	0.89	0.47	0.62	0.62	-0.94	0.47
Others	-2.85	-5.89	17.83	1.93	8.85	1.84	-2.47	3.99
TOTAL	0.69	1.33	1.87	4.25	0.73	1.53	0.23	1.03

Source : MITI, Regional Bureaus of International Trade and Industry, International Corporations Section 'A Basic Survey of Foreign Activity, 1' (Toyo Hoki Syuppan, 1983), 'A Basic Survey of Foreign Activity, 2,3' (Keibun Syuppan, 1986, 1988), MITI, Regional Bureaus of International Trade and Industry, International Corporations Section. 'Overseas Operations of Japanese Industries,' various issues. Japanese Foreign Direct Investment : World Bank Policy Research Working Paper 1213, 1993, p. 22.

Table 9
 JAPANESE PARENT FIRM PERSONNEL STATIONED AT THEIR FDI

Country	All Industry All Workers	All Industry Workers from Japan	Manufacturing All Workers	Manufacturing Workers from Japan
World	2415909	47312	1684255	18969
Asia	1212181	15720	1012059	9084
South Korea	203484	461	176582	391
China	82708	855	68433	617
Taiwan	168154	2032	152711	1381
Hong Kong	74164	2738	47921	746
Thailand	211286	3026	180915	1928
Singapore	92360	2854	68024	1196
Malaysia	150716	1814	130564	1431
Philippines	66014	395	44564	293
Indonesia	120136	1399	101307	998
India	32435	73	32016	65
Middle East	9568	301	5363	50
Europe	265880	9483	141419	2156
Canada	39490	866	23367	275
U.S.	541245	17276	319164	6273
Mexico	39178	337	36318	247
Brazil	188798	841	72162	497
Africa	21470	211	17726	61
Australia	54804	1147	31827	183
New Zealand	5889	112	4123	21

Source : Toyo Keizai (1993)