

# Japan, the US, and Official Development Assistance to the Philippines

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The highly publicized and US-conceived Philippine Assistance Plan (PAP) was a "hoax", according to erstwhile Economic Planning Secretary and National Economic Development Authority (NEDA) Director General Solita Monsod, who resigned over what she termed "irreconcilable differences" with other government departments on economic policies.

The PAP, alternately called Multilateral Aid Initiative (MAI) and Mini-Marshall Plan, was initiated by the United States in 1988 as a program to infuse massive amounts of new and additional foreign aid into the Philippines to start off the Marcos-ravaged economy on the road to economic recovery. The total amount targetted is 10 billion US dollars over a period of five years. In a meeting presided over by the World Bank in Tokyo, from 4-5 July 1989, major donor countries pledged 3.5 billion dollars to the PAP for the first year of the plan.

## The PAP as Old Money

Monsod, however, claimed that of this amount, only 251 million dollars was additional "new money"; the rest had all been previously committed. Roberto Villanueva, then Chairman of the Coordinating Committee on the PAP (CCPAP) disputed Monsod's assertion, saying that the entire pledged amount was "new money". Filologo Pante, Jr., who took over Monsod's position before being

replaced eventually, confirmed Monsod's findings in a testimony before a Senate hearing, but gave a higher figure of 800 million dollars in "new money".

In other words, according to Monsod and Pante, even without the PAP, the Philippines would have received from 2.7 billion to 3.25 billion dollars anyway. Counting commitments made as far back as 1979 which have not been utilized, Pante testified that without the PAP, 4.1 billion dollars in ODA would have entered the country in 1990. [1]

The dispute over "old" or "new" money assumed significance because of the tremendous publicity that accompanied the launching of the assistance plan. As its original designation as a Mini-Marshall Plan implies, it recalls the American-funded rehabilitation of Western Europe after the Second World War. The original plan, as the Americans announced it, "was to take advantage of the worldwide support for the restoration of democracy in the country in order to raise new funds beyond the ODA either pledged or expected under existing programs". [2] The initiative, therefore, raised high hopes about its impact on the Philippine economic recovery program.

On the international plane, however, skepticism has generally accompanied announcements of major aid plans. At the Paris summit conference of leaders of industrialized nations in mid-July 1989, then Japanese Premier Sosuke Uno announced a 35 billion-dollar three-year aid program to help debt-

strapped developing nations. Officials of other industrial powers, however, were reported to have expressed uncertainty "about how much of the commitment really would be additional, new money that otherwise would not have been available". [3] This was because in a similar 30 billion-dollar program launched in 1987 by Japan, it was discovered that 12 billion dollars of the total amount was "old" money, i. e., funds which "Japan would have provided in any event".

### The "Evils" of ODA

The issue of "old" or "new" money, however, while important, obscures basic and probably more important concerns surrounding the practice of giving foreign aid. The granting of official development assistance (ODA) by industrialized countries to the Third World has always been a controversial issue. ODA is the term used by donor countries to refer to their disbursement of loans (bilateral or multilateral), grants, and technical assistance to recipient countries categorized as "less developed".

Japanese ODA to the Philippines, for example, is burdened with many "evils" and needs "improvements for it to be effective". [4] Then NEDA Deputy Director General Filologo Pante, Jr. revealed that Japan earns from 75 to 95 cents for every dollar of aid it gives. This takes the form of goods and services acquired from Japan in relation to aid projects. Apart from this, interest and principal payments increase considerably due to the very strong yen.

The flowback in funds occurs because grant assistance is "tied" to the procurement of goods and services from Japan. Japanese firms engage in active lobbying and are generally favored when choosing who is to conduct feasibility studies, or who is to provide consultancy, and engineering services. Further, according to Pante, this lobbying "could affect the Philippine government's decision in lining up its priorities and must, therefore, be neutralized". He also noted that the awarding of contracts to Japanese firms

has been marked by controversies which even drew the attention of the Japanese Diet.

At the time this statement was made, however, NEDA had already lost its standing as the premier economic planning body due to the rift between Monsod and the conservative bloc in government. Pante's comments above could only have widened the rift between NEDA and the government's other economic managers. Thus, NEDA's assessment of Japanese ODA was disregarded by President Aquino and the rest of the Cabinet.

Scholars on Philippine-Japan relations confirm NEDA's disclosures. In an interview with Aurora de Dios, a professor of International Relations, it was learned that a large portion of the so-called "untied" loan funds still end up in the hands of Japanese companies. Feasibility studies are conducted by Japanese consultants hired by the Japan International Cooperation Agency (JICA) and they either specify the use of Japanese goods and equipment or recommend Japanese industrial standards.

ODA, particularly Japanese aid, according to De Dios, cannot be separated from trade and investments or, for that matter, from "strategic considerations in foreign policy". As evidence, she pointed out that when the volume of aid increases, so do the trade figures. The bulk of Japanese project loans, which accounts for 85 percent of all loans, goes to infrastructure development which is seen as the prerequisite for investments. De Dios cited the Leyte Geothermal Power Plant which, after being funded by a 188 million-yen loan in 1980, later paved the way for the entry of the Philippine Associated Smelting and Refining Corporation (PASAR). The copper smelting plant has 32 percent direct Japanese equity while four of the nine Filipino copper firms involved as partners are actually Filipino-Japanese joint ventures. [5]

Japanese scholars themselves have arrived at similar findings. According to Professors Mamoru Tsuda and Masaki Yokoyama, "the bulk of Japanese commodity loans was spent in buying goods from Japan, despite the fact that said loans were supposed to be 'untied



aid". [6] From 1971 to 1984, an average of 90 percent of Japanese commodity loan funds were used to purchase Japanese goods. Tsuda and Yokoyama see this as "clearly indicating that Japanese companies were the biggest beneficiaries of these commodity loans".

Irregular practices are not the monopoly of the Japanese, however. Testifying before a Senate Ad Hoc Committee on PAP, Monsod revealed that sometime in 1988, US Embassy Charge d'Affaires Kenneth Quinn pressured her to award the contract for a foreign-funded project of the National Power Corporation to an American firm. [7] In this case, the contract had already been granted to a Japanese-French consortium. Monsod said that other governments have exerted similar pressures on NEDA.

Inevitably, the issue of corruption crops up particularly in reviewing Japanese loans during the Marcos years. During hearings conducted by the US House Subcommittee on Asia-Pacific Affairs and in subsequent media disclosures, it was revealed "that Japanese corporations had paid rebates to Marcos and his cronies, as well as to financial groups allied with the former President, in connection with Japanese yen loans to the Philippines". Total commissions (in reality, bribes) allegedly paid by five corporations initially named had amounted to 1.03 million dollars. [8]

### The Consultancy Game

The presence of foreign consultants in foreign-funded projects has recently caught the attention of the Philippine Senate. On 14 August 1989, its powerful Blue Ribbon Committee asked the Commission on Audit "to scrutinize all consultancy contracts by the government after it was found out that five agencies were paying superfluous and unnecessary fees to foreign consultants". [9] The committee also lamented that the charging of foreign consultancy fees for services, including those "well within Filipinos' expertise", is "a basic condition imposed on almost

all foreign assistance contracts, grants, aids, and loans".

It was further noted that of the 59 consultants in five government agencies who submitted reports, only five were Filipinos. The Department of Transportation and Communication (DOTC) had 35 foreign consultants, 32 of them Japanese, including one described as a "motor vehicle inspector". The Philippine Ports Authority (PPA) had 15 consultants; eight were Japanese and four were Americans. The Economic Support Fund Secretariat (ESFS) had two American consultants.

Discrimination against Filipino consultants is practiced in determining salary scales. As of 1989, the highest paid Filipino consultant received 17,200 pesos (780 dollars) a month, while the American economic consultant at the Sugar Regulatory Board got 368,050 pesos (16,730 dollars) a month. Salaries for PPA consultants ranged from a high of 337,260 pesos (15,330 dollars) for the Japanese port manager to a "low" of 229,950 pesos (10,452 dollars) a month. Three Canadian consultants at the DOTC received 238,000 pesos (10,818 dollars) a month, while the Japanese "motor vehicle inspector" got 65,000 pesos (3,000 dollars). The Australian consultant at the National Housing Authority (NHA) received 251,672 pesos (11,440 dollars) while the two Americans at the ESFS got 113,662 pesos (5,116 dollars) and 212,240 pesos (5,510 dollars).

The Senate Committee recommended that Congress pass a law to "limit, control, and minimize" foreign consultancy contracts, establish a ceiling on consultancy fees, and protect Filipino consultants. Committee Chairman Senator Teofisto Guingona said that guidelines set by NEDA on consultancies are not being followed. The guidelines stipulate that (1) foreign consultancy contracts may be entered into only if the government agency concerned does not have the "expertise and sophistication" to conduct the project; (2) consultancies be offered first to Filipinos and be awarded to foreigners only if no Filipino is available for the job; and, (3)

salary rates of Filipino consultants be kept at par with those of their foreign counterparts.

### Japan's Central Role

Japan's role in the MAI for the Philippines is paramount as it is the biggest donor. Of the 3.5 billion dollars pledged in Tokyo, Japan alone accounted for 1.6 billion dollars, or 45.7 percent of the total. Six hundred million dollars of this amount, however, was reportedly merely the World Bank's "approximation of the amount Manila may get in Japanese funding ... in a world-wide debt-reduction scheme being worked out by the IMF and the World Bank". [10]

Japan, of course, has been the Philippines' largest ODA donor for many years now counting both bilateral and multilateral aid. Since Aquino came to power and up to 1989, Japan has committed a total of 3.07 billion dollars of ODA to the Philippines. This is

equivalent to 57.4 percent of total bilateral aid to the country and 36.6 percent of both bilateral and multilateral aid. Far behind are the United States with 1.25 billion dollars (23.4 percent of bilateral aid) and the World Bank itself with 1.7 billion dollars (19.9 percent of both types of aid).

Japan's ODA has targetted member-countries of the Association of Southeast Asian Nations (ASEAN) as primary recipients. [11] From 1982 to 1985, the region received 12 billion yen in ODA loans, or 40 percent of total Japanese loans of 29 billion yen for the period. [12]

Why has Japan assumed the leading role in the granting of foreign aid to countries like the Philippines? To understand this phenomenon, one must start by examining the overall strategy of the United States for maintaining a security blanket based on political, military, and economic control over the eastern Pacific region. The countries

Table 1. ODA Commitments to the Philippines, 1986-1989  
(in million US dollars)

Donor	1986	1987	1988	1989
Japan	331.1	875.6	809.5	1050.4
US	243.0	378.3	292.6	337.4
West Germany	9.8	114.1	39.0	
Italy	-----	270.0	-----	>
France	-----	-----	43.5	>
Spain	-----	15.2	75.0	
Belgium	-----	8.5	-----	
Switzerland	-----	-----	40.0	-----
Canada	82.7	-----	-----	n. a.
Denmark	-----	-----	14.5	-----
Singapore	-----	5.0	-----	-----
Bilateral	666.6	1666.7	1314.1	1697.8
UNDP	5.0	8.7	6.8	9.7
ADB	351.7	205.7	287.2	500.0
WB	179.0	505.0	355.0	630.0
Multilateral	535.7	719.3	649.0	1139.7
TOTAL	1202.3	2386.0	1953.0	2837.5

Source: National Economic Development Authority as cited in the *Far Eastern Economic Review*.



here form what had been known in Cold War parlance as "the forward defense line against Communism". Central to this strategy had been the maintenance of US military bases in the Philippines and Japan.

### The American Decline

Since the late seventies, however, the US, saddled by huge budget and trade deficits and steadily losing its position as the world's number one economic power, has been finding it increasingly difficult to perform international police work and economic patronage all by itself. Observing the rise of Japan as a rival and later a more superior economic power, the US thought of asking the Asian power to share the burden of maintaining its security apparatus in East and Southeast Asia. Thus was born the strategy of "burden sharing".

The US-Japan partnership has resulted in a division of labor where the former takes care of regional military security, diplomacy, and other political matters, while the latter complements these with its economic activities. The political and economic factors interact with and support each other. De Dios says that because Japan did not have to spend as much as the US for military protection and depended on the American security umbrella, it was able to concentrate on its own economic development.

Foreign aid is the carrot dangled before countries like the Philippines to allow their use as part of the American security umbrella in the Pacific. With the weakening of the US economy, the Americans' most reliable ally, Japan, has taken over the role of principal aid giver, for which Japan is well-equipped. In 1986 alone, the country registered an 86 billion-dollar current account surplus. Taking over the aid burden is also one way by which Japan can placate growing resentment within official and public circles in the US over the gargantuan trade surplus the former enjoys vis-a-vis the latter.

If the PAP does not depart from the traditional practice of foreign aid and only intro-

duces administrative mechanisms that have been criticized as adding another layer to an already over-bureaucratized governmental apparatus, then it would seem that the US, as the program's godfather, has nothing to gain economically from the exercise. The answer to this puzzle can be found by investigating the non-economic issues implicit in the multilateral initiative.

### The US Bases and the American Agenda

Speculations have been circulated about the motive of the US in arranging for the Mini-Marshall Plan with attention centering on the two giant US military installations in the Philippines. The Philippines-US military bases agreement is due to expire in 1991 and intense debates on whether to retain or evict the bases are going on in all sectors.

The new Philippine Constitution, ratified under the Aquino administration, expressly prohibits the installation and storage of nuclear weapons in Philippine territory. Despite official silence, independent observers have verified the storage of nuclear weapons in the bases, which often host nuclear weapon-carrying aircraft and ships. [13]

Official pronouncements of both the Philippine and US governments disclaimed any connection between the military bases and the PAP. The US Ambassador to the Philippines denied any link between the two. Mrs. Aquino herself publicly issued a similar denial. Such disavowals, however, ring hollow in the light of statements made by US officials which point to a close association between the continued stay of the bases and the success of the multilateral initiative.

One of the authors of the Mini-Marshall Plan, Senator Richard Lugar, wrote in the *Washington Post* last April 1989 that:

Although it stands on its own, the MAI has security implications for the United States. Last October, we signed a two-year base review agreement providing for short-term stability in security ties and additional resources to the Philippines. Progress on the MAI will build on this agreement. Improved economic performance in 1989-91 will create a promising atmos-



phere for discussions on the future of security relations. [14]

Other legislators state the connection just as clearly, albeit underhandedly. A paper prepared by the House Subcommittee on Asian and Pacific Affairs entitled, "A Report on the Philippines at the Mark-Up on 18 April 1989" states that:

.. although the MAI is not directly linked to the forthcoming bases renegotiation that is expected to begin later this year, the successful implementation of the Plan would certainly be extremely helpful in terms of creating a favorable climate in the Philippines for the renewal of the bases agreement.

The PAP was also seen as a way of removing an irritant in the bases renegotiation, i. e., the issue of compensation for the use of the facilities. Thus, the inflows to MAI (then estimated at two billion dollars a year) were calculated "to remove the compensation issue from its current status as the primary issue in the bases negotiation". An added bonus to the US will be in the arena of burden-sharing. Through the MAI, the US "will have leveraged a relatively small US contribution of 200 million dollars annually into two billion dollars worth of multilateral assistance for the Philippines in each of the next five years".

Finally, the relation between MAI and the bases is explained in a rather candid manner by retired US Ambassador David Newsom:

If I were an official going up before the congressional committee to get a large sum of money for the Philippines, just after the Philippines might have thrown us out of Clark Field, I'd have a much harder time than if we were still in Clark Field. [15]

American interest in the multilateral assistance plan does seem out of proportion to the US' financial contribution to it. Testifying at a Philippine Senate hearing of the Ad Hoc Committee on the PAP, Monsod accused the US of interference in the program by providing 25 million dollars to support the PAP Council secretariat. The Asian Institute of Management (AIM), training ground of

business executives, was also granted 99 thousand dollars by the US Agency for International Development (USAID) for "specialized short-term assistance" to the PAP council. [16] Monsod said that this foreign interference in "the drawing up and implementation of PAP projects would complement the kind of strategic control the World Bank has gained in terms of dealing with our foreign creditors".

### Conditionalities Attached to the PAP

The PAP, however, is not a free meal ticket, as the US House Subcommittee April 1989 Report took pains to emphasize. It is seen as a "quid pro quo" and contingent on the Aquino administration enacting "necessary economic and administrative reforms". One specific reform recommended for "priority action" is "the removal of constraints on the debt-equity swap program". Under this setup, portions of the foreign debt are transformed into equity in Filipino corporations, a process that will enhance foreign participation in and control over the local economy. The constraints mentioned could possibly refer, among others, to limits set at 40 percent by the Constitution on the amount of equity foreigners may hold in a Philippine corporation. Pressure has already been exerted by transnational corporations on the Aquino government to amend the Constitution on this matter.

While it is technically true that no conditionalities were mentioned during the Tokyo pledging session, "it would be dishonest to claim that the PAP money has no conditionalities attached to it". [17] According to economist Fermin Adriano, the document, "The Philippine Aid for Sustained Growth and Development", contains "self-imposed conditionalities" which are "the same guidelines contained in the Memorandum of Economic Policy (MEP) contained in the Letter of Intent (LOI)" submitted to the International Monetary Fund in April 1989. The MEP commits the Philippines to a tight austerity program that will result in reduced

public expenditures for basic services like health and education, impose new taxes and raise existing ones, devalue the peso, and prejudice domestic industries by further liberalizing imports.

According further to Adriano, the MEP gives priority to debt servicing "even at the expense of our people's welfare". It also replaces NEDA's medium-term plan as the country's blueprint for economic develop-

the private sector through import liberalization, export growth and diversification, privatization of government enterprises, and the development of infrastructure needed by the sector. [18]

The MAI bill also slashed the proposed 200 million-dollar fund by 40 million dollars to show the House's concern over the low availment of loans already committed to the Philippines. Thus, an additional condition



Azon Gate

Front view of the new OPD-PGH

ment. Cutbacks on government deficits will mean withdrawal of subsidies for basic goods such as electricity, water, and irrigation; and cutbacks in welfare services like health, education, and social welfare. This explains government's inability to grant salary hikes demanded by public school teachers and other government workers.

When the MAI bill was passed by the US House of Representatives on 21 July 1989, a host of conditions was attached to the granting of assistance to the Philippines. In addition to those earlier imposed by the Solarz subcommittee concerning administrative and economic reforms, structural and judicial changes were also demanded. A strong pitch was made for extending massive support for

would be the ability of the Aquino government to fully utilize all of its ODA commitments. This could be difficult to achieve considering that, according to NEDA, the loan availment status of foreign assisted projects stood at only 77 percent as of September 1988. The backlog in unutilized loan funds was 751 million dollars which increased to 779.1 million dollars by March 1989.

### Backlog in the Aid Pipeline

Foreign aid donors, however, estimated the backlog at closer to two billion dollars. [19] Government figures were said to be misleading as they "count only the amount that should have already been disbursed, not the



total amount pledged by the donors for the next few years". The inability of the Philippine government to utilize large loan amounts already committed is a major issue, as the American slashing of its pledge indicates. The problem, it is said, lies with "the preparation and implementation of the projects, record keeping, and provision of matching funds". [20] Philippine officials were described as "fighting a cultural attitude known as *ningas cogon*, which literally means a sudden brush fire that quickly burns itself out". In other words, "projects are often announced with great fanfare, but soon stall for lack of follow through". [21]

### Oversights in ODA

While foreign observers are quick to fault Filipinos for the low availment of funds and cite factors such as perceived cultural traits, part of the blame also lies with donor countries for not considering the cultural factor. The new 20 million-dollar ultramodern Out-Patient Department of the Philippine General Hospital (OPD-PGH), for example, has given Filipino patients what one writer called a "culture shock". [22]

Further, provisions for other essential equipment and training are lacking. The OPD-PGH, for example, contains state-of-the-art equipment including a 600,000-dollar CT Scan unit, but lacks a host of other basic equipment. Because of this, the operating rooms were not fully functional months after the OPD was formally opened. Total additional equipment cost for the OPD-PGH may reach one million pesos. Since the new facility is meant to double the number of patients it services, an additional 137 new personnel are needed at a cost of three million pesos a year. In addition, the maintenance cost of the OPD is estimated at 10 million pesos a year. At present, the PGH, which is the University of the Philippines' (UP) medical training center, already eats up 75 percent of the budget of the University's Manila campus. The additional expense will mean an even tighter budget for UP. There is also a lack

of trained technical personnel to handle the hospital's modern equipment.

### The NEDA-JICA Meetings

In April 1989, NEDA and JICA representatives discussed "problematic Japanese-assisted projects", the results of which showed that both the Japanese and Philippine governments shared responsibility for the problems encountered. Seven projects were chosen by JICA as focus of the discussions. [23]

1. *The Crocodile Farming Institute* in Palawan was perceived to be operating below its capacity due to delays in the release of local counterpart funds, difficulties in the release of JICA funds due to the absence of a full-time disbursing officer, difficulties in the release of donated equipment pending payment of customs duties and other taxes, and "the lack of exposure of some JICA experts on crocodile farming".

2. *The RP-Japan Offshore Mineral Exploration Project's* data gathering suffered from a lack of spare parts for its electronic equipment. Additional JICA grants to cover this lack have been proposed.

3. *The Occupational Safety and Training Center* has difficulties in recruiting trained personnel due to the low salary scale approved by the Department of Budget and Management. The transfer of technology from Japanese experts has not taken place and coupled with the lack of personnel, is delaying the operationalization of the Center several months after the completion of its construction. The huge complex is now being derisively referred to as a "white elephant".

4. *The National Maritime Polytechnic (NMP)* in Leyte already has its infrastructure and equipment in place, but it is "unable to meet its targetted number of teaching and non-teaching personnel and trainees". Only 47 out of the 62 regular personnel items have been filled up due to what is perceived as the school's "high standards of qualification" and the low salaries offered. Prospective student-trainees stay away because of the longer period of training required compared to other



maritime schools in other parts of the country.

(Further, along with other Japanese-funded projects in Leyte, the NMP was a pet project of Imelda Marcos to boost the image of her home province. The Japanese government had no choice but to give in to her wishes. Leyte is a sleepy and isolated province in the Eastern part of the Visayan islands and is not attractive enough to prospective trainees who would prefer the excitement of metropolitan centers such as Metro Manila, Cebu, and Davao.)

5. *The Fishery Training and Research Vessel* of the UP College of Fisheries in Iloilo province has been inoperative due to UP's inability to finance the full rehabilitation and upgrading of the vessel. Lack of funds has also reduced its operating and maintenance budget. The NEDA-JICA meeting suggested that a proposal for additional funds be drawn up for this purpose. In desperation, it was also suggested that once fully operational, the vessel can engage in commercial fishing or be leased to private fishing companies!

6. *The Baguio Sewerage Treatment Plant* has been unable to function at full capacity due to operational problems; at the same time, collection fees of the city government are too low to generate operating expense funds.

7. *The National Cancer Control Center* at the Jose Reyes Memorial Medical Hospital cannot function effectively due to the delay in housing and installing Japanese-donated equipment. Further, maintenance and repair of the equipment, and for the training of personnel to run them have not been provided for.

What underscores the plight of these "problematic" projects is the chronic inability of the Philippine government to provide its counterpart contribution to the projects on schedule. This may be aggravated given the provisions of the LOI-MEP on reducing expenditures. Questions have been raised regarding the source of government's counterpart funds for the PAP of 20 billion pesos for 1989. [24] Villanueva's answer was to announce that President Aquino would file

with Congress a supplemental budget request for 12 to 15 billion pesos to raise the required counterpart funding. [25] On the other hand, the 1990 government budget of 233 billion pesos submitted by Aquino to Congress on 26 July was only 2.7 percent nominally higher than the 1989 budget. In real terms, however (i.e., adjusting for inflation), it represents a decrease of 4.1 percent. The fact that the loans to be secured as part of the PAP will only increase the country's debt service payments will further constrict budgetary allocations for counterpart funds.

It has also been noted that the proposed 1990 budget's "significant aspect is that it reverses the three-year trend when the government depended more on internally generated funds than foreign financing, as shown by the increase in external borrowings to 6.5 billion pesos next year from zero level this year". [26] As expected, debt servicing eats up the biggest portion of the budgetary pie - 37 percent - compared to 22.5 percent for social services and 21.37 percent for economic services.

Another conclusion that can be deduced from the implementation of the Japanese-funded projects is the apparent inadequacy of the feasibility and other preliminary surveys conducted prior to the signing of the aid agreement. Undue haste seems to have governed approval of projects, purchase of equipment from Japanese companies, and disbursement of funds without determining first whether the Philippine government body involved was ready to receive the equipment and other goods donated. On this point, the Japanese government could be faulted for approving ill-conceived and poorly-planned projects.

### A Broader View

The need to look into Japan's industrial strategy as a way of understanding the interconnections between the PAP, Japan's role as ODA donor, and Japanese trade and investments has been repeatedly stressed. [27] In a meeting with Philippine Foreign Secretary



Raul Manglapus in August 1988 on the PAP, Minoru Kubota, Deputy Director General of the Economic Cooperation Bureau of Japan's Foreign Ministry, was quoted to have said that "through the PAP, Japan would contribute to Philippine efforts of creating a climate conducive to increased foreign investments and economic activities of the private sector in the Philippines".

Japan's industrial strategy has been characterized by a relocation of manufacturing facilities of a labor- and energy-intensive nature to other countries. Several factors contribute to the growing importance of manufactures among Japan's import shopping list: a sharp rise in production costs since 1986 due to the higher value of the yen, pressure on Japan from the US, Europe, and Asian countries to reduce huge trade surpluses, improved quality of Southeast Asian goods, and changing consumer tastes in Japan as foreign products become more acceptable. [28] The logical consequence is that,

(T)o take advantage of lower labor costs and more favorable exchange rates in other countries, Japanese companies cut down production in Japan and increase their investments in Southeast Asia from where they import basic components and parts, or complete products. [29]

Countries like the Philippines have been made "export platforms or springboards for penetration of world export markets such as the European Economic Community or the US". Recently, Japan itself has been the target market of these relocated industries. Thus, the volume of manufactured exports from ASEAN countries to Japan has increased greatly, produced mainly by Japanese subsidiary companies or joint ventures with local business groups.

A study published in 1983 by the Japan External Trade Organization (JETRO) expounded on the concept of a "horizontal division of labor" in Asia: [30]

The increase in the industrial production capacity in the last 10 years or so in the newly industrializing countries in Asia (South Korea, Taiwan, Hong Kong, and Singapore) and four ASEAN countries (Thailand, Indonesia, Malaysia,

and the Philippines) is remarkable. Due to this development, the division of labor between Japan and these countries is changing from a vertical one (raw material vs. industrial products) to a horizontal one (industrial products vs. industrial products), creating an environment for mutually stimulating further industrialization.

Of Japan's total 1988 imports of 47.8 billion dollars from South Korea, Taiwan, Hong Kong and ASEAN countries, manufactured goods such as electronic components, motor vehicle parts, air-conditioners, bearings, chemicals, food and beverages, garments, jewelry, furniture, plywood, glass, steel products, and business machinery made up 48 percent (worth 23 billion dollars). [31]

Tsuda and Yokoyama, however, cautioned against entertaining illusions about the type of industrialization that is being fostered by the new relationship between Japan and the rest of Asia. While admitting that "the old pattern of importing industrial goods and exporting raw materials has to some extent already been replaced by the import and export of industrial products among Asian countries", they maintained that a clear look into "the contents of these industrial products" will show that "most of them are not really manufactured totally in these countries". [32]

For example, semiconductors and garments are produced in these countries on a sub-contractual or consignment basis, while ore and timber are only processed up to the intermediate goods level.

In fact, the JETRO study conceded that the new economic relationship between Japan and the rest of Asia is far from equal. The report acknowledged that the division of labor between Japan and Asian NICs or ASEAN countries "cannot be literally described as horizontal in its true sense". Two tendencies were described by the study:

One is that Japan is specializing on the export of capital-intensive goods while other Asian countries are specializing on the export of labor-intensive goods. The other tendency is that Japan is specializing on the export of high technology goods, while the other Asian countries are specializing on the export of lower technology goods.



The phenomenon of international subcontracting has, thus, dawned upon the international economic order. To further increase the attractiveness of this strategy, the development of more export processing zones and industrial estates and the expansion of existing ones loom high on the agenda of projects for possible funding under the PAP, not to mention more infrastructure development. Since it is extremely difficult for a non-Japanese company to penetrate the Japanese market, however, "most of Japan's manufactured imports from Southeast Asia are from subsidiaries of Japanese companies in the region or from joint ventures established with local corporations". In this context, according to Prof. Magallona,

...manufacturing sectors of the Philippine economy which are dominated by Japanese capital and technology are virtually extensions of Japan's industrial system. Thus, when the Japanese government applies public funds to Philippine infrastructure projects through its foreign assistance program, this is not much different from utilizing capital outlay in Japan's budget for the development of a segment of the Japanese economy.

According to Magallona, however, Japan's industrial strategy of relocating industries is already in place and that, while the PAP may facilitate its implementation, the Mini-Marshall Plan is not essential to the success of the economic blueprint. He argues that it is the US that will primarily benefit in terms of goodwill gained with the Aquino government as the initiator of the assistance plan, which could be translated into eventual approval of the continued stay of the US bases in the Philippines beyond 1991.

PAP or no PAP, Japan does need to expand considerably its foreign aid exposure in the Philippines in order to lay the infrastructure that would correct the recurring pattern of Philippine-Japan trade which has not yet departed completely from traditional practices. Philippine exports to Japan still include fresh bananas, shrimps, and prawns in significant quantities. Until a glut hit the Japanese market in 1989, a strong program for expand-

ing prawn exports was taking place. As a proportion of total exports to Japan, manufactured goods from the Philippines comprised only 27 percent in 1988. Given this present arrangement, Japan would certainly have some use for the multilateral aid approach in order to speed up the fulfillment of its regional industrial strategy in relation to the Philippines.

### Corporate Takeover of Government

The appointment of Roberto Villanueva as the Manila ODA czar was appropriate for the implementation of Japan's industrial strategy. As a shrewd businessman, Villanueva appreciated thoroughly the connection between foreign investments and ODA. Last April 1989, in his capacity as CCPAP chairman (although he has since resigned due to health problems, -Ed.), he organized a dialogue between a visiting delegation of the Japan Federation of Economic Organizations (Keidanren) and the Philippine business community on proposals "to promote investments in export industries and expand Japan's imports of Philippine products". [33]

Another recruit to the Aquino Cabinet who has the support of the business community is Monsod's successor as Economic Planning Secretary, Jesus P. Estanislao, also Villanueva's successor as Chairman of CCPAP. Previous to his appointment, he held various positions in the private sector. Estanislao's entry into the select circle of top government economic planners completed the takeover by big corporate magnates and entrepreneurs of government economic planning and management and the dislodging of visionary and idealistic economists and academicians.

Estanislao lost no time in articulating his fidelity to the views of fellow businessmen in government. Three days after his appointment was announced, he declared his agreement with then Central Bank Governor Fernandez on monetary policy, particularly the policy of high interest rates. [34]



In a position paper entitled "Life After Monod", a group of faculty members of the College of Development Economics and Management in UP Los Banos lamented that "big business interests are once more regaining the upper hand in charting our economic policies". The group criticized the new economic managers' "narrow orientation based on the premise that what is good for business is good for the economy" - an attitude which the UP faculty traced to training acquired in the business schools of Wharton and Harvard. They decried the departure from government of "professional economists who, by their very training, must equate aggregate economic welfare with the good of the greatest number". [35]

In examining the documents of the PAP and the MEP-LOI, the UP group noted that the Aquino government "intends to merely adjust monetary and fiscal policies without reforming our age-old economic and political structures". Among the structures which, according to them, "beg for immediate reforms" are:

.. the skewed land ownership system, heavily protected local industries, an over-centralized government machinery, and those structures which prevent the disadvantaged groups in our society from having equal access to and control of productive resources such as credit, education, communication facilities, energy, and marketing infrastructure.

### The Alternative

With or without the MAI, the Philippines does not seem to be in a better position to decide its own economic future for the benefit of its own people. It is safe to conclude that for many more years to come, there will be no substantial and meaningful change in the nature, strategy, and implementation of official development assistance. The result will be the aggravation of the foreign debt problem, the concentration of benefits in the hands of the business sector and the upper middle class, the further deprivation and marginalization of the poor and the powerless, and the exacerbation of land and income disparities.

To achieve its avowed goals of benefitting the poorest of the poor, ODA must ideally be redirected to projects that will create the conditions for self-generating and self-propelled development dependent mainly on local resources and tapping Filipino expertise. In order to benefit the host population, ODA must make itself eventually unnecessary.

How can foreign assistance be made compatible with the goals of a self-reliant and self-sustaining society? To start with, infrastructure development must concentrate on affordable and small-scale to medium-scale projects that will not strain the financial capabilities of government and the people or destroy the environment. Industrial development must be weaned away from overconcentration on the export market and made to focus on domestic needs. Development of the long-neglected agricultural sector must receive priority and rural development fostered through the creation of self-sufficient agro-industrial communities.

As economic planning and the implementation of projects have long been the prerogative of the elite, especially the business sector and technocrats, which has resulted in the continued impoverishment of the Filipino people, it is now time to ensure the central participation of the people, through their popular organizations, in decision-making. Non-governmental development-oriented organizations (NGOs) can initially act as go-betweens that will ensure that people's organizations are in a position to determine the conduct of their lives.

The ultimate aim is to bring about a truly independent, sovereign, and economically progressive Philippines that participates in the global economy on its own terms and on an equal footing with other nations.

If donor countries are able to appreciate this vision of an alternative economic order, then development assistance will necessarily be a transitory activity that will gradually lose its present status as a source of mendicancy and a tool for the subversion of national integrity and sovereignty. After all, irrespective of its results, dependence on foreign assistance is



ultimately anathema to a nation's dignity and development.

It is, of course, wishful thinking to expect major ODA givers like the US and Japan, who have long been used to promoting their national interests in the guise of "development aid" and "mutual security treaties" to suddenly turn around and stand their present strategy on its head. Their governments are necessarily beholden to their respective business sectors - the mighty Japanese *sogo-shoshas* and the omnipotent American transnational corporations.

Given this, the only hope lies in people-to-

people exchanges and international solidarity networking to exert pressure on governments to heed the demands of the greater number of peoples for a more humane and just national and global order. In many regions all over the world, this is already happening. Existing efforts are, however, inadequate to achieve these goals and will always be wanting without the attainment of genuine people's power. Thus, popular organizations must necessarily wage liberative struggles in order to attain this power and enable the people they represent to make the decisions that will direct the course of their lives.

## Notes

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