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Japan is a resource-poor country. However, after nearly five decades of rapid economic expansion since 1945, the country is now a world economic superpower. The Japanese economic success story has been admired by economists and economic planners. Its economic miracle can be attributed to several economic and political factors. Japan has very high rates of savings and investment, a disciplined and hardworking labor force, advanced technology, a stable government, supportive and consistent economic policies, high productivity and low unit production cost.

The Japanese economy is the second largest in the world, next only to the United States. Its total GDP was estimated at $3,671 billion in 1992, or 15.9 percent of the total world output. The per capita GNP was $28,190 in the same year, the second highest in the world next only to Switzerland. The country has become the third largest trading nation in the world. Its total foreign trade reached $604 billion in 1993, lower only than that of the United States and Germany. Japan started its direct foreign investment in 1951 and is the world's largest investing country with a cumulative total foreign direct investment of $387 billion for 71,541 cases during the period 1951–92. Japan's foreign aid is not only large, it is also increasing rapidly. For the past ten years, the amount of Japan's official development assistance (ODA) has more than tripled. Japan took over the position of the world's largest donor nation from the United States in 1989. In 1991, Japan extended about $16 billion of ODA to the developing countries of the world on a commitment basis, as compared with about $11 billion provided by the United States in the same year.

Affected by the unfavorable international economic environment, Japan experienced an economic recession which started in mid-1991. Real GDP growth rate declined from 3.6 percent in 1991 to 0.4 percent in 1992, and zero percent growth in 1993. However, economic indicators suggest that the Japanese economy is now in the process of gradual and steady recovery. Several factors have contributed to economic recovery. Personal consumption has been picking up, supported by the tax cut of six trillion yen (equivalent to US$ 60 billion). For example, the sales of automobiles and household electronic products have increased recently. Industrial production has increased along with the completion of inventory adjustment. The short-term business survey of the Bank of Japan released in September 1994 showed that business confidence among consumers and investors has improved significantly. Real GDP growth is projected to grow by 0.9 percent in 1994 and 2.5 percent in 1995.

On the other hand, the rapid appreciation of the yen since 1993 has had an adverse effect on economic activities. The appreciation of the yen made Japanese goods more expensive and less competitive in terms of price, but increased their dollar value. In early November 1994, the exchange rate of the Japanese yen appreciated to US$ 1 = Y 96. The exchange market showed fairly nervous movements not reflecting economic fundamentals. Exchange rate stability is very important for the sustainable recovery of the Japanese economy.

The worldwide economic recovery in the industrial countries, particularly the US, as well as high growth in Asian economies, are expected to boost Japanese exports. Total exports increased from $340 billion in 1992 to $362 billion in 1993, an increase of 6.6 percent. Export volume is projected to decrease in 1994. Export prices declined on a yen basis, yet rose on a dollar basis, partly due to yen appreciation. Reflecting these movements, total exports will decrease on a yen basis, while continuing to increase on a dollar basis. Total imports rose from $233 billion to $242 billion, or an increase of 3.6 percent during the same period. Import volume, particularly manufactured goods, is projected to increase in 1994. As import prices decline both on a yen and a dollar basis, nominal imports will decrease on a yen basis while increasing on a dollar basis. Due to the faster increase in exports than imports, trade surplus rose to a record high of $121 billion in 1993, compared with $107 billion in 1992. Trade surplus is projected to fall in 1994 because of Japanese yen appreciation and the projected increase in imports, following the expansion of public spending and income tax cuts.

Philippine Trade With Japan

Trade between the Philippines and Japan has been expanding in recent years largely due to the expansion of Philippines' import demand and the increase of Japanese investment in the Philippines. The total exports and imports between the two countries increased from \$1.6 billion in 1985 to \$ 5.8 billion in 1993, an annual increase of about 17.4 percent. The 1993 figure accounted for about one-fifth of the Philippines' total trade. Japan has become the Philippines' second largest trading partner, next to the United States, with which 27 percent of Philippines' total trade is conducted. However, it is worth noting that the Philippines has continuously experienced a trade deficit with Japan in the past decade except for 1984 and 1985.

Japan is the second biggest market for Philippine products. The total exports from the Philippines to Japan increased from \$875 million in 1985 to \$1,801 million in 1993, an average annual increase of 9.5 percent. During the first half of 1994, total exports from the Philippines to Japan were estimated at \$932 million. Principal products included fish and fish preparation, fruits, copper ore, electrical parts, etc. The Philippines was the number one source among all other countries in the world for the following export products to Japan: fresh pineapples, fresh mangoes, coconut oil, fresh bananas, and gas fueled pocket lighters; and the number two source for cassette tape players, edible fruits, insulated electric wire, and radios with players for motor vehicles. While traditional export products such as shrimps, copper concentrates and bananas remain major export items to Japan, nowadays manufactured goods such as semiconductors, garments, electronics and components, and wiring sets are rapidly increasing their importance among Philippine exports to Japan. It is believed that the rapid increase in semiconductors and electronics exports to Japan is mainly attributable to the so-called "reverse imports," that is exports to Japan by Japanese companies in the Philippines.

Japan has been the largest source of imports into the Philippines. Imports from Japan are closely linked with Philippine manufacturing activities which are aimed at producing goods for export to the industrial countries and for consumption by the domestic market. Imports from Japan increased from \$735 million in 1985 to \$4,035 million in 1993, an average annual increase of 23.7 percent. Philippine imports from Japan were estimated at \$2,523 million during the first six months of 1994. The principal imported goods from Japan included capital equipment, raw materials, and accessories for the manufacture of products including machinery, power generating machinery, electric machinery, transport equipment, textile fiber, textile yarns, chemical elements and compounds, plastics, and iron and steel. It is important to recognize that the Philippines is in the process of industrialization. There is thus a great need to import intermediate and capital goods from Japan. Under these circumstances, it is natural for the Philippines to have a trade deficit with Japan.

In view of the low elasticity of Philippine import demand for Japanese products and the continuing appreciation of the yen, the Philippines is likely to continue to experience increasing imports and suffer from a trade deficit in the coming years. The policy of import liberalization of the Ramos Administration will further exacerbate the situation. To reduce the trade deficit with Japan to a more manageable level, the Philippines must work hard to expand and diversify its nontraditional exports including outer garments, furniture and fixtures and electronics. In response to the request of the Philippine Government, Japan has already taken several measures to increase imports from the Philippines. In 1987, Japan implemented a more flexible ceiling on the Generalized System of Preference (GSP) and in 1988 made the special expansion of GSP. In 1989, following the midterm review of the Uruguay Round Negotiation of GATT, Japan reduced tariffs on tropical products. The Philippines is expected to benefit further from the recently concluded GATT Uruguay Round Agreement, which will reduce the tariff of Japan in a number of areas which include products imported from the Philippines.

Japanese Investments in the Philippines

Prior to 1987 Japanese investment in the Philippines was insignificant partly because of political instability. However, Japanese investment in the Philippines increased drastically from 1988 and onward, the most important reason for the increase being the drastic appreciation of the yen. The higher value of the yen made many Japanese products less competitive in international markets. Many Japanese companies, especially manufacturing firms were obliged to set up production plants in low-cost Asian developing countries to increase their international competitiveness.

Wage rate increase was another important reason for outward investment by Japan. A shortage of labor supply had led to an increase in the labor cost. Producers moved their plants to neighboring Asian countries with abundant labor supply to reduce production costs. In addition, the sharp increase in land prices and strict environmental requirements forced new investors to go abroad to undertake new investment projects.

According to Philippine statistics, Japanese direct investments in the country during the period 1985-93 amounted to more than $1 billion, accounting for 24 percent of the total foreign direct investments. Japan was the biggest investor in the Philippines, compared with $690 million from the United States during the same period. Japanese investment in the Philippines was mainly in the manufacturing sector, focusing on machinery and appliances, transport equipment, chemical and chemical products, metal and metal products, and food processing. Lately, investments in hotel and banking were also included.

The benefits of Japanese investments in the Philippines include a package of capital input, technology transfer, market access and an increase in employment which should stimulate economic structural change. The effects of this must be considered. Firstly, Japanese investments provide additional capital, most important to the Philippines which has continued to register a large resource gap over the past years. Although Japanese investments have not been a major contributor to the external financing needs of the Philippines in the past, it is preferable to other types of external funds such as official capital and commercial bank loans. Most of the Japanese investments are invested in the manufacturing industries which enjoy a potential comparative advantage. Moreover, foreign direct investment does not constitute external debt. Repayment is required only if the productive activity is profit-making. There is a close match between the maturing schedules of earnings and repayment.

Secondly, Japanese investments often bring with them advanced technology and modern managerial skills, especially, the investments in parts manufacturing that transform the level of production from simple assembly of products into the production into manufactured goods, thus raising the local content of the product and promoting a division of labor. The increased trading of parts and finished products strengthens the linkages between the economies of the Philippines and Japan.

Thirdly, a number of projects invested in by Japanese companies have contributed to employment generation and export expansion. As mentioned earlier, investment from Japan has been dominated by machinery, transport equipment, chemical products, metal products and food processing. The production of these products is labor-intensive and their employment-creation effect is substantial. Since they are produced not only for the domestic market but also for export, investors have come to the Philippines with market information and channels, trademarks and goodwill, and specialists in product design. Japanese investments have thus led to an increase in Philippine manufactured exports to Japan and other industrial countries in recent years.

Japan's Official Development Assistance to the Philippines

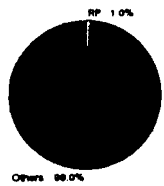
In June 1992, the Japanese Government adopted its Official Development Assistance Charter, which articulates major principles and guidelines concerning Japan's ODA policy. According to the ODA Charter, Japan provides aid to support the self-help efforts of the developing countries seeking economic growth, based on a philosophy of humanitarian considerations, recognition of the interdependence of the international community and environmental conservation. In addition, the ODA Charter stresses the primacy of freedom, democracy, and world peace.

The Philippines has been the biggest recipient of Japanese ODA on a per capita basis for the past ten years because the Japanese Government believes that the development of the Philippines could make a significant contribution to the peace and prosperity of the Asia-Pacific region. Latest available figures indicate that Japan contributed more than half of the total ODA received by the Philippines in 1991, with the United States ranking second (accounting for 22 percent). Japan's ODA to the Philippines increased from $459 million in 1991 to $1,030 million in 1992, an increase of 125 percent. The Japanese Government provided P29 billion (equivalent to US$ 1.16 billion at exchange rate of US$ 1 = P25) in ODA for thirteen infrastructure and industrial development projects in 1993. At the top of the list is P13.23 billion for the Light Railway Transit line for Metro Manila. It may be noted that Japan in 1989 hosted a consultative group meeting for the launching of the Multilateral Assistance Initiative (MAI), known as the Philippine Assistance Program (PAP). The pledging session was attended by twenty-six donor countries and multilateral agencies which made commitments to contribute to the PAP. Japan has pledged the biggest amount of assistance at the last

RP-JAPAN RELATIONSHIP AT A GLANCE

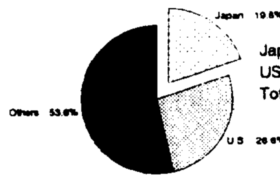
1. RP-Japan Trade (Import plus Export)

(1) Japan's Trade
(Japanese Statistics '92)



	($B)
RP	5.85
Total (World)	572.67

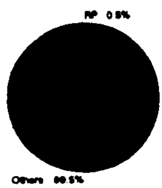
(2) RP's Trade
(RP Statistics '92)(FOB)



	($B)
Japan	4.83
US	6.47
Total (World)	24.34

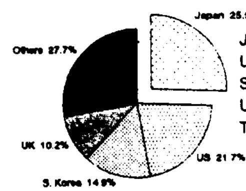
2. Japan's Direct Investment

(1) Japan's Foreign Direct Investment
(Japanese Statistics, '91)



	($B)
RP	0.20
Total (World)	41.58

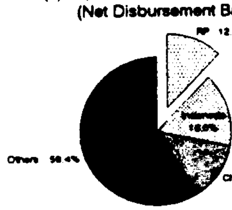
(2) Foreign Direct Investment in RP
(1992 BOI)



	(PB)
Japan	1.85
US	1.57
S. Korea	1.08
UK	0.74
Total (World)	7.25

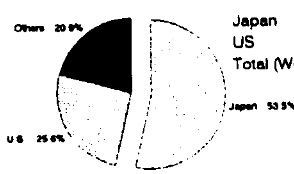
3. Japan's Official Development Assistance (ODA)

(1) Japan's ODA
(Net Disbursement Base, '92)



	($B)
RP	1.03
Indonesia	1.36
China	1.05
Total (World)	8.48

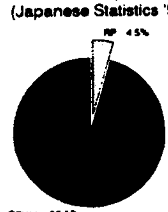
(2) Bilateral ODA to RP
(Net Disbursement Base, DAC '91)



	($B)
Japan	0.46
US	0.22
Total (World)	0.86

4. Travel Between Japan and RP

(1) Travellers to Japan
(Japanese Statistics '91)



	(Thousands)
RP	114
Total (World)	2533

(2) Travellers to RP
(RP Statistics '91)

	(Thousands)
Japan	222
US	222
Total (World)	1153

three meetings. In July 1994, the nineteenth yen loan package of $1.5 billion was pledged by Japan. The Philippine Government has proposed twenty-four projects worth P70.6 billion for inclusion in the twentieth yen loan package to be financed by ODA of Japan.

Over the past years, Japan has continuously diversified its aid modalities in order to respond more effectively to the specific needs of Philippine socioeconomic development. Japan's yen loans have been extensively provided as an important part of its ODA, which is supplemented by grant aid and technical assistance. Japan's aid program covers a wide range of areas, including debt relief, environmental protection, education, emergency relief, rural development, poverty reduction, improvement of infrastructure, and promotion of export-oriented industries. For instance, the Japanese Government has provided a total of $213 million as humanitarian assistance for Northern and Central Luzon which were devastated by the eruption of Mt. Pinatubo. Japan also provided significant support to the country's programs of building power plants and establishing networks of transportation and telecommunications. The improvement of infrastructure in turn has paved the way for an increased inflow of foreign investment into the Philippines.

Especially noteworthy among Japan's ODA projects is the electric power project. Power shortage is one of the most crucial problems faced by the Philippines in 1991–93 and the Japanese Government has made its best efforts in this area. In 1992, the Japanese Government took a series of emergency measures including extension of an $80 million loan to the second Bataan Combined Cycle Project, the pledge of a loan of $50.9 million to the environmental equipment of Calaca I Coal-Fired Thermal NPC Plant, the pledge of additional financing of $30.4 million to the Palinpinon II Project and the dispatch of a power plant rehabilitation mission. It may be noted that such concentration of Japanese assistance in a specific project is unprecedented.

In the future, Japan is expected to continue to extend its financial and technological assistance to the Philippines to help the country develop its economy and society. As has been the case in many ASEAN countries, Japan's aid to this country will contribute to its economic take-off. At the same time, the importance of the Philippines' own efforts toward this end must be underscored. It is believed that greater self-reliance on the part of the Filipino people could serve as the basis for the country's sustained development.

Future Directions of RP-Japan Economic Cooperation

Most economists share an optimistic outlook for the Asia-Pacific region in the coming decade. They believe that the twenty-first century will be the Asia-Pacific century. This means a shift of the world's center of economic activity away from the two coasts of the Atlantic to the two coasts of the Pacific. This prediction is now widely accepted and, indeed, many people believe that the Asia-Pacific century has already started.

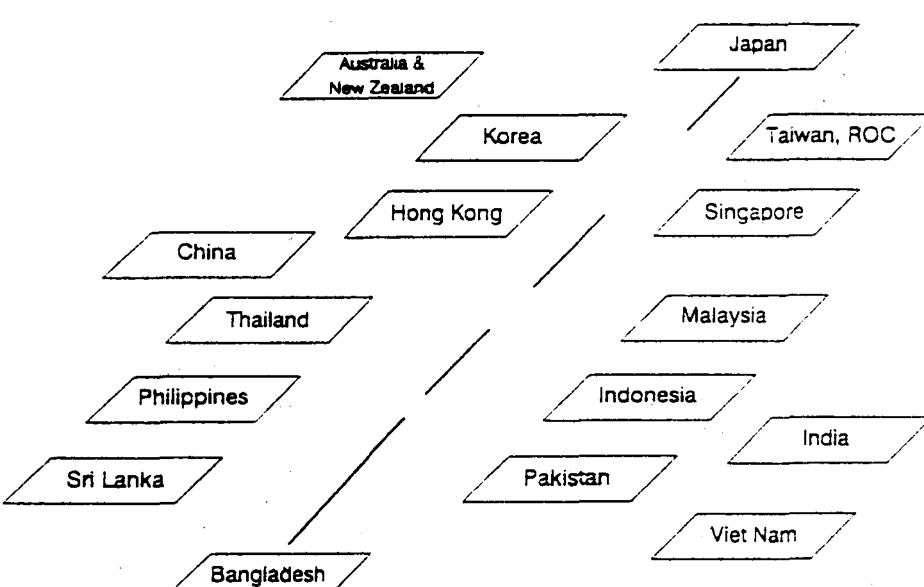
In recent years, the economies in this region have demonstrated great dynamism. Overall growth of the developing Asian countries averaged 7.5 percent in 1993, and the economic prospects look bright for many years to come. Real GDP growth in these countries is projected to exceed 7 percent per annum in 1994 and 1995. One of the important factors contributing to the continued strong performance of the developing Asian countries has been the continuous and fast increase in intra-regional trade and investment, which reduced the region's vulnerability to any adverse international economic environment. Another factor has been the prudent domestic policies adopted by these countries. Many of the developing Asian countries are carrying out major economic adjustments and reforms. The Newly Industrializing Economies (NIEs) (Republic of China, Hong Kong, Republic of Korea and Singapore), together with Thailand and Malaysia have adopted outward-looking trade and investment policies. Their export-led economic growth in the past years has been supported by: increased intra-regional trade, increased intra-regional investment; increased degree of complementarity among the countries of the region in their industrial production and economic diversification, and increased opportunities for greater regional economic cooperation.

As an economy in the Asia-Pacific region, the Philippines is expected to take advantage of these new developments and achieve a higher rate of economic growth in the future. However, to realize these objectives will require a close economic tie between the Philippines and Japan. New forms of economic cooperation between the two countries in both trade and investment must be developed. They are briefly discussed below.

Industrial Division of Labor

First of all, Japan has been and will be playing a lead role in promoting complementarity in industrial production among the countries of the Asian Pacific region. This development can be illustrated by the "flying geese" pattern of development. We can envisage a group of countries in this region flying together in tiers, according to the stage of economic development achieved in different countries. The leader is Japan, followed by the Asian NIEs. Of the ASEAN countries, Malaysia and Thailand fly closer to the NIEs than the Philippines and Indonesia. South Asian countries fall far behind the others (see Figure). Opportunity and scope for horizontal division of labor exists among these Asian countries. In the past, the countries in the higher tier moved their less competitive industries to the next tier or a lower tier of countries when comparative advantage changed in such a way that it was no longer profitable for the higher tier economies to engage in the production of these less competitive industries. The division of labor is not only horizontal in such a way that the entire industrial product is passed on, but also vertical in the sense that sub-processes may be passed on to other countries in the production of a particular product.

Flying Geese



In the past years, Japanese firms tried to phase out their traditional industries and move into new high-tech industries. On the other hand, the Philippines, at an earlier stage of development, has accorded the highest priority to the development of new industries. The transfer of declining industries such as chemicals and electronics from Japan to the Philippines is beneficial to both countries, for it enables the Philippines to establish new industries at low cost. It also promotes industrial production and exportation of manufactured goods, thus paving the way for export-led growth in the Philippines. This is called "complementarity in development."

Acceleration of Japanese Investments

The Philippines has relatively rich natural resources, abundant and cheap labor and a reasonably well-developed institutional framework. The country offers potent comparative advantages in many sectors for foreign direct investment. Unfortunately, Japanese companies in the past chose to invest in other ASEAN countries and by-pass the Philippines mainly because of political instability and recurring economic crises. The Philippines received the second lowest Japanese investment, next to Brunei. According to the official statistics of Japan, total Japanese investment in the Philippines was $160 million in 1992, accounting for only 4 percent of its investment in ASEAN countries. During the same year, Japanese investments in Indonesia and Malaysia accounted for 43 percent and 18 percent of the total, respectively.

The fact that the Philippines has not developed as fast as it could, and the country has not received as much Japanese investments as her ASEAN neighbors, implies that a substantial portion of her latent potential has remained unexploited and her absorptive capacity for foreign direct investment is still large. It is possible for the Philippines to absorb Japanese investment of about $500-$700 million a year, the same level received by Thailand and Malaysia from Japan in 1993.

With various positive policy measures taken by the Ramos Administration since June 1992, a climate more conducive to investment is clearly emerging. Political stability has been achieved and prudent macroeconomic policies have been formulated for implementation. However, in the future, China and Vietnam will pose keen competition for foreign direct investment. The Philippines must therefore exert greater efforts to attract a higher level of Japanese investment. These efforts should include: a stable and adequate supply of electricity, a better transport and communication infrastructure, the restoration of peace and order to free foreign investors from the threat of organized crime; the liberalization of restrictions on foreign investment including an increase in foreign ownership ratio; the establishment of a sound management-labor relationship to attain industrial harmony; and the provision of various incentives.

In identifying the investment opportunities that are most promising for Japanese investment, the resource-based, labor-intensive export-oriented industries outside Metro Manila would seem to offer the best potential for production and export. They include agro-based export processing, metal processing, leather goods, footwear, furniture manufacturing, chemicals, electronics and appliances, plastics and rubber products. Other areas that have relatively good prospects are garments, food processing, gifts and houseware. Apart from investment in export-oriented industries, the Philippines also offers quite a few custom-tailored investment programs, including Build-Operate-Transfer (BOT) schemes for infrastructure, power generation and telecommunication projects, and the privatization of government corporations.

Technology Transfer

Recognizing the importance of technology as one of the most important determinants of economic growth and development, the Philippines has tried to catch up with the industrial countries in the level of technology in the past years. However, its efforts have been constrained by the shortage of skilled and technical manpower, and limitation of financial resources.

Japan, being the leader of advanced technology, has become the major provider of technology for the Asian NIEs, Malaysia, Thailand and Indonesia in recent years. The Philippines, as a "late comer" is anxious to import Japanese technology, which is cheaper, more reliable and predictable. However, the Philippines is facing the challenge of how to enhance its capacity to absorb new and advanced technology, and make modifications and adoptions to suit its economic conditions. To assist the Philippines to overcome these difficulties, the Japanese Government could provide technical assistance grants for technology capacity building and the training of professional and technical manpower. Japanese firms should be encouraged to transfer modern equipment and production technology, particularly labor-intensive manufacturing technologies, to the Philippines through direct foreign investment.

Improved Access to Japanese Market

Japan is an exporter of capital goods and manufactured products, and an importer of raw materials. On the other hand, the Philippines exports primary commodities and light manufactured goods, and imports capital equipment to improve its productive capacity for industrial production. Judging from the composition of trading commodities, Japan and the Philippines are complementary to each other in foreign trade.

From 1985 to 1992, the Philippine's exports to Japan doubled, but total Philippine imports from Japan more than quadrupled. In other words the Philippine's imports from Japan grew faster than its exports to Japan. Consequently, the Philippines' dependence on imports from Japan increased while its reliance on Japan as an export-market declined. There is thus an urgent need for the Philippines to expand its exports to Japan, but this is an extremely difficult task. Despite the Japanese import liberalization measures and the gradual increase in the share of non-traditional products in Philippine exports, Philippine products were not able to penetrate the vast Japanese market successfully. This is perhaps due to the fact that Japanese import liberalization measures were undertaken mainly to benefit the United States and its trading partners in the European Union. Developing countries including the Philippines benefited only incidentally. Tariffs on most agricultural and forest products, which affect developing countries' exports to Japan, remained relatively high. It is internationally recognized that more than the tariff barriers, the nontariff barriers in Japan—the nontransparency of regulations, health inspection procedures and the system of distribution—block importation from foreign countries. Hence, a change in Japan's protectionist attitude towards its agriculture sector through the reduction of nontariff barriers may improve the access of Philippine agricultural products to the Japanese market. To promote exports of manufactured goods to Japan, with the help of Japanese invested firms, the Philippines must diversify its nontraditional products and design them to meet the specific requirements of the Japanese market. Moreover, the Philippine Government should conduct policy dialogue with the Japanese authorities to seek special concessions under the General Systems of Procedures (GSP).

Aid for Poverty Reduction and Environmental Protection

In the past years, Japan's ODA to the Philippines has been concentrated in energy and infrastructure projects such as power generation, roads, bridges, airports, ports and telecommunications. The Japanese Government has indicated that it would like the Philippines to channel its ODA to power and productive projects in the future. Furthermore, attention should be given to such issues as social and regional equity, human resource development and environmental conservation. There is no doubt that an adequate supply of power at reasonable rates, is a basic requirement for industrialization. The continuation of Japanese assistance to power projects would therefore further assist the Philippines in its drive for increased productivity.

To respond to the Japanese suggestion concerning the use of its ODA, a new area of priority must be social development, human resources development, and environmental protection including education, public health, nutrition, water supply, low-cost housing, family planning and reforestation all of which have a relatively low financial rate of return but high social and economic benefits. However, the shift in the emphasis of Japanese assistance to the Philippines from physical infrastructure projects to basic human needs would mean that the Philippines could no longer depend on huge amounts of cheap loans from its main donor to build roads, bridges, ports and a telecommunications system.

Japan's Role in Philippines 2000

The GDP growth of the Philippines was estimated at 2.0 percent in 1993. The economic recovery occurred despite a severe power shortage for most of the year. Real GDP growth was estimated at about 5 percent in 1994. Higher investor confidence, reduced inflationary pressure and lower real interest rates stimulated growth in private investment and public construction. The progress made in 1994 should provide a firm basis for a more rapid economic expansion in the coming years.

According to the Medium-term Philippine Development Plan, 1993–98, the Philippines has set the following development targets:

1. GNP in real terms should grow at an average of 7.5 percent over the plan period, with growth accelerating from 4.5 percent in 1994 to 10 percent by 1998;
2. Per capita GNP should increase at an average annual rate of 5.4 percent to reach $1,000 by 1998;
3. The proportion of families living in poverty is expected to decline from 40.7 percent in 1991 to 30 percent by 1998;
4. Inflation should not average more than 6.3 percent annually; declining from 7.5 percent in 1993 to 5.5 percent by 1998; and
5. Jobs generated should average 1.2 million annually over the plan period. The unemployment rate should decline from 10.3 percent in 1993 to 6.6 percent by 1998.

The major sources of economic growth should be increases in investments and exports, which are targeted to grow at double-digit rates. Investment should rise from 22.7 per cent of GDP in 1993 to 30.5 percent by 1998, with the private sector providing the bulk. Total exports will grow by an average of 15.3 percent, rising from $11 billion in 1993 to $23 billion by 1998. Total imports will increase by 12.9 percent per annum, increasing from $18 million in 1993 to $29 billion by 1998.

In short, under the current Philippine development plan 1993–98, the Philippines aims at achieving economic growth, price stability and social equity simultaneously. The ultimate objective is to achieve a newly industrializing country (NIC) status by the year 2000.

Conclusion

The Philippines is now at the stage of pre-take off. To accelerate growth and development, a self-help effort towards economic self-reliance is necessary and important. The country must mobilize more domestic resources for development investment. However, with low per capita income and a limited capacity for saving, it is impossible for the Philippines to increase its domestic savings significantly in a short period of time. Foreign savings (in the forms of grants, loans and foreign direct investments) are required to supplement domestic savings for investment in order to achieve a higher rate of economic growth than can be afforded by domestic resources alone. Moreover, the Philippines wants to reduce its current account deficit to a more manageable level through continuous expansion of exports.

However, the prevailing trade protectionist measures and barriers in industrial countries make balance of payments adjustment difficult in the Philippines.

Considering the differences between Japan and the Philippines in their stages of development and their international comparative advantage, there is considerable scope for economic cooperation between the two countries with respect to trade, investment, aid and technology. Japan's role as a development partner can be expressed as a policy advisor, a source of capital, a supplier of technology, and a market for Philippine products. With continuing financial support and direct investment from Japan, the Philippines may be expected to accelerate its economic recovery and achieve sustainable growth in the medium-term.

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