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**Working Paper**

## Prospects and Problems of Expanding Trade with Japan: A Survey of Philippine Exporters

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## Prospects and Problems of Expanding Trade with Japan: A Survey of Philippine Exporters

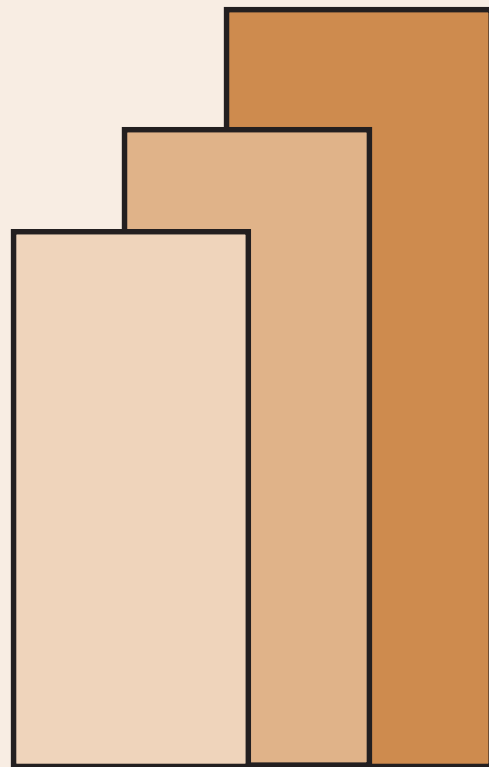
*Rosalina Palanca-Tan*

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**PROSPECTS AND PROBLEMS OF EXPANDING TRADE WITH  
JAPAN: A SURVEY OF PHILIPPINE EXPORTERS**

Rosalina Palanca-Tan  
Ateneo de Manila University

**Prepared for the Japan-Philippines Economic Partnership  
Research Project**

November 2003

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# **Prospects and Problems of Expanding Trade with Japan: A Survey of Philippine Exporters**

Rosalina Palanca-Tan

## **Abstract**

The paper looks at firm-level factors that affect Philippine exports to Japan with the main objective of recommending provisions for the proposed Japan-Philippines Economic Partnership Agreement (JPEPA) that will enable existing and prospective Philippine exporters to fully exploit the potential of the Japanese market. To this end, the study identifies Philippine products with export prospects in Japan and conducts a SWOT (Strengths, Weaknesses, Opportunities, Threats) Analysis of these production sectors.

The inability of the Philippine agricultural, processed food and consumer manufactures to successfully tap into the growing import markets of Japan can be traced largely to low quality and price competitiveness arising from insufficient technical know-how, lack of economies of scale and credit facilities for small and medium enterprises (SMEs) that comprise roughly 90% of the exporters, certain distortionary government policies, and insufficient infrastructure and government support. Apart from these domestic factors, there is severe competition from China, Thailand, Indonesia and Vietnam, and there remains the protection and regulation of the Japanese markets. The complete opening of Japan's agricultural and processed food sectors to the Philippines, import promotion programs particularly for Philippine made products, and SME-focused efficiency enhancement training programs and capital accumulation loan programs may, thus, be necessary if Japan is to assist the Philippines expand its exports. Further, the benefits that the Philippines can reap from the optimal position of its electronics and automotive parts exports in Japan may be enhanced if support industries develop in the Philippines which requires among other things Japanese assistance for human resources development programs.



## Executive Summary

The paper looks at firm-level factors that affect Philippine exports to Japan with the main objective of recommending provisions for the proposed Japan-Philippines Economic Partnership Agreement (JPEPA) that will enable existing and prospective Philippine exporters to fully exploit the potential of the Japanese market. To this end, the study identifies Philippine products with export prospects in Japan and conducts a SWOT (Strengths, Weaknesses, Opportunities, Threats) Analysis of these production sectors.

The analysis on Philippine export niches in Japan adopts Balassa's Revealed Comparative Advantage (RCA) framework and the World Bank's Market Positioning Classification. To identify the products that Japan needs and imports extensively, an index for imports parallel to exports RCA is defined. Product categories for which Japan's import index is greater than 1 and for which Philippine RCA is both greater than 1 and greater than Japan's RCA are considered to have high export potential in Japan. The Philippines is found to have comparative advantage over Japan for 16 of the 69 commodities (3-digit SITC classification) that Japan imports more extensively. These include fresh and prepared fish, fresh and prepared fruits and nuts, iron ore concentrates, metal scraps, silver platinum ores, crude vegetable materials, wood manufactures, office machines, travel goods and handbags, clocks, watches, and other manufacturing goods.

The World Bank approach, on the other hand, assesses the position of a Philippine export product in the Japanese market by considering the share of the Philippines in Japan's imports of the product and how this is changing vis-à-vis the product's share. A product is considered dynamic (stagnant) if its share in total imports of Japan is increasing (decreasing). A Philippine export product in Japan is considered competitive (non-competitive) if the Philippine share in Japan's market is growing (falling). The "optimal" market position is where the Philippines is increasing its market share in Japan's dynamic import goods. The "lost opportunity" market position, on the other hand, is where the Philippines loses market share in Japan's dynamic exports.

The list of Philippine export products with optimal market position in Japan are dominated by electronics and automotive parts (e.g.: integrated circuits, resistors, capacitors, switches, radio receivers, input-output units, etc.). Only a few agricultural products (namely, bananas and dried/salted fish) and consumer manufactures (e.g., curtains and other furnishings, babies' garments and clothes, knitted garments, wood furniture, trousers, t-shirts and vests) can be found in the list. On the other hand, there is a prevalence of agricultural and food products (e.g: other fresh and dried fruits, fresh and chilled vegetables, sugar confectionary, fermented beverages, frozen fish fillets, prepared crustaceans and mollusks, sauced/seasoning/condiments, frozen fruits and nuts, unpickled vegetables, sausage of meat, frozen vegetables) as well as consumer manufactures (e.g.: festive articles, suits and ensembles, clothing accessories, plastic articles, suits/jackets/trousers, pulp/paper/board articles, plastic floor and wall covering, plastic and rubber apparel, children's toys, metal furniture, glass articles, skirts and divided skirts, textile articles, nightwear and underwear, household linens, mattresses, knitted hosiery, hand paintings and drawings) in the list of "lost opportunity" products.

Why are Philippine agricultural, food and consumer export products unable to successfully compete in the growing import markets of Japan? Part of the answer concerns

the protection, regulation and closeness of the Japanese market—concretely, the remaining high tariff rates on agricultural and food products; the quantitative restrictions on marine products; the most complex and most stringent sanitary and phytosanitary (SPS) and quarantine regulations of Japan; the complex, multi-layered, non-transparent and exclusive distribution system to which foreign firms assess is difficult and highly costly; and the extremely selective Japanese consumers that require among other things product tractability. Another factor is the severe competition from China, Thailand, Indonesia and most recently, Vietnam. However, the problem can be attributed largely to domestic factors such as deficient technological know-how, high shipping and packaging costs, high labor and power costs (relative to competitors), lack of credit facilities, problems on raw materials sourcing, insufficient infrastructure facilities and lack of government support.

To promote and facilitate the flow of agricultural and food and consumer goods from the Philippines to Japan, Japan must commit to undertake import promotion programs specifically for Philippine products such as: (1) seminars and workshops on the Japanese market, (2) buying missions to the Philippines, (3) sales promotion missions in Japan, (4) accreditation program for Philippine private testing centers, and (5) system and procedures for claim verification.

As many of the domestic constraints relate with the small and medium enterprises (SMEs) which comprise roughly 90% of Philippine exporters, an SME-focused official development assistance (ODA) agenda with two key elements is recommended: (1) efficiency enhancement programs in the areas of production, quality control (including use of additives/chemicals) and management, and (2) capital accumulation loans programs that address the collateral problem of SMEs.

The Philippines must also negotiate for the inclusion of the agricultural and processed food sectors in the Japan-Philippines Economic Partnership Agreement (JPEPA). As a producer of agricultural products, the Philippines stand to benefit from the liberalization of the agricultural and processed food imports of Japan. As major Philippine agricultural exports are not cultivated in Japan, there is no reason why the Japanese agricultural sector needs to be protected vis-à-vis Philippine exporters.

Finally, the benefits that the Philippines can reap from the optimal position of its electronics and automotive parts exports in Japan may be enhanced if support industries develop in the Philippines. This requires human resource development programs such as: (1) basic research programs leading to new product development, (2) engineering and technical academic support programs (e.g.: curriculum development, building training laboratories with adequate and appropriate machinery and equipment), and (3) programs that promote greater, closer and constant interaction among academe, industry and government. It is thus recommended that Japanese ODA be provided likewise for such programs.

# Prospects and Problems of Expanding Trade with Japan: A Survey of Philippine Exporters

Rosalina Palanca-Tan  
Ateneo de Manila University

## I. Introduction

Philippines-Japan trade relations have been limited in several respects. Philippine exports to Japan continue to lag much far behind Philippine imports from Japan. This has resulted in huge trade deficits for the Philippines. As a consequence, Philippine trade with Japan accounts for the bulk of our trade deficits. In 1999, for instance, Philippine trade deficit with Japan of US\$3.348 billion even exceeded the country's over-all deficit of US\$2.751 billion.

Another concern is the weaker Philippines-Japan trade links relative to trade links of Japan with other ASEAN countries and China, the close competitors of the Philippines. In 2001, Japan's imports from the Philippines accounted for just 1.8% of Japan's total imports, much lower than Indonesia's 4.3%, Malaysia's 3.7%, Thailand's 3.0%, and China's 16.6%.

What is preventing the Philippines to partake of a larger slice of the Japanese market? This is the key question this paper aims to address.

### I.1 Objectives of the Study

The study looks into the prospects of expanding trade, particularly, Philippine exports to Japan. The specific tasks accomplished by this research are as follows:

- (1) to identify specific product categories with export potential in Japan;
- (2) to present the industry profile, with emphasis on the export strengths and weaknesses of the production sectors identified above;
- (3) to identify problem areas and opportunities with respect to exporting to Japan; and
- (4) to identify and recommend provisions for the proposed Japan-Philippines Economic Partnership (JPEP) Agreement to enable existing and prospective Philippine exporters to fully exploit the potential of the Japanese market.

There is a dearth of studies dealing particularly with RP-Japan trade. Many of the available studies are on Japan's trade with ASEAN countries and RP-Japan economic relations in general. These include Valdepenas, "Japan in the Post-War Philippine Economy, in *Philippine Studies* (1970), Ng, Hirono and Akrasanee, *Industrial Restructuring in ASEAN and Japan* (1987), and Tecson, "Desiderata for Future Philippines-Japan Economic Relations", in *Towards a Shared Future through Mutual Understanding: Proceedings of the First International Conference on Philippines-Japan*

*Relations* (1996). A recent study by Palanca-Tan, “Postwar Trade” in *Philippines-Japan Relations* (2003), focuses on RP-Japan trade relations in the entire postwar period and makes an in-depth analysis of the relevant and critical features and characteristics of these trade relations, particularly in the decades of the eighties and nineties.

To date, research on trade relations between the Philippines and Japan has been limited to macroeconomic analysis and use of secondary data. This research contributes to existing literature primary data and a firm-level analysis of the factors that affect Philippine exports to Japan.

## I.2 Methodology

The analysis on Philippine export niches in Japan adopts Balassa’s Revealed Comparative Advantage (RCA) framework and the World Bank’s Market Position Matrix. To identify the products that Japan needs and imports relatively more extensively, an index for imports parallel to exports RCA is defined. To determine which Philippine products have export prospects in Japan, Japan’s import index and the RCAs of Japan and the Philippines are analyzed and compared.

The World Bank approach, on the other hand, enables us to assess the position of a Philippine export good in the Japanese market by considering the share of the Philippine product in Japan’s imports and how this is changing vis a vis the product’s share in Japan’s overall imports.

Objectives 2 and 3 of the study are achieved through focused group discussions (FGD) and interviews with past, existing and prospective exporters to Japan as well as interviews with industry and officials of both the Philippine and Japanese governments.

## II. **Summary Data on Philippine Exports to Japan**

### II. 1 Export Products

About a third (33%) of Philippine exports to Japan in 1998-2002 were generated by semiconductors exports. Second largest was electronic data processing, making up for more than a fifth (22%) of Philippine exports. All electronic products combined accounted for 60%. Machineries and transport equipment parts comprised 8% of Philippine exports to Japan, the bulk of which were automotive parts (6%).

Food and food preparations contributed 8% to merchandise trade earnings from Japan. More than half (4%) of these came from exports of fresh fruits (bananas, pineapples, mangoes, papayas) and vegetables (asparagus, okra, taro). Marine products, mainly shrimps and prawn, accounted for 3%. Tuna exports to Japan have been dwindling in recent years. Non-food consumer products (e.g.: house products, footwear, fashion goods, decorative goods, garments, etc.) and resource-based products (e.g.: mineral, coconut, etc.) each contributed 6%.

It must be noted that electronic product exporters declare their export earnings in two ways. Some declare gross earnings inclusive of the costs of imported raw materials which account for the substantial portion (more than 90%) of the value of the finished product. Others declare net foreign exchange earnings which reflect the true value-added of the product in the Philippines. Based on industry employment data, industry leaders estimate electronics value-added to be roughly equivalent to only 15% of export earnings. This would then make the net foreign exchange contribution of electronics in 2002 to be only about US\$500 million, a figure not so much higher than the US\$381 million contribution of food products and US\$268 million contribution of non-food consumer products.

**Table 1. Export Product Shares, Annual Average 1998-2002**

<b>Product Category</b>	<b>Share</b>
Consumer manufactures	6.38
Food and food preparations	8.00
Processed foods	0.76
Fresh foods	4.34
Marine products	2.91
Tuna	0.52
Shrimps and prawns	1.93
Resourced-based products	6.52
Industrial manufactures	73.36
Electronics	60.24
Components/devices (semi-conductors)	33.19
Electronic data processing	21.51
Telecommunications	1.44
Automotive electronics	1.76
Consumer electronics	1.40
Machineries/transport equipment/apparatus and parts	8.18
Transport Equipment	7.07
Automotive parts	6.41
Special transactions	5.73

Source of data: Department of Trade and Industry (DTI) Database.

## II.2 Export Growth

Philippine exports to Japan has grown much less than total Philippine exports. While overall Philippine exports grew by an average of 8% per year in the past five years 1998-2002, exports to Japan grew by only 5%, 3% points less.

Growth of Philippine exports in the period was pulled mainly by industrial manufactures. Growth of industrial exports more than offset the contraction in non-food consumer goods (-1%) and resource-based exports (-5%). Food exports, however, managed only a modest annual growth of 1% in 1998-2002. This growth was made possible by fresh fruits and seafood exports which increased by 5% and 2%, respectively.

The growth rates of industrial exports to Japan were smaller except for telecommunications and automotive electronics which posted impressive average annual increases of 39% and 32%, respectively. The contractions in the consumer manufactures and resource-based products were also more pronounced. Further, overall food exports to Japan dropped by 1%. Exports of fresh fruits' moderate growth of 3% was not sufficient to buoy up the whole sector. Exports of processed foods and marine products suffered average annual decreases of 3% and 5%, respectively.

**Table 2. Export Growth Rates, Annual Average 1998-2002**

	Total RP Exports	Exports to Japan
Total	7.67	5.25
Consumer Manufactures	-1.21	-2.21
Food and food preparations	1.01	-0.82
Processed foods	0.25	-2.78
Fresh foods	4.66	2.97
Marine products	-0.43	-5.11
Tuna	-0.97	-0.10
Shrimps and prawns	2.23	-1.87
Resourced-based products	-4.92	-8.32
Industrial manufactures	11.54	8.32
Electronics	14.68	11.51
Components/devices (semiconductors)	13.92	8.30
Electronic data processing	24.33	18.78
Telecommunications	-15.49	38.63
Automotive electronics	9.26	31.55
Consumer electronics	8.30	-11.31
Machineries/transport equipment/apparatus and parts	12.15	3.84
Transport Equipment	11.78	2.65
Automotive parts	11.53	3.18
Special transactions	10.98	9.28

Source of data: DTI Database.

### II.3 How important is the Japanese Market to Philippine Exporters?

Japan absorbed about 15% of Philippine exports in 1998-2002. Japan is the single biggest buyer of Philippine shrimps and prawns (71%) and fresh fruits and vegetables (60%). A fourth to a third of Philippine exports of transport equipment and automotive parts as well as electronic products such as data processing, telecommunications and automotive electronics are destined for Japan. Japan has a remarkably lower share of about 10% in our semiconductor exports. Even smaller are the shares of Japan in Philippine processed food (7%) and consumer goods (8%) exports.

**Table 3. Japan's Share in Philippine Exports, Annual Average 1998-2002**

<b>Product Category</b>	<b>Shares</b>
Total	14.63
Consumer Manufactures	8.22
Food and food preparations	30.70
Processed foods	7.04
Fresh foods	60.35
Marine products	35.71
Tuna	16.74
Shrimps and prawns	71.27
Resourced-based products	18.02
Industrial manufactures	14.29
Electronics	13.26
Components/devices (semi-conductors)	9.91
Electronic data processing	24.11
Telecommunications	33.06
Automotive electronics	28.29
Consumer electronics	15.98
Machineries/transport equipment/ apparatus and parts	34.40
Transport Equipment	34.67
Automotive parts	35.43
Special transactions	19.73

Source of data: DTI Database.

### **III. Philippine Export Niches in Japan**

#### **III.1 Philippine Comparative Advantage**

One way to identify the products that have export potential in Japan is by employing Balassa's revealed comparative advantage (RCA) and the RCA-equivalent index for imports, referred to in the study as the import index. The RCA index of country j for commodity k is defined as the ratio of the share of country j in total world exports of commodity k to the share of country j in total world exports. The import index of country j for commodity k, on the other hand, is the share of country j in total world imports of commodity k to the share of country j in total world imports.

Japan's import index ( $JI > 1$ ) is used to identify the product needs and wants of the Japanese market that are sourced externally. Philippine products that have high export potential in Japan are those products for which JI is greater than 1 as well as Philippine RCA (PRCA) is greater than one and greater than Japan's RCA (JRCA).

Of the 69 commodities (3-digit SITC classification) for which Japan's import index (JI) is greater than one, 16 are commodities for which Philippine RCA is greater than one and significantly greater than Japan's RCA. Sixteen is remarkably a big portion

of the 25 commodities for which the Philippines has a comparative advantage. Further, of these 16, there are only two commodities for which Japan also has a comparative advantage. Nevertheless, JRCA for these two is significantly less than PRCA.

**Table 4. Products for which:  $JI > 1$ ,  $PRCA > 1$ ,  $PRCA > JRCA$**

Commodity	JJ	JRCA	PRCA
031 fish fresh simply preserved	5.02	0.15	1.37
032 fish etc. tinned prepared	4.06	0.33	3.49
051 fruit fresh nuts fresh dry	1.06	0.01	4.02
053 fruit preserved prepared	1.64	0.02	3.28
241 fuel wood charcoal	2.29	0.03	2.68
281 iron ore conc	4.78	0.00	2.42
284 non fer metal scrap	1.38	0.12	1.36
285 silver platinum ores	2.09	0.34	2.03
292 crude veg materials nes	1.21	0.12	1.16
632 wood manufacture nes	1.33	0.04	1.26
714 office machine	1.09	1.14	4.45
831 travel goods handbags	2.64	0.04	3.98
841 cloth not fur	1.51	0.03	2.02
864 watches clocks	1.64	1.30	2.12
899 other manufacturing goods	1.28	0.36	1.06
941 zoo animals pets	1.21	0.07	1.04

Source of data: National Asia Pacific Economic and Scientific (NAPES) Database (1999 figures).

Other markets in Japan which the Philippines may develop include commodities which Japan imports extensively and for which PRCA, though less than one, is greater than JRCA. Of the 19 commodities in this list, unmanufactured tobacco, non-ferrous base metal ore concentrates, textile products, and footwear appear to be the most promising.

**Table 5. Products for which:  $JJ > 1$ ,  $0.1 < PRCA < 1$ ,  $PRCA > JRCA$**

Commodity	JJ	JRCA	PRCA
054 veg etc. fresh simply preserved	1.63	0.01	0.20
055 veg etc. preserved prepared	2.18	0.07	0.21
081 animal feed stuff	1.74	0.05	0.24
099 food preps nes	1.05	0.29	0.33
112 alcoholic beverage	1.12	0.06	0.21
121 tobacco unmanufactured	1.36	0.00	0.87
243 wood shaped	2.06	0.01	0.13
251 pulp waste paper	1.42	0.05	0.31
276 other crude minerals	2.31	0.18	0.24
283 non fer base mtl ore conc	4.47	0.04	0.99
291 crude animal matter nes	2.98	0.06	0.35



332 petroleum products	1.10	0.16	0.23
341 gas natural manufactured	4.10	0.00	0.12
521 coal petroleum etc. chemicals	2.05	0.12	0.17
656 textile etc. products nes	1.58	0.06	0.81
657 floor cover tapestry etc.	1.14	0.02	0.15
661 cement etc. bldg products	1.24	0.20	0.57
851 foot wear	1.05	0.01	0.52
897 gold silver jewelry	1.06	0.14	0.24

Source of data: NAPES Database (1999 figures).

Finally, there are a number of commodities which Japan may not yet be importing as much ( $0.5 < JI < 1$ ) but with PRCA that is greater than one and significantly greater than JRCA. Note that of the remaining 10 commodities for which the Philippines has a comparative advantage but are excluded in category 1, eight are in this third list. Hence, 24 of the 26 commodities the Philippines has a comparative advantage are potentially importable in Japan. Note also that Japan's RCA is greater than 1 for only three (namely, office machine, watches and clocks, and electric machines) of these 24.

**Table 6. Products for which:  $JI < 1$ ,  $PRCA > 1$ ,  $RPRCA > JRCA$**

Commodity	JI	JRCA	PRCA
061 sugar honey	0.59	0.01	1.04
265 veg fibre excl cotton jute	0.96	0.00	7.32
273 stone sand gravel	0.94	0.11	1.05
422 fixed veg oil nonsoft	0.64	0.04	7.27
666 pottery	0.83	0.42	1.65
723 electric distributor machine	0.80	0.72	3.07
729 electric machine nes	0.94	2.01	5.76
821 furniture	0.94	0.10	1.19

Source of data: NAPES Database (1999 figures).

### III.2 Philippines' Position in Japan's Markets

RCA focuses on the supply side. It tells us what the Philippines can export to Japan. To complete the demand side of the equation, we have to look at the share of Philippine products in Japan imports and how this is growing vis a vis Japan's imports. Adopting the approach used by World Bank (1997), Philippine export products to Japan will be classified into the following four quadrants in a Market Position Matrix: Optimal Quadrant (I), Lost Opportunity Quadrant (II), Vulnerable Quadrant (III), and Retreat Quadrant (IV). A product is considered dynamic (stagnant) if its share in total imports of Japan is increasing (decreasing). On the other hand, a Philippine export product in Japan is considered competitive (non-competitive) if the Philippine share in Japan's market is growing (falling). An optimal market position is where the Philippines is increasing its market share in Japan's dynamic import goods. The quadrant of "lost opportunity" is where the Philippines loses market share in Japan's dynamic exports. In quadrant III, the Philippine position is vulnerable because it is increasing its share in Japan's stagnant import products. Finally, in quadrant IV are Japan's stagnant import

goods for which the Philippines is not competitive and hence, called the “retreat” quadrant.

**Figure 1. World Bank’s Market Positioning Classification**

Share of Philippine Exports in Japan’s Imports	Share of Product in Japan’s Imports	
	Increasing (Dynamic)	Decreasing (Stagnant)
Increasing (Competitive)	I Optimal	III Vulnerable
Decreasing (Non-Competitive)	II Lost Opportunity	IV Retreat

Source: World Bank (1997)

Tables 7 and 8 list the Philippine export products to Japan in the “optimal” quadrant and “lost opportunity” quadrant, respectively.<sup>1</sup>

There are 76 product items in the optimal quadrant of the Philippines’ Japan Market Position matrix. Majority of these, almost three-fourths are electronics and automotive, other industrial manufactures (circuits, resistors, capacitors, switches, radio receivers, input-output units, etc.). Only a few agricultural products (namely, fresh and dried bananas, dried and salted fish), and consumer manufactures (e.g.: curtains and other furnishings, babies’ garments and clothes, knitted garments, wood furniture, trousers, t-shirts and vests) can be found in the list.

**Table 7. Philippines’ Exports to Japan  
Market Position Matrix: Optimal Quadrant**

SITC Code	Product Description	Share of Philippine Exports in Japan's Imports 2000	Share of Philippine Exports in Japan's Imports Growth Rate 1996-2000	Share of Products in Japan's Total Imports Growth Rate 1996-2000
4223	Coconut oil, fractions	100.252	19.68	0.13
8122	Ceramic plumbing fixtures	47.494	1,272.67	4.11
0573	Bananas, fresh or dried	32.216	3.33	5,633.16
7722	Printed circuits	31.398	269.38	251.04
7526	Input or output units	29.008	79.88	34.78
7621	Motor veh.radio receiver	26.563	127.46	28.93
7831	Pub-transport pass vehcl	21.669	211.60	22.69
7768	Elctrn comp pts,crystals	20.158	97.92	35.47
7723	Electric resistors,parts	15.310	130.30	142.29
3343	Gas oils	13.832	1,415.71	39.57

<sup>1</sup> The other quadrants, Vulnerable Quadrant and Retreat Quadrant, are included as Appendices 1 and 2.

5799	Othr.plastic waste,scrap	11.944	2,293.49	5.92
8713	Non-optic.microscope etc	10.922	37,643.55	43.97
7786	Electrical capacitors	10.892	521.56	13.90
6585	Curtains,oth.furnishings	9.659	5.35	3.75
8932	Builders'ware, plastics	9.487	19.51	1.10
6899	Base metal nes,wst,scrap	9.486	1,150.26	5.56
7764	Electronic microcircuits	6.664	51.49	1,617.32
6649	Glass, nes	5.260	213.93	85.51
7843	Other parts,motor vehicl	5.236	82.64	151.83
8999	Manufactured goods,nes.	4.797	29.81	0.41
7489	Part,nes,shafts,etc.	4.174	3.31	12.61
0351	Fish,dried,salted	4.074	48.15	7.53
5817	Fittngs for tube,plastic	3.983	393.70	1.97
8931	Plastic containers etc.	3.806	178.90	191.44
7725	Switch.apparatus,<1000v	3.552	88.42	207.24
2882	Oth.non-ferr.metal waste	2.865	3.36	4.75
6214	Vulc.rubber tubes,pipes	2.760	414.05	1.11
6996	Articles iron,steel,nes	2.652	288.57	6.22
6931	Stranded wire,cable,etc.	2.555	304.79	3,576.11
7249	Pts,txtle,dom washng mch	2.434	28.30	38.19
7413	Indus.furnaces etc.parts	2.332	113.76	10.09
8714	Compnd optic.microscopes	2.158	4,271.74	7.30
8732	Rev.counters,meters etc.	1.963	873.21	0.15
7169	Parts,nes.rot.elec.plant	1.529	1,166.84	387.63
8841	Optc.fibr.lens etc.unmnt	1.457	28.73	203.00
7712	Oth.elec power mach,part	1.446	17.33	252.87
6211	Compounded rubber,unvulc	1.283	687.91	3,335.43
7479	Parts for taps,cocks,etc	1.178	65.07	14.45
7783	Automotive electr.equip	1.153	73.52	107.78
5822	Oth.plate,sheet,etc.	1.081	10,816.43	84.66
8451	Babies'garmnts,clths acc	0.963	98.55	15.45
6359	Manufact.articl.wood,nes	0.890	487.03	7.95
7782	Electric lamps,bulbs etc	0.741	305.20	43.63
8459	Other garments knitted	0.647	401.65	2.06
6795	Tube,pipe fttngs,irn.stl	0.613	897.71	9.43
8215	Furniture,nes,of wood	0.598	3.31	21.14
8746	Automatic control instrt	0.569	32,983.18	9.29
5821	Plstc sheet etc.self-adh	0.557	182.79	6.12
6991	Locks,safes,strong boxes	0.549	11.21	254.70
8426	Trousers, breeches etc.	0.545	72.20	15.99
5541	Soap	0.523	869.86	0.30
8454	T-shirts,othr.vests knit	0.387	498.52	25.13
7641	Line telephone etc.equip	0.370	121.07	88.03
5163	Estrs,inorganic acid,etc	0.276	1,097.22	6.24

8813	Photo,cine.equipment nes	0.226	21.25	19.45
5225	Zinc,chrom.iron etc.oxid	0.208	4,924.14	1.62
7281	Mch-tools,special.indust	0.204	1,362.58	120.02
8744	Instruments,analysis etc	0.179	1,361.18	12.34
7161	Electric.motors<=37.5w	0.154	1,076.87	117.25
6581	Sacks,bags,txtl.material	0.153	601.33	9.91
6644	Float,ground,plshd.glass	0.137	159.55	310.95
6624	Non-refractory brick,etc	0.125	41.66	30.88
7788	Elect machinery,equip,nes	0.119	1,121.27	254.69
6935	Metal fencing,gauze etc.	0.115	46.38	8.34
7373	Welding,brazing etc.mach	0.096	754.57	131.53
6942	Screws,bolts,nuts,irn.st	0.096	347.36	525.87
6421	Containers,etc.of paper	0.077	12.44	298.65
7522	Digital computers	0.075	663.85	23.68
8742	Drawing,measurg.instrmnt	0.072	410.04	197.94
8843	Lenses,prisms,etc.mountd	0.048	5.04	13.11
5989	Chem.products etc.nes	0.043	3,415.36	441.17
7259	Parts,paper mill etc.mch	0.013	76.26	4.48
7311	Mach.tools,metal removal	0.012	4,964.37	1,389.26
7929	Parts,nes,aircraft,equip	0.008	203.34	269.28
5429	Medicaments, nes	0.006	209.38	300.74
5985	Chem.elmnts for electrnc	0.001	8.25	156.12

Source of data: Personal Computer Trade Analysis System (PC-TAS).

There is a preponderance, on the other hand, of agricultural and food products (e.g: other fresh and dried fruits, fresh and chilled vegetables, sugar confectionary, fermented beverages, frozen fish fillets, prepared crustaceans and mollusks, sauced/seasoning/condiments, frozen fruits and nuts, unpickled vegetables, sausage of meat, frozen vegetables) as well as consumer manufactures (e.g.: festive articles, suits and ensembles, clothing accessories, plastic articles, suits/jackets/trousers, pulp/paper/board articles, plastic floor and wall covering, plastic and rubber apparel, children's toys, metal furniture, glass articles, skirts and divided skirts, textile articles, nightwear and underwear, household linens, mattresses, knitted hosiery, hand paintings and drawings) in the "lost opportunity" quadrant.

**Table 8. Philippine Exports to Japan  
Market Position Matrix: Lost Opportunity Quadrant**

SITC Code	Product Description	Share of Philippine Exports in Japan's Imports 2000	Share of Philippine Exports in Japan's Imports Growth Rate 1996-2000	Share of Products in Japan's Total Imports Growth Rate 1996-2000
2841	Nickel ores,concentrates	14.551	-15.351	2.89
2519	Semi-chemical pulps	13.609	-18.454	2.52
7731	Insultd wire,etc.condctr	10.234	-39.926	1,455.73
7763	Diodes,transistors etc.	9.515	-47.668	3.16
0579	Fruit,fresh,dried, nes	7.234	-15.167	159.80
8944	Festive articles etc.nes	6.992	-21.977	21.02
7853	Invalid carriages,parts	6.844	-12.516	37.16
7751	Household laundry equipt	5.915	-69.929	6.72
2450	Fuel wood, wood charcoal	5.872	-59.070	0.87
7599	Parts,data proc. etc.mch	4.751	-12.255	160.79
6299	Hard rubber etc.,nes	4.540	-11.685	389.17
7491	Mouldngs for mtl.foundry	4.329	-43.284	290.63
7359	Parts,nes,mch-tool w.mtl	3.980	-9.051	260.59
8412	Suits and ensembles	2.953	-14.188	45.31
7529	Data proc equipment,nes	2.703	-38.832	235.58
6978	H.hold appliancs,etc.nes	2.403	-56.530	1.22
2462	Sawdust,wood waste,scrap	2.291	-37.419	369.31
0545	Oth.frsh,chll.vegetables	2.261	-12.191	0.87
7649	Parts,telecommun. equipt	2.208	-47.901	298.68
5986	Organic chem.prodcts,nes	2.144	-28.756	13.01
8469	Oth.made-up cloth.access	1.687	-69.644	9.48
6122	Saddlery and harness	1.610	-87.769	3.87
7758	Electro-thermic appl nes	1.537	-24.632	40.07
6997	Articles nes,copper,etc.	1.529	-23.008	4.05
7611	Colour televisn receiver	1.355	-61.355	1,434.59
7642	Microph.loudspkr.s.amplif	1.120	-10.369	13.38
8939	Plastic articles nes	0.882	-43.539	555.87
7374	Soldering machines etc.	0.788	-34.467	33.69
8432	Suits,jacks,trousrs.etc	0.762	-61.125	4.23
7732	Electrc.insulating equip	0.739	-64.212	1.59
7492	Gaskets,etc.	0.728	-76.429	2.06
6429	Artcls,pulp,papr,brd nes	0.668	-42.877	40.82
7427	Pumps,liquid elevatr etc	0.607	-42.670	10.29
8933	Plastic flr,wall,coverng	0.603	-47.477	4.58

0819	Food waste,animal feeds	0.579	-54.712	503.87
2822	Waste,scrap, alloy steel	0.540	-56.506	68.02
6924	Tanks,casks,drums,etc.	0.527	-81.011	1.25
0622	Sugar confectionery	0.499	-44.235	0.77
8482	Plastic,rubber,apparel,etc	0.471	-54.648	3.93
1122	Fermented beverages, nes	0.384	-79.771	21.30
0344	Fish fillets, frozen	0.370	-77.224	9.87
5542	Detergents,except soap	0.370	-83.657	50.63
8942	Children's toys	0.332	-73.434	39.56
8213	Metal furniture nes	0.321	-62.201	11.69
7842	Motor vehicle bodies	0.294	-76.522	0.11
1212	Tobacco,stemmed,stripped	0.286	-35.029	179.87
7868	Oth.nonmotr veh,trlr pts	0.275	-12.752	506.00
6659	Glass articles, nes	0.262	-12.727	22.85
6344	Oth.plywood,venrd.panels	0.245	-89.299	27.78
8425	Skirts & divided skirts	0.209	-69.351	24.66
7638	Sound,video recordng etc	0.202	-83.440	14.29
6589	Made-up artcils,txtl.nes	0.186	-3.693	1,015.77
5221	Carbon nes,carbon black	0.171	-92.002	0.52
7628	Other radio receivers	0.151	-87.035	2,405.06
5754	Amino,phenolic resin etc	0.148	-21.664	5.53
8438	Underwear,nightwear etc.	0.127	-77.711	3.68
0372	Crustacea,mollc.prpd nes	0.102	-70.906	117.36
0984	Sauce,seasoning,condment	0.099	-50.242	53.17
8448	Underwear, nightwear etc	0.097	-88.186	8.85
6584	Household linens	0.095	-29.419	8.15
7139	Parts,nes.IC.piston engs	0.091	-4.256	0.47
5816	Oth.tubes,pipes,hoses	0.085	-89.494	9.78
8831	Cine film,35mm+,devloped	0.075	-97.844	443.08
2733	Sands,natrl.not mtl.brng	0.071	-77.289	270.05
0583	Fruit,nuts, frozen	0.037	-55.534	2.37
8743	Gas,liq.meas.contrl.inst	0.035	-59.457	0.69
6995	Misc.articles,base metal	0.029	-83.406	1.01
7189	Engines,motors nes,parts	0.028	-53.924	59.82
8212	Mattresses, etc.	0.025	-87.357	10.93
8462	Hosiery,etc.knitted	0.019	-88.988	38.49
8996	Artificial aids,disabled	0.019	-28.312	25.72
8981	String musical instrumnt	0.019	-68.582	6.40
8722	Othr.medical instruments	0.013	-31.728	118.56
8719	Liq.crystal devcs;lasers	0.013	-87.944	647.86
8961	Hand paintngs,drawng etc	0.009	-45.810	16.37
7165	Generating sets	0.008	-79.702	22.53
7132	Intrnl comb.engine vehcl	0.008	-76.776	937.87
0566	Vegetable,unpickled frzn	0.004	-91.602	1.98

8723	Theurapeutic apparatus	0.001	-99.805	196.29
7752	Dom.refrigeratrs,freezrs	0.000	-65.653	2,117.33
6812	Platinum	0.000	-94.066	167.25
0172	Sausage of meat,offl.etc	0.000	-100.000	90.33
0546	Vegetables frozen	0.000	-100.000	16.28
3341	Motor gasolene,light oil	0.000	-100.000	74.49
3442	Gas.hydrocarbon,liq.,nes	0.000	-100.000	0.87
6252	Tyres,pneumatic,new,bus	0.000	-100.000	656.47
7111	Steam,super-heat boilers	0.000	-100.000	29.37
7919	Rail.track fixtures,prts	0.000	-100.000	2.80

Source of Data: PC-TAS.

#### IV. Philippine Exporters to Japan: Strengths, Weaknesses, Opportunities and Threats

##### IV.1 Agricultural Products and Processed Food

##### IV.1.1 Strengths and Opportunities

A clear advantage of the Philippines in its trade with Japan lies in its agricultural resources as reflected in Tables 4-6 above.

**Fruits.** The Philippines grows the principal fruit items that Japan imports. Of the total fruit imports of Japan, 58% are bananas, 7% pineapple, 1% mango, 1% avocado, and 1% papaya—all of which are grown in the Philippines. The Philippines is Japan's major supplier of tropical fruits. The Philippines supplies Japan 79% of its bananas, 98% of its pineapples, 61% of its mangoes, and 48% of its papayas.

Most fresh fruit imports of Japan are fruits that are not grown at all or grown only in very small amounts in Japan. Since the suppliers of any particular kind of fresh fruit in Japan are generally limited due to the small number of producing areas and plant quarantine regulations, some 80-90% of any one fresh fruit usually comes from a single country or region. The liberalization of fruit importation in the 1990s resulted in a significant increase in the share of imported fruit products in the Japanese market from 34% in 1989 to 56% in 2000. The increase in imports of fruits and fruit products has further stimulated demand with the resulting shift from the traditionally ceremonial way of eating fruits to a more casual and ordinary way. Another factor that contributes to the continuing slide in Japan's self-sufficiency rate in fruits is the declining number of farm households raising fruit trees.

**Fruit Juices.** Fruit juices are imported in Japan in three forms, namely, fruit juice extract, Japanese finished fruit drinks processed in wholly-owned or joint venture plant overseas, and foreign brand juice drinks. Of these three, the most common is the fruit juice extract. Pineapple juice imports of Japan had grown by 17% in volume and by 52% in value from 1997 to 2001. In 2001, pineapple accounted for 12% of Japan's

import of fruit juices. The Philippines is the biggest exporter of pineapple juice in Japan with a 36% share, closely trailed by Thailand's 31% share.

**Vegetables.** In recent years, there have been a quantitative increase in imports of vegetables as well as a diversification in the types of vegetables imported in Japan for the following reasons. One is the downward trend in domestic production due to the aging of farmers as well as crop failures and disasters. Two is the sourcing of out-of-season supply from countries with different growing seasons from Japan as in the case of pumpkin, asparagus and broccoli. Three is the changing Japanese culinary tastes. And four is the growing use of reefer containers in marine transport and refrigerator trucks in overland transport making possible the import of fresh vegetables in large quantities.

Over 90% of Japan's supply of frozen vegetables is imported. In the case of fresh vegetables, imports share reached 18% in 2000. Up to the present, imports from the Philippines roughly accounts for only 1% of total Japanese vegetable imports.<sup>2</sup> Okra and asparagus are the two major fresh vegetable exports of the Philippines to Japan. Demand for okra in Japan mainly comes from hotels and restaurants and hence, is not price elastic. The Philippines also exports frozen taros to Japan. Its share of 0.2% in Japan's frozen taro imports is a far second to China's 99.8%.<sup>3</sup>

The Philippine advantage is that it can grow vegetables all year round. It can be a source of supply of off-season vegetables in Japan. The top fresh vegetable imports of Japan are onions (28%), pumpkins (15%), and cabbage and broccoli (15%).<sup>4</sup> Other major fresh vegetable imports of Japan include carrots and turnips, and ginger. According to Takusari, president of the Tropical Agriculture and Forestry Technical Development Association, onions and carrots are two vegetables that can be grown cheaply and easily without the use of chemicals in the Philippines.<sup>5</sup> As the Japanese become increasingly health conscious, the traditional requirements for appearance and size of vegetables are being replaced by safety considerations which are being equated to organic or chemical-free vegetables. According to JETRO consultants, there is a better chance for Filipinos to penetrate the Japanese vegetable markets with organic products. Farm debris and manure which can be used as composted fertilizers are plentiful in the Philippines. There is also a great diversity of sources of organic materials in the Philippines. Charcoal vinegar, for instance, can be extracted from several types of trees in the Philippines. Though presently, the share of the organic market in Japan is only 2%, it is expected to expand rapidly in the next few years.

Pumpkin is another potentially exportable vegetable to Japan. Japan International Cooperation Agency (JICA) had once been interested in the small, green variety of squash that is easily grown in the Philippines and which has a long shell life. Pumpkin,

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<sup>2</sup> Notes from JETRO Workshop Series on Vegetable Production/Marketing for Japan, July 2003.

<sup>3</sup> JETRO Marketing Guidebook for Major Imported Products, p. 98.

<sup>4</sup> Ibid., p. 95.

<sup>5</sup> The Philippines used to export onions to Japan in the 1990s. Philippine onions satisfy the quality requirement, juicy and soft, of the Japanese market. However, they fail to meet the size requirement. Takusari, JETRO workshop, May 2003.



however, is classified as a restricted crop from the Philippines due to insect infestation. An opportunity however still exists for frozen pumpkin. Generally, exporting vegetables in frozen or processed form is a viable solution to the time frame problem for vegetable exports. The Japanese market only has a 4-day time frame for fresh vegetables—2 days for transporting and 2 days for display—which is difficult for Philippine exporters to meet as transport time already takes more than 2 days.

**Seafood.** The Philippines is nearer, relative to its Southeast Asian competitors, to the source of Japan's marine product imports such as tuna and exotic seafood items. Japan is the world's largest market of raw tuna for sashimi. Since Japan's domestic catch of tuna is sluggish, the share of imported tuna in the Japanese market is gradually increasing. In 2000, 58% of tuna supply in Japan was imported.

Shrimps and lobsters, and crabs are the other leading imported seafood products in Japan. Farmed black tiger accounts for an overwhelming 96% share of the shrimp and lobster market. For medium and large-size shrimp, imports have a market volume share of more than 98%. For crabs, imports share is about 75%.

**Canned Seafood.** Japanese production of canned seafood started to slow down after 1980 with the diminishing supply of mackerel and sardines and the increasing cost of raw materials due to intensified fishing restrictions as well as the development of more sophisticated food production and packaging technologies. With the decline in domestic production, the share of imports in Japan's canned seafood market expanded from less than 1% in 1980 to 15% in 2000. In recent years, there has been a growing market for anchovies and oil-packed sardines. There has been a sudden surge in demand for DHA-rich blue-skinned fish products such as sardines and mackerel for health reasons. Canned tuna, however, remains the main import item, accounting for 81% of total canned seafood imports of Japan in terms of volume, and 50% in terms of value. About 40% of canned tuna in the Japanese market is imported.<sup>6</sup> An advantage of Philippine tuna canners over Thailand, the biggest exporter of tuna to Japan and the world, is labor cost. All tuna canners in the Philippines have now relocated to General Santos in Mindanao where wages are lower than those in Bangkok, the site of Thai tuna canners. Another advantage is its greater proximity to Japan relative to Thailand, Indonesia and Vietnam.

In general, Philippine exporters of agricultural and processed food products find three favorable and encouraging conditions in the Japanese market. One is the price premium paid by the Japanese market. Relative to other foreign buyers, the Japanese market is less price-conscious. They are willing to pay a higher price for as long as they get quality goods. Two is the assistance extended by the Japanese buyers to enable the exporters to meet the requirements of their market. This includes regular inspection of plants, developing tools and equipment to increase productivity (e.g.: a banana cutting device was developed by the Japanese for the production of banana chips), and providing equipment and machineries on credit. Three is the loyalty of Japanese buyers. The Japanese buyer will not seek and will not accept offers from other suppliers for as long as their present suppliers satisfy all their requirements.

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<sup>6</sup> JETRO Market Information in <http://jetro.go.jp/ec/e/market/jmr/063/1.html>.

## V.1.2 Weaknesses and Threats

Despite the Philippines' comparative advantage in agriculture, only a few agricultural and food products (bananas, dried/salted fish) land in the optimal quadrant of the Philippines' Japan market position matrix. Many products fall into the quadrant of lost opportunity. While the import market in Japan for these products is expanding, the share of the Philippines in Japan's imports is contracting. Why is the Philippines unable to tap into these growing markets in Japan?

***Protection, Regulation and Closeness of the Japanese Market.*** Trade liberalization in Japan especially for agricultural and food products is yet very far from being complete. Japan persists to use the food self-sufficiency argument to justify the continuing protection and regulation of the agricultural and food sectors. Tariff peaks still exist for agricultural products. Even with the generalized system of preference (GSP), Japan's tariff rates on agricultural products are still high: 10% for fresh bananas, 17% for fresh pineapples, 5.5% for banana chips, 15-21.2% for nata de coco.

**Table 9. Japan's Custom Duties on Selected Agricultural and Food Products**

HS No.	Product	General	WTO	Preferential
0803	Bananas	40%,50%	20%,25%	10%
0804.30	Pineapples	20%	17%	
0804.40	Avocados	6%	3%	3%
0804.50	Mangoes	6%	3%	Free
0807.20	Papayas	4%	2%	2%
0803.00	Bananas, dried	6%	3%	*Free
0804.30	Pineapples, dried	12%	7.2%	*Free
0804.50	Guavas, mangoes and mangosteens, dried	6%	3%	Free
2009.20-90	Juice of any other fruit			
	1) containing added sugar			
	(1) not more than 10% by weight of sucrose	27%	23%	
	(2) others	35%	29.8%	
	2) other juice of any fruit			
	(1) not more than 10% by weight of sucrose	22.5%	19.1%	
	(2) others	30%	25.5%	
0709.30	Fresh asparagus	5%	3%	
0714.90	Taros	15%	9%	
2004.90	Frozen asparagus	20%	17%	
0306.11-3	Lobster, shrimps and prawns, live, fresh, chilled or frozen	4%	1%	
0306.19	Other crustaceans	4%	2%	
0302	Tuna	5%	3.5%	

\*Applicable only to Least Developed Countries.

Source of data: Various tables from JETRO Marketing Guidebook for Major Imported Products.

Also, up to the present, Japan imposes quantitative restrictions on fisheries products. Japan claims that this is necessary to ensure sustainable harvesting of the resource. Trading of the import quotas in the informal markets affects Philippine

exporters as it results in increase costs for the importers which are passed on to the exporters/sellers.

In addition to the tariff and import quota barriers, foreign firms' access to the Japanese market remains difficult and highly costly as the distribution system stays complex, multi-layered, non-transparent and dominated by exclusive relations among producers, wholesalers and retailers. Most foreign suppliers export to Japan indirectly through Japanese importing firms. These Japanese importers source supplies through their branches all over the world. The route from producers to consumers has not one but about four layers of distribution agents—(1) importers, (2) wholesalers, (3) intermediate wholesalers, and (4) retailers (restaurants, food processing companies and supermarkets). Efforts toward deregulation have now made possible “short-cuts”. Not only can Japanese importers now go straight to intermediate wholesalers or even the final users, the foreign seller or exporters can also now go directly to the distribution channels in Japan without the Japanese importer. This recent development does not mean, however, that any exporter can easily export directly to Japan. Familiarity with the distribution networks and connections remain to be the determining factors. Not surprisingly, successful Philippine exporters of agricultural goods to Japan are limited to the big farming conglomerates such as Dole Philippines, and some Japanese managed farms. Sadly, there is truth in the candid comment of a Japanese Embassy official that it is almost impossible for the Filipino farmer to penetrate the Japanese market even with zero tariff.<sup>7</sup>

In one of JETRO's recent agricultural seminar and workshop series, a Japanese owning a farm in the Philippines and exporting his produce to the Japanese market served as a speaker. He advised an audience of Filipino farmers hoping to sell to Japan to “invite Japanese traders to visit (your farms) and showcase your products with all expenses paid. After the visitation, the negotiations can start if the products are exportable. Try and try until the negotiation becomes successful.” Simple as it may sound, it is not hard to imagine how this strategy can exhaust all the resources of even the biggest farmers and food processors in the country.

Furthermore, there are the non-tariff barriers. The sanitary and phytosanitary (SPS) conditions and quarantine regulations of the Japanese market (e.g.: standards on food additives and residual agricultural chemicals in the Food Sanitation Law) are said to be the most complex and most stringent in the world, and the biggest impediment for agricultural and foodstuff exporters to Japan. During the FGDs and interviews, participating exporters complained about the following requirements of the Japanese market, in particular:

- (1) Japan's metabisulfide<sup>8</sup> standard of only 50 ppm (parts per million) is too low relative to Europe's 1000 ppm and U.S.' 200 ppm,
- (2) Vapor heat treatment (VHT) for fresh fruits,

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<sup>7</sup> “And hence there is no much point in including the agricultural sector into the proposed economic partnership agreement,” adds the Japanese Embassy Commercial Section official.

<sup>8</sup> Metabisulfide is a chemical preservative to prevent the growth of microorganisms and subsequent spoilage. It is also an anti-browning agent.

- (3) Non-defined and subjective standards for food products, mostly qualitative factors that do not constitute health and safety risks as provided for in the WTO SPS agreement.

The Food Sanitation Law of Japan also provides that the Japanese importing company is liable for any harm caused by the imported food. This provision necessitates insurance coverage for the imported food, an added cost that raises the prices of the imports further.

At the very end of the obstacle course is the Japanese consumer. Presently, the number one concern of Japanese consumers is tractability of the product. In the case of agricultural and food products, they ask questions such as: “What types of seeds are used?”, “From where they are sourced?”, “When, where and under what conditions are the plants grown and harvested?”, “What, how and how often are fertilizers and pesticides used?”, and “What and how much chemicals are used in processing?”. With the internet, tractability is rapidly becoming a standard requirement. A consumer will just have to type the lot number of the product and all available information on the product will appear on the computer screen. Hence, to gain the trust and patronage of the Japanese consumer, the producer will have to provide as much information as possible.

Finally, there are disappointing as there are encouraging circumstances in dealing with the Japanese market. Japanese importers/buyers behave like a cartel. For instance, in tuna auction, Japanese importers collude not to outbid each other. In general, when Japan dominates the world market, Japanese importers collude to dictate the world price. The close relations among players in the Japanese distribution system also mean that if you lose one customer, you lose the entire Japanese market. Moreover, Philippine exporters complain of the numerous claims that Japanese buyers make in terms of both number of cases and volume of claims, and the lack of a system to verify the validity of the claims. The decade long recession in Japan has also shrank the Japanese market as well as made the Japanese consumers increasingly price conscious.

**Competition.** Although the Philippines has the dominant market share for the fruit items that it exports to Japan, it cannot be complacent of the competition posed by Ecuador and Taiwan for bananas, Mexico for mangoes, and Hawaii for papaya.

In trying to increase its vegetables exports to Japan, it has to contend with China which has already dominated several of the Japanese vegetable markets and overtaken many of the long time major suppliers of Japan such as the United States. Presently, China accounts for about half of Japan’s imports of vegetables. The rapid growth of Japanese vegetable imports is largely due to China. China can sell larger volumes at much lower prices than the Philippines. For instance, China can supply Japan bigger onions of the same quality (i.e., juicy and soft) at a lower price. Further, that Japan is now moving its secondary processing plants for food products<sup>9</sup> to China is only

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<sup>9</sup> Secondary processing plants are where food exports to Japan are unpacked, inspected and then repacked for sale in the Japanese market.

indicative of a continuing expansion of agricultural and processed food trade from China to Japan.

For fresh and frozen seafood exports such as shrimp and prawns, and tuna, the Philippines has already lost the race to Thailand and Indonesia, despite the fact that the Philippines is nearer to both the source of the resource and Japan's market. Vietnam is catching up. While the Philippines at present has none, Thailand and Indonesia and even the newest entrant, Vietnam, now has several long line fishing boats. Vietnamese firms, in partnership with the government, have even developed a boat building industry in support of the growing fishing industry in Vietnam.

The same story goes for canned seafood, specifically, canned tuna. Thailand and Indonesia lead the world market for canned tuna as suppliers. Thailand's biggest tuna canner is bigger than all tuna canners in the Philippines combined. Therefore, because of scale, tuna canners in Thailand have lower unit costs. A major cost item which results in substantial scale savings is shipping. Indonesia, on the other hand, replaced the Philippines in second place in 1995. The jump in its share in Japan's canned tuna imports from only 12% in 1995 to 34% in 20001 is impressive.

***Philippine Competitiveness and Readiness Issues.*** Philippine exporters are less able to hurdle the obstacles in the Japanese market and lose in the competition for Japan's market against its Asian neighbors, particularly, China, Thailand and Vietnam, due to three factors, namely, firm inefficiencies resulting in quality and price disadvantages, insufficient infrastructure, and lack of government support.

Both quality and price of Philippine food exports are non-competitive. Directors and members of the Philippine Food Exporters Association (Philfoodex) themselves roughly estimate that only one out of ten Philippine food exporters will pass the Hazard Analysis and Critical Control Point (HACCP). A quality problem area cited by Japanese food importers is the lack of tractability of Philippine food products. For banana chips, for instance, Philippines exporters are not able to provide the information the Japanese market requires such as data on farms from which the bananas are sourced—their cultivation techniques and their use of fertilizers and pesticides.

Sources of the cost disadvantage of Philippine agricultural and food exports are numerous. One is deficiency in technological know-how. Philippine tuna canners, for example, still speculate on how their Thai counterparts can produce with less raw material, (tuna) use. Also, technical know-how as simple as heat insulation to conserve energy is still unknown or not applied in many of the small and medium processed food firms.<sup>10</sup>

Two is packaging, a major cost item for food exports. Domestically sourced packaging materials are more expensive than imported ones. Importation, however,

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<sup>10</sup> During the FGD with directors and members of Philfoodex, one food processor mentioned how her firm's monthly electricity bill had gone down by about P25,000 after following an advise by a JICA consultant to install a heat insulation system which cost the firm only a one-time outlay of about P9,000.

would require volume. This is a constraint faced by the small and medium scale enterprises (SMEs) which dominate the food export sector.

Three is the absence of economies of scale which has significant implications on certain cost items such as shipping/transportation costs and storage costs.

Four is the insufficiency of credit facilities for SMEs. Access to funds by SMEs is constrained by their lack of collateral. Until recently, most exporters avail of the short-term Packing Credit Line for both short-term and long-term capital needs. The problem of short-term credit used to finance long-term requirements for fixed capital acquisition surfaces when financial crisis such as the 1997 Asian crisis occurs. When the supply of funds dry up, short-term loans are not rolled over and SMEs run out of money to service their loans and finance their daily operation resulting in temporary or permanent closures. As a consequence, according to a Philfoodex director, there are exporters who rely on the informal financial markets where interest rates can be as high as 20% per month.

The fifth concerns government policies that raise the costs of exporters. One such policy is the government's regulation of sugar imports. The very high Philippine tariff on imported sugar of 65% results in a substantially higher price of sugar—a major ingredient in food exports. Another government policy that exporters claim to be impairing Philippine competitiveness is the minimum wage policy. Exporters claim that the automatic wage adjustments do not provide incentives for workers to increase their productivity.

Other constraints faced by Philippine food exporters include uncertainties and instability of the supply of raw materials and insufficiency of testing centers for food products. A major concern of food exporters is the sourcing of raw materials. Apart from shortages arising from seasonality and natural calamities (typhoons), other factors come into play. The banana chips case is an example. *Saba*, the type used for banana chips is grown by backyard farmers, not by commercial farms which have concentrated in the production of Cavendish bananas for exports. There are a number of problems that arise in dealing with backyard farmers—no guarantee on volume, non adherence to agreements, competition for supply even with the *banana-cue* vendors, etc.

## V.2 Consumer Manufactures

### V.2.1 Strengths and Opportunities

The strength of the Philippines' non-food consumer exports such as apparel and fashion goods, household products, and furniture is the product quality, particularly, the product design and the unique indigenous materials that are available in the Philippines.

***Garments.*** The slowdown of the Japanese economy that started in 1991 and the introduction of the consumption tax resulted in the slump in demand for the luxury-class branded apparel products from Europe and the U.S. and the increased popularity of lower priced casual garment imports from China and Southeast Asian countries. The

proliferation of “development imports”—goods manufactured according to Japanese buyers’ specifications in overseas factories have led to the growth of the Japanese market despite the decline in domestic production. Likewise, even the upscale European and U.S. brands have put up factories in Asia and are shipping goods directly from their Asian branches to Japan.

Asian made garments fall into the mass market and medium quality categories in Japan’s market. Mass-market items usually involve consignment processing and are manufactured with the abundant materials available in China and Southeast Asian countries. Medium quality items are imported in small sized lots of a large variety of designs and require shorter delivery times. Considering the high costs of production in the Philippines relative to China, Vietnam and Indonesia, Philippine exporters must focus on the medium quality items in which Philippine advantage in terms of design and craftsmanship may balance its cost disadvantage.

***Footwear, Bags, Jewelry, Timepieces.*** In general, the chronic recession in post-bubble Japan has led to a change in the Japanese consumers preference in favor of lower priced quality goods sourced from Asian countries. The volume of imports of low priced footwear, bags, jewelry, timepieces and other fashion goods especially from China have increased with the decline in domestic production. With regard to timepieces, Japan appears to be concentrating more on the production and exports of movements resulting in lower domestic production of and hence, increasing reliance on imports for completed watches and clocks.

Some fashion trends emerging in the Japanese market are as follows. For bags, there is a shift in demand away from leather bags to bags made of lighter-weight nylon fabric and similar materials. In the case of jewelry, imports of higher priced platinum and gold jewelry are down while silver jewelry is up. For timepieces, heavy-duty and multi-featured digital watches are popular among the young. Recently, Japanese also tend to own a rather large number of inexpensive watches and mix-match them with different styles of clothing.

***Household Products, Lifestyle Products, Novelty and Gift Items.***<sup>11</sup> Imports make up nearly half of the total market value of this product category.<sup>12</sup> Prospects for import growth in Japan in this sector are good for a number of reasons. First is the extensive and continuing development of new sales channels in the sector. There are department stores in Japan entirely devoted to household goods, the pioneer in this area is the Seibu-owned Shibuya Loft. Further, the number of small specialty and lifestyle stores in Japan is still

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<sup>11</sup> This product category includes a wide range of goods such as tableware, kitchenware, bath and toilet items, stationary, and products for living room and dining room use. According to METI, the following 11 products fall under household goods: light sheet metal products, glass products, ceramics and simple china, fine ceramics, enamelware, house furnishings, musical instruments, stationary, toys, leather products and leather shoes. Household goods, however, also include products made from bamboo, cane, cloth and plastics.

<sup>12</sup> JETRO Japanese Market Report, No. 55, March 2001.

growing. Catalog-based mail order and e-commerce transactions are also picking up.<sup>13</sup> Second, household goods stores' customer base is growing and diversifying. The traditional clientele of these stores are female age 20-50 years. Recently, this sector reaches out to male customers by offering unisex items and gift ideas for male. Consumption expenditures in Japan has also switched from overseas trips and shopping during the bubbles years to domestic expenditures on family activities and goods that improve home comfort, warmth and charm. Third, to reduce production costs and increase the low profit margins of the retailers, foreign makers mainly in Asia are commissioned or contracted to produce the goods. Relative to Japan's food products market, the household goods sector has a fairly simple 3-level distribution channel: producer-wholesaler-retailer. In many cases, retailers by-pass wholesalers and go directly to the importer or even exporter/maker of the goods. Finally and most importantly, a boom in Asian household products started in 2000 in Japan. This coincides with the "ecology" trend which translates into the improved preference for natural and simple materials.

***Furniture.*** Despite depressed consumer spending, furniture imports are also trending upward. As in other consumer manufactures, furniture imports from China and Southeast Asian countries are mostly "development imports" that strike a balance between quality and cost. Asian furniture exports, mostly made of wood, have advantages in terms of raw materials and labor costs. Wooden furniture accounts for more than half of Japan's furniture imports and more than a third of Japan's demand for wooden furniture is met with importation.

## V.2.2 Weaknesses and Threats

***Selectivity of the Japanese Market.*** Japanese wholesalers and retailers usually find suppliers through trade fairs and exhibits and visiting overseas shops. To tap Japan's market, products must be original, innovative, reasonably practical and functional. This necessitates up-to-date information on the products in the market which can be obtained by likewise regularly attending trade fairs and exhibitions, frequent visits to shops and markets inside and outside Japan, and looking at the numerous household product catalogs in Japan. As in the case of food products, this marketing strategy is very costly and Philippine exporters of household goods, all of whom are small scale usually cannot afford such a marketing approach. This explains the limited breakthrough of Philippine firms in the market.

Another factor for the limited market success of Philippine, and in general Asian exporters, is the Japanese consumers' revealed preference for European and other western goods. One Philippine exporter interviewed says that he has joined trade fairs all over the world, including Japan, and has noticed that Japanese do not seem to be as much interested in Philippine or Asian made products as they are in European goods.

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<sup>13</sup> This is reflected in the remarkable sales performance of magazine type household goods catalogs (e.g.: Belle Maison: Shin Seikatsu (New Life), Belle Maison: Kaizoku Zeikatsu Zakkahen (Family Life Household Products Collection, Haisensu Ehon: Seikatsu Zakkahen (High Sense Picture Book: Daily Household Goods Collection, Zakka Katarogu (Household Goods Catalog) in Japanese bookstores.



**Competition.** China is the single most important player in Japan's non-food consumer goods import markets. Its abundant supplies of raw materials, low wages and competitive prices, helped further by considerable technical assistance from Japan, have made it the leading supplier (accounting for more than half of imports) of the Japanese consumer goods market in almost all product categories. China has already established itself as Japan's main production base for apparel and fashion goods (bags, footwear, and accessories), furniture and household products, and toys. Further, not only Japanese makers, European and U.S. firms supplying the Japanese market as well have transferred their production facilities to factories in China to reduce costs and shorten delivery time. Moreover, support industries for these sectors are also remarkably emerging and rapidly growing in China. Distribution-related operations such as inspection and price tagging (the equivalence of the secondary processing plants for food products) are likewise being transferred to China.

Fast becoming a major player to trail China and overtake the Southeast Asian countries is Vietnam. Vietnam is now next to China and ahead of Thailand and Indonesia<sup>14</sup> as source of apparel exports to Japan. Revealingly, a JETRO Japanese Market Report's list of imported household goods seen in household goods stores in Tokyo contains 7 lines for China made goods, 9 for Vietnamese, 5 for Thailand, 4 for Indonesia, and only 2 lines for the Philippines.

**Philippine Vulnerability.** Like the processed food sector, the Philippine non-food consumer exports sector is dominated by SMEs and hence, faces the same problems of inadequate credit facilities, technical know-how and government support. The Philippine advantage in design and craftsmanship easily fades out with certain though disagreeable but nevertheless common business strategies of importers. Philippine exporters, for instance, are complaining that foreign buyers buy only samples or even just take pictures of Philippine made products during trade fairs and exhibits, and have these copied by factories in China. Philippine advantage in goods made from materials that are only available in the Philippines is likewise easily lost with the exportation of the unprocessed raw materials from the Philippines. This is the case for *bangcuang* and *raftia*. These materials are not available in China but China has already started importing them from the Philippines.

Lack of government support is the most common grievance of exporters of consumer manufactures (as well as processed food exporters). Stories about how Philippine booths in international trade fairs and exhibits are so inferior to booths of other Asian countries and how much government support businesses from these other Asian countries are getting are mainstays in all our FGDs and interviews. Philippine exporters attribute the unified stand of their Asian competitors in international business meetings and gatherings—something Philippine businessmen are not equipped with when

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<sup>14</sup> The Philippines is not included in the list of top five apparel exporters to Japan. Completing the list is India. This despite the fact that Thailand, Indonesia and the Philippines were the Southeast Asian countries that stepped in to take the place of Korea and Taiwan in the late 1980s as apparel exporters to Japan.

they attend these international meetings—to government leadership and support of industry organizations.

More objectively, a leading exporter refers to how undermanned and low the budget of our overseas trade attaché are. The trade sections of the Philippine embassies do not have commercial and marketing intelligence that are supposed to provide our exporters information and data on how to better compete with other exporters. According to this exporter, the commercial section of the Philippine embassy in Thailand was once even handled by a Thai national. He laments that exporters definitely could not expect this Thai to give him tips on how to beat their Thai competitors.

### IV. 3 Industrial Manufactures

#### IV.3.1 Strengths and Opportunities

The industries in Japan are said to be “de-industrializing” or “hollowing-out”. This means that only certain sections of the industry such as research and development and manufacture of newly introduced and high tech products stay in Japan while mass production processes are relocated or outsourced to lower cost countries such as the ASEAN countries, China and Vietnam. Generally, equipment (e.g.: household appliances, personal computers (PCs) and peripheral devices, and cellular phones) assembly operations and production of standard equipment parts have mostly shifted to subsidiaries of Japanese, U.S. and European manufacturers and a few local companies in the developing countries of Asia. The Philippines, together with the other ASEAN countries, China and more recently, Vietnam, has become the multinational corporations (MNCs) export bases for these products. The global trend in electronics and automotive sectors is for the industrial giants of the developed countries to concentrate in new product market development. Hence, there exist enormous opportunities for subcontracting or original equipment manufacturing (OEM) in these sectors. There is also a growing trend toward the so-called “turnkey” model, an arrangement in which raw materials are not supplied by the foreign buyers but are sourced by the assemblers/exporters. This is a most welcome development as it may result in higher value-added of this export industry.

The major strength of the Philippine industrial sectors comes from the skilled, highly literate and English-speaking labor force. The sector also receives relatively greater government support. Most of the exporting companies are large enterprises with little or substantial foreign capital infusion, are located in the export processing zones, and enjoy tax incentives. Largely because the sector is the biggest contributor to the country’s exports earnings and because of the presence of large and multinational players in the sector, government has been more receptive to the sector’s calls for less red-tape. Paperless trading, including custom procedures, for instance, has already been set-up and implemented for the electronics and automotive industries.

***Electronics.*** Of the 60% share of electronics in total Philippine exports to Japan, more than half are components and devices such as discretets, integrated circuits

(ICs), power transistors, signal transistors and diodes, DRAM, SRAM, micro controllers, ASSPs, ASICs/system LSIs, MPUs/MCUs, AS memory etc., collectively referred to as semiconductors.

Philippine electronics exports are highly correlated with foreign direct investments. The major industry players are American (Intel, Texas Instruments, Motorola, National Semiconductors), European (Philips Semicon and Temic Telefunken), and Japanese (Matsushita Telecommunication Industries and Uniden). American subsidiaries dominate the semiconductor sector. The European firms are generally in IC packaging. There are a few Japanese firms in the semiconductor sector. The majority of the Japanese subsidiaries, however, are in the sub-assembly sector of semiconductor support industries. Within the sub-assembly sector, Japanese firms are heavily concentrated in computer peripheral production (FDDs, hard disc drives (HDDs), computer disc read-only-memory (CD-ROM)). There are also Japanese-owned firms in secondary supplier industries such as lead frames for IC packaging, molds and dies, and plastic carrier tapes for IC packaging.<sup>15</sup>

The growth of the global semiconductor market accelerated in the latter part of the 1990s due to major technological breakthroughs in audio-visual, computer and telecommunications systems. From 1999 to 2000, the market expanded by more than 35%. Japan accounts for more than a fifth of the global market. Japan's semiconductor market likewise grew by 35% due specifically to brisk demand for cellular phones, PCs, digital cameras and digital television. The global slowdown in demand for electronic products in 2001 resulted in a decrease in the demand for semiconductors. The Japanese semiconductor market showed more vitality as it posted a contraction of only 6%, much smaller than the 35% worldwide decline. The Japanese market quickly recovered in 2002. The market is expected to expand further as an offshoot of new demand for next generation cellular phones; televisions and set-top boxes for household use; video game units; and higher speed, larger capacity data communication services and other telecommunications infrastructure. These types of equipment require semiconductors loaded with technologies for communication networks, and image processing.<sup>16</sup>

***Automotive Parts and Accessories.*** In August 1995, Japan deregulated the importation of auto parts and accessories. As a consequence, the value of imported assembly and replacement auto parts and accessories increased by 124% in 1996 and the share of imports in the sector increased by 24% despite the decline in overall industry sales.<sup>17</sup> Although there is a decline in total demand, the case varies item by item. In general, demand is growing for engine parts, ignition parts, transmission and steering components. While the demand for certain suspension and brake components is somewhat weaker, strong demand remains for some suspension and speed control parts such as coil springs, shock absorbers and suspension struts. The demand for accessories, such as vehicle electronics (especially micro discs), auto mufflers, and those that improve safety and comfort, is growing. Since Japan ranks second only to the U.S. in terms of the

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<sup>15</sup> Morisawa and Tecson (1997).

<sup>16</sup> JETRO Japanese Market Report :Electronic Components, no. 61, March 2002.

<sup>17</sup> JETRO Japanese Market Report: Automotive Parts and Accessories, no. 13, March 1998.

number of licensed automobiles and cars in Japan serve not only as a means of transport but more of a hobby object in which the owner takes pride, there exists a big potential for expansion of the Japanese automotive parts and accessories market.

Another recent development that augurs well for imports is the diversification in the sourcing and distribution of replacement auto parts and accessories. In the past, suppliers were limited to producers of genuine parts and recommended parts.<sup>18</sup> Now, imported parts, parts supplied directly from auto part manufacturers, private brand parts of auto parts dealers, parts supplied by used cars dealers, and salvaged parts are available in the market. While genuine parts still dominate the replacements parts market, imported parts are making substantial inroads for common parts and accessories such as spark plugs, wiper blades, brake pads, air filters, oil filters, clutches, etc.

In particular, nationwide auto parts store chains led by Autobacs and Yellow Hat as well as local independent stores are increasingly becoming popular. Apart from sales, these auto parts stores provide services like oil change, tire replacement, audio system installation, and sport equipment installation. Their growing presence in the market has led to increasing imports of auto parts and accessories. Autobacs, for instance, directly imports from foreign manufacturers tires, motor oil, aluminum wheels, audio equipment, interior panels, system carriers and leisure tables. Yellow Hat, on the other hand, imports system carriers, roof containers and sunshades. These stores have resorted to foreign products not only as a strategy to reduce cost but also to differentiate them from their competitors. While these store go to Europe and the U.S. for name brand products, they source their own private brand products and bargain items from Southeast Asia. They actively search for marketable products, visiting exhibits and trade shows and attending business meetings in both Japan and abroad.

Moreover, since the opening of the market in 1995 and with the continuing deregulation, several measures to promote imports are being undertaken. One, JETRO actively assists and supports sales promotion missions in Japan for foreign auto parts suppliers as well as overseas auto parts buying activities of Japanese companies. Two, JETRO has created permanent exhibition facilities for foreign-made parts at imported automobile showrooms in Tokyo, Nagoya and Osaka. Three, the Japan Federation of Auto Parts Sales Association has put up a consultation window for foreign auto parts manufacturers planning to enter the Japanese market. Finally, the Japan Automobile Service Promotion Association has developed an information network system on foreign auto repair parts. The system includes a database on types, prices and other detailed information on foreign parts manufacturers. Foreign parts manufacturers can register via the association's home page or by mail to be included in the database.

#### IV.3.2 Weaknesses and Threats

The market for industrial manufactures is relatively more open than any of the other markets in Japan. Almost all industrial manufactures are already free trade items

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<sup>18</sup> Recommended parts are non-genuine auto parts that are approved by Japan Automobile Products Association (JAPA).

that are not subject to import restrictions and import taxes. The only hurdle to entry is its QCDDM (Quality, Cost, Development, Delivery and Management) requirement. Aside from the usual quality, cost and delivery standards, the Japanese market looks at the technical development capability (D) and management stability (M). These factors even become more critical with the trend towards original equipment manufacturing (OEM).

**Competition.** The major threat to Philippine exporters of electronics, auto parts and other industrial manufactures comes from competing Asian countries. Even for industrial manufactures, China is fast becoming the production bases of Japanese firms with nearly half of Japanese foreign direct investments (FDI) in electronics now going to China. Following China as site for Japan's FDIs is Vietnam. Since its reorientation towards a market economy, Vietnam has been very aggressive in attracting foreign investors. Vietnam was among the first countries (together with the U.S., Germany and other European countries), and the only Southeast Asian country visited by the JETRO-sponsored auto parts and accessories buying missions from 1995 to 1998.

**Philippine Constraints.** The electronics and automotive sectors in the Philippines have remained largely assembly operations. Labor, the Philippine value-added in this sector, only covers a small portion (roughly 10%) of the assembled product. The greater part consists of the imported raw materials, most of them supplied by the foreign buyer<sup>19</sup>. Hence, the substantial contribution of these sectors' exports in gross terms become insignificant in net terms. Based on employment data, industry leaders estimate the net foreign exchange earnings of the electronics industry to be only about 15% of reported exports. This rough estimate is consistent with Morisawa and Tecson's survey which reveals a 10% local content for electronics assembly industry, and 15-20% for the automotive industry.<sup>20</sup> The study of Morisawa and Tecson attributes the low local value-added partly to the dominance of MNCs which they say are less inclined to establish linkages with the local suppliers.<sup>21</sup>

The more central reason for the high degree of import dependence of the electronics and automotive and industrial sector, in general, is the weak and underdeveloped support industries. The presence of competitive support industries is important for the Philippines to be able to benefit from the "turnkey" arrangement. However, there have not emerged enough firms in the Philippines that can supply the raw materials needs of the electronic and automotive exporters. The reasons for this are discussed extensively in Morisawa and Tecson. There are the difficulties encountered by supplier firms which are mostly SMEs, namely, fluctuations in orders, lack of access to raw materials and capital equipment, high risk of capital and technological investment, and financial constraints.<sup>22</sup> Government policies aimed at developing the support industries also failed. The Electronic Local Content Program (ELCP) of 1975, for

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<sup>19</sup> Two models are employed in these sectors. For model 1, buyers supply the assembler/exporter all the major raw materials. For model 2, also referred to as "turnkey", assembler/exporter source raw materials on its own.

<sup>20</sup> Morisawa and Tecson (1997), p. 84.

<sup>21</sup> Ibid., p. 79.

<sup>22</sup> Ibid., p. 90.

instance, only created a captive market of assemblers for the supplier firms. With the protective environment, firms were not induced to upgrade quality and be cost-effective.<sup>23</sup> The numerous financing programs (numbering more than 30) put up by the government for the electronics SMEs likewise did not address the SMEs problem of insufficient collateral—the biggest constraint to credit access. The results of these financing programs were also limited as they were not disseminated properly and were not focused on capital expenditures for productivity improvements and technological upgrading.

A second major area of concern for this sector is the country risk factors. The industrial manufactures export sector, being highly capital-intensive, are the most sensitive to country risk factors. Peace and order condition, political stability, and policy continuity are major drawbacks for Philippine exporters of industrial manufactures.

Despite the greater attention the industry is getting from the government (relative to other sectors), there is still a perceived lack of government support. Industry players call for the government to provide better infrastructure (e.g.: land and air transportation infrastructure) and to establish a performance monitoring system for government agencies that will significantly reduce if not eliminate red-tape and corruption. The mere size and global exposure of the industry make it susceptible to even the slightest changes in the regulatory environment.

Another factor that holds back the industry is the limited cooperation between industry and academic institutions. The industry requires a highly and appropriately trained manpower. Many of the engineering and vocational program curricula in the Philippines, however, are either irrelevant or inadequate. The educational and other training institutions in the Philippines also lack facilities for practical training. The government has failed to provide the assistance which the learning and training institutions require as well as to facilitate the interaction between industry and academe.

## **V. Making the JPEP Agreement Philippine Exporters-Friendly**

For Philippine exporters to reap fruits from the economic partnership between Japan and the Philippines, the Philippine party must make the following basic demands.

First, the agricultural and processed food sectors must be included in the agreement. As a producer of agricultural products, the Philippines stands to benefit from the liberalization of the agricultural and processed food imports of Japan. As major Philippine agricultural exports are not cultivated in Japan, there is no reason why the Japanese agricultural sector needs to be protected vis a vis Philippine exporters.

Two, Japan must commit to undertake import promotion programs particularly for Philippine made products. Specific programs and concrete steps that are needed to promote and facilitate the flow of goods from the Philippines to Japan include:

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<sup>23</sup> Ibid., p. 92.

- (1) seminars and workshops on the Japanese market,
- (2) buying missions to the Philippines,
- (3) sales promotion missions in Japan,
- (4) accreditation program for Philippine private testing centers,
- (5) system and procedures for claim verification.

Three, Japan must commit to establish an SME-focused official development assistance (ODA) agenda with two key elements:

- (1) efficiency enhancement programs in the areas of production, quality control (including use of additives/chemicals) and management, and
- (2) capital accumulation loans programs that address among other things the collateral problem of SMEs.

Finally, Japan must commit not only to provide but also to refocus assistance towards human resource development programs such as

- (1) basic research programs leading to new product development,
- (2) engineering and technical academic support programs (e.g.: curriculum development, building training laboratories with adequate and appropriate machinery and equipment), and
- (3) programs that promote greater, closer and constant interaction among academe, industry and government (e.g.: creation of science parks that will put factories and training/research institutes together<sup>24</sup>).

To wrap-up, an official of the commercial section of the Japanese embassy notes that with the economic partnership agreement, Japan hopes to see a better and more liberalized investment environment in the Philippines. Among the items in the so-called “wish list” submitted by Japan to the Philippine government is foreign (Japanese) ownership of land. The granting of this request may be favorable for Philippine exports if two things happen. One, if the additional incentives lead to more Japanese investments in the Philippines. And two, if the Japanese investments result in technology transfer. In so far as Japanese investments mean more exports to Japan<sup>25</sup> and Japanese MNCs are known for providing considerable technical training for their engineers and technicians particularly in the form of on the job training in the host country and in Japan<sup>26</sup>, giving serious consideration to this request may be justified provided the above mentioned basic demands are granted.

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<sup>24</sup> Something like an industrial-equivalent of the Rockwell Center in Makati.

<sup>25</sup> The “development exports” from the Asian countries, especially China, is the main avenue by which the correlation between investments and exports occurs in the case of food products and consumer manufactures. The correlation between foreign investments and exports in the industrial sectors, especially electronics and automotive, have long been established. See Morisawa and Tecson (1997), for instance.

<sup>26</sup> It is a common practice in the electronics and automotive sectors in Japan for the assemblers to organize their suppliers into associations and provide them with technical assistance and training. If Japanese investors in the Philippines applies the same model, then more incentives to Japanese investors may lead to the emergence of stronger and more competitive support/supplier industries.

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- International Trade Center (ITC) Calculations based on COMPTRADE Statistics.
- National Asia Pacific Economic and Scientific (NAPES) Database.
- Personal Computer Trade Analysis System (PC-TAS).



## Appendix 1

### Philippine Exports to Japan Market Position Matrix Vulnerable Quadrant

SITC Code	Description	Share of Philippine Exports in Japan's Imports 2000	Share of Philippine Exports in Japan's Imports Growth Rate 1996-2000	Share of Products in Japan's Total Imports Growth Rate 1996-2000
2655	Abaca,Manila hemp,waste	65.579	14.22	(40.00)
2823	Othr.ferrous waste,scrap	32.470	8,455.94	(1.77)
6353	Buildrs.joinery,wood etc	29.240	288.32	(25.24)
2816	Iron ore agglomerates	19.339	0.92	(138,832.56)
3343	Gas oils	13.832	1,415.71	39.57
6561	Narrow fabric,woven,othr	12.498	5,643.50	(224.99)
8218	Parts,mtl,wood furniture	12.370	2,178.18	(1.17)
0353	Fish, smoked	8.107	456.83	(1.02)
7724	Switch.apparatus,1000v+	7.368	61.23	(0.71)
7285	Parts public wrk mach etc	6.752	647.50	(6.31)
8217	Furniture nes,othr.matrl	6.539	6.64	(20.19)
2485	Wood,non-conif.wrkd,shpd	6.413	1,207.37	(60.45)
7284	Mach.appl.spcl indus nes	5.737	1,342.08	(47.27)
6649	Glass, nes	5.260	213.93	85.51
8745	Meas,contrl,sci inst.nes	4.794	229.50	(1.16)
7449	Parts,hoists,lifts equip	4.626	14,857.73	(0.26)
0615	Molasses	4.581	466.63	(40.38)
8139	Parts,light fittng,signs	4.315	106.38	(0.74)
6993	Pins,needles,irn.stl,etc	4.223	18.47	(38.59)
7484	Gear,gear box,parts,etc.	4.054	2,039.91	(22.06)
7728	Parts,electrc.panels etc	3.864	2,513.96	(0.69)
7131	Aircraft piston engines	3.791	223.92	(5.21)
8924	Postcards,transfers etc.	3.626	1,877.62	(1.02)
8991	Carved,moulded goods nes	3.588	7.62	(29.22)
7499	Mach parts,non-elect nes	3.410	136.59	(17.29)
8997	Baskets,brooms,brush,etc	3.385	22.13	(56.54)
7429	Parts,pumps,liq.elevator	3.203	113.11	(4.67)
6921	Reservoir,tanks,vats,etc	2.929	2,365.25	(2.16)
2882	Oth.non-ferr.metal waste	2.865	3.36	4.75
0361	Crustaceans, frozen	2.839	0.89	(234.67)
7513	Photo,thermocopy apparat	2.772	251.57	(17.32)
7414	Commrc.refrig equip,part	2.652	152,686.61	(28.92)
8972	Imitation jewellery	2.615	45.64	(2.19)

7643	TV,radio transmitttrs etc	2.196	5,815.16	(210.55)
1123	Beer etc.made from malt	2.103	691.90	(13.32)
6764	Oth.bar,rod iron,steel	2.079	167.07	(0.38)
7453	Weighing mch,weights,pts	2.026	3,142.62	(0.04)
7415	Air conditioning mch,pts	1.688	564.47	(34.89)
6671	Pearls	1.391	32.35	(0.12)
7119	Parts for steam boilers	1.364	201.03	(154.54)
0989	Food preparations, nes	1.289	226.93	(41.88)
6518	Yarn,staple fibres, etc.	1.282	5,161.47	(32.02)
5234	Sulphides,sulphates etc.	1.193	2,849.86	(76.57)
0599	Juices,other than citrus	1.133	25.58	(12.07)
7283	Oth.mineral working mach	1.114	795.10	(1.40)
6582	Tarpaulins,sails,awnings	1.034	545.75	(33.71)
0223	Milk products	1.027	299.18	(46.58)
0019	Live animals, nes	0.980	168.66	(0.50)
2690	Worn clothing,textls,rag	0.976	226.03	(407.87)
7269	Part,type,offst,prnt mch	0.896	191.05	(129.10)
6129	Oth.leather articles nes	0.861	21.81	(94.72)
7436	Machs.filter gas,liquids	0.836	30.12	(41.71)
2732	Gypsum,limestone etc.	0.821	7,834.23	(72.36)
7591	Parts,of copying machine	0.815	171.68	(0.34)
7438	Parts,air pumps,fans etc	0.779	2,646.38	(1.61)
5922	Albuminoidal substs. etc	0.772	58,388.00	(17,500.69)
6524	Oth85%+cottn.fabric200g+	0.758	558.70	(97.63)
6994	Springs,leaves,metal	0.739	1,293.78	(1.45)
6552	Oth.knit.crochet.fabrics	0.675	2,725.30	(233.47)
7781	Batteries,accumulators	0.633	13,940.30	(10.30)
7448	Lifting etc.machines nes	0.554	37.99	(15.86)
5913	Herbicides, retail sale	0.529	1,983.10	(75.29)
8110	Prefabricated buildings	0.520	105.05	(1,005.43)
7331	Metal forming mach.tools	0.506	4,415.63	(110.17)
2731	Building,dimension stone	0.481	1,022.70	(86.86)
7512	Calculatng,acctg,etc.mch	0.476	1,309.17	(17.70)
7372	Mtl-rolling mills,rolls	0.404	839.34	(110.76)
8131	Lamps,light fittings nes	0.384	18.49	(151.18)
0345	Fish fillets,frsh,chilid	0.367	13.15	(1,288.22)
0342	Fish,frozen ex.fillets	0.361	52.25	(98.42)
6541	Fabric,of silk,silk wste	0.349	0.42	(57.95)
7317	Mtl.shaping,cuttng.tools	0.336	472.97	(14.72)
7234	Const.& mining machs.nes	0.326	723.08	(14.57)
6519	Yarn,textile fibres, nes	0.324	746.12	(197.21)
7519	Other office machine nes	0.321	434.59	(198.96)
8458	Oth.garments,not knitted	0.321	51.94	(35.60)
8928	Printed matter, nes	0.286	462.09	(31.07)

2926	Bulbs,cuttnngs,live plant	0.276	50.07	(34.57)
7452	Indus washng,bottlng mch	0.267	164.75	(169.63)
7272	Oth.food-proc.mach parts	0.267	29.36	(24.79)
8513	Footwear,nes,rubber,plst	0.265	30.33	(18.73)
8857	Clocks	0.250	109.57	(37.10)
8973	Gold,silver jewelry,ware	0.221	111.19	(1,925.84)
8982	Musical instruments nes	0.211	42,402.69	(5.08)
6912	Aluminium structure,prts	0.206	67.94	(422.97)
8442	Suits,dresses skirts etc	0.172	151.17	(29.77)
5752	Acrylic polymers	0.158	768.72	(3.79)
6871	Tin,tin alloys,unwrought	0.149	362.45	(335.15)
1124	Spirits	0.135	152.27	(671.51)
0484	Bread, baked goods	0.132	680.13	(31.42)
8519	Parts footwear,etc.	0.132	177.40	(97.99)
2911	Bone,horn,ivor.coral,etc	0.107	0.25	(11.36)
8747	Oscilloscopes, etc.	0.102	11.23	(717.15)
7373	Welding,brazing etc.mach	0.096	754.57	131.53
8416	Underwear,nightwear etc.	0.087	212.17	(1.38)
8461	Accessories,notknitted	0.085	100.42	(24.47)
7754	Elec.shavers,clipprs,pts	0.084	2,871.37	(25.40)
7316	Mtl.surfc.finishng tools	0.084	2,079.49	(39.89)
7252	Oth.pulp,paper,makng mch	0.082	3,688.88	(68.06)
5334	Paints,varnishes etc.	0.081	459.66	(11.01)
6842	Aluminium,alum.alloy,wrk	0.076	682.87	(239.11)
2925	Seeds, etc., for sowing	0.075	129.81	(3.03)
7247	Oth.textile machnery nes	0.073	1,540.61	(182.79)
5137	Monocarboxylic acids,drv	0.072	1,213.15	(4.56)
7456	Spraying machinery etc.	0.066	1,356.99	(267.58)
7431	Air,vacuum pump,compress	0.050	493.13	(18.44)
7417	Gas genrtr,air liquefier	0.048	1,396.25	(2.36)
8411	Overcoats,outerwear,etc.	0.044	35.28	(176.49)
2919	Oth.animal materials nes	0.043	30.80	(269.94)
6341	Veneer,plywood sheets	0.042	4.75	(50.56)
5222	Other chemical elements	0.030	65.88	(40.29)
0611	Sugars,beet or cane, raw	0.027	47.34	(8,837.14)
7418	Oth.temp.change mach etc	0.019	352.85	(103.40)
7311	Mach.tools,metal removal	0.012	4,964.37	1,389.26
6841	Alum.,alum.alloy,unwrgh	0.002	12.43	(46.44)

Source of data: PC-TAS

## Appendix 2

### Philippine Exports to Japan Market Position Matrix Retreat Quadrant

SITC Code	Description	Share of Philippine Exports in Japan's Imports 2000	Share of Philippine Exports in Japan's Imports Growth Rate 1996-2000	Share of Products in Japan's Total Imports Growth Rate 1996-2000
2891	Prec.mtl.ore,concentrats	57.128	-10.454	-14.402
2734	Gravel,crushd.stone,aggr	20.108	-27.921	-767.475
2657	Coconut fibre and waste	16.819	-35.010	-10.056
7612	Black,white TV receivers	7.609	-40.802	-0.692
6821	Copper;anodes;alloys	7.029	-39.582	-4148.084
8711	Binoculars,telescope etc	6.097	-16.005	-36.280
6259	Other tyres,tubes etc.	5.491	-29.940	-36.539
6254	Tyres,pneum.new,cycles	4.537	-11.490	-5.486
6954	Hand tools,etc. nes	3.344	-26.739	-27.246
8993	Candles,matches,etc.	2.932	-71.686	-5.161
6662	Ornamental ceramic artcl	2.531	-11.087	-4.985
6955	Saw blades	2.389	-45.553	-0.557
8413	Jackets and blazers	2.237	-19.827	-8.479
7439	Part,centrifuge,filt.etc	2.217	-4.227	-116.546
6824	Copper wire	2.108	-62.330	-42.892
5122	Oth.acyclic alcohol,derv	2.028	-46.100	-104.659
0589	Fruit,nuts,prsvd,ppd,nes	1.899	-30.142	-0.647
8437	Shirts,mens boys,knit	1.869	-72.909	-149.757
0581	Jams,jellies,marmalades	1.658	-85.167	-1.576
6354	Wood,domest.use ex.furnt	1.509	-45.516	-33.674
8811	Cameras,flash equipt,etc	1.347	-75.787	-892.553
8414	Trousers,breeches,etc.	1.330	-33.581	-6.716
6575	Twine,cordage,etc.prdcts	1.324	-50.829	-28.718
7648	Telecommun.equipment,nes	1.296	-28.542	-4.687
2879	Oth.non-ferr.ore,concntr	1.273	-7.763	-33.484
8447	Blouses,shirt-blouse,etc	1.047	-12.429	-28.337
8992	Artificial flowers etc.	1.036	-37.317	-12.865
8481	Leather apparel,accessrs	0.961	-13.530	-4.003
0724	Cocoa butter, fat or oil	0.886	-41.772	-100.562
2831	Copper ores,concentrates	0.862	-54.100	-2229.865
8422	Suits and ensembles	0.734	-20.427	-40.174
8998	Small-wares,toiletrs nes	0.703	-83.841	-13.235
0341	Fish,fresh,chilled,whole	0.702	-46.493	-4.470

8515	Oth.footwear,textle uppr	0.694	-55.443	-53.311
0577	Edible nuts fresh,dried	0.545	-28.113	-18.561
0363	Molluscs	0.542	-36.647	-33.187
5121	Acyclic monohydric alchl	0.541	-50.633	-20.922
2782	Clay,refract.mineral,nes	0.528	-26.691	-37.920
2658	Veg. textile fibres, nes	0.524	-43.495	-20.623
8312	Trunks, suit-cases,etc.	0.491	-2.669	-1254.180
6661	Ceramic household artcls	0.487	-30.527	-73.982
8484	Headgear,fittings,nes	0.478	-64.872	-117.111
1211	Tobacco,not stripped,etc	0.456	-76.806	-3.720
8415	Shirts	0.450	-58.072	-21.747
2929	Material veg.origin, nes	0.437	-11.367	-75.084
8947	Sports goods	0.422	-40.240	-2885.806
8512	Sports footwear	0.422	-28.852	-14.938
0362	Crustaceans, not frozen	0.420	-59.512	-1.434
8424	Dresses	0.414	-50.297	-24.672
5419	Pharm.goods,exc.medcmnts	0.385	-43.724	-36.455
2922	Natural gums,resins,etc.	0.380	-49.712	-25.050
5312	Synth.brighteners,lakes	0.366	-65.510	-16.890
2881	Ash, residues metals nes	0.357	-39.682	-2.171
8423	Jackets	0.353	-48.586	-22.668
6956	Knives,cutting blades	0.352	-40.556	-43.143
8427	Blouses,shirt-blouse,etc	0.342	-36.951	-17.976
8211	Convertible seats,parts	0.327	-42.872	-0.304
7243	Sewing machines, parts	0.320	-44.198	-23.121
6911	Metal structures,parts	0.320	-89.785	-5.672
3344	Fuel oils, nes	0.304	-7.615	-85.236
7239	Pts nes,cvl.enginrg.mach	0.297	-72.231	-30.613
2112	Whole bovin.hide<8kg dry	0.270	-24.259	-8693.646
0547	Vegetables prov.preservd	0.267	-47.234	-54.901
8511	Footwear,w.metal toe-cap	0.250	-37.164	-1.021
0371	Fish,prepard,presrvd,nes	0.248	-59.544	-23.610
6974	Tbl,ktchn,h.hold art.nes	0.242	-57.738	-138.849
4313	Fatty acid.etc.from wax	0.237	-89.053	-79.359
6633	Non-ceramic mineral manf	0.233	-12.331	-127.027
0813	Oil-cake,oilseed residue	0.232	-57.924	-28.653
6613	Building stone,workd.etc	0.196	-46.446	-894.904
7784	Electro-mech.hand tools	0.170	-82.396	-3.740
6952	Hand saw,file,rasp,etc.	0.169	-75.452	-5.879
8959	Oth.office,statnry.suppl	0.156	-93.529	-3.794
0815	Vegetable residues,waste	0.151	-86.595	-9.962
0593	Juice,other citrus fruit	0.149	-41.272	-1.960
2927	Cut flowers and foliage	0.144	-31.458	-3.487
8319	Travel goods nes	0.141	-42.259	-1.512

6565	Embroidery	0.130	-84.028	-524.169
6117	Leather of other animals	0.117	-87.032	-277.430
8311	Handbags,nes	0.117	-53.723	-116.097
8987	Other recorded media	0.111	-72.011	-209.905
8842	Spectacles and frames	0.091	-58.034	-11.995
8854	Watches,other than p.mtl	0.084	-9.636	-4.479
6292	Vulc.rubber belting	0.083	-84.634	-6.849
7711	Transformers, electrical	0.082	-71.558	-1.391
8514	Oth.footwear,lthr.uppers	0.079	-32.195	-42.295
6412	Paper,paperbrd.uncoated	0.079	-10.193	-11.322
0811	Hay, fodder,green or dry	0.077	-14.514	-245.348
8453	Jersys,pullovr,etc.knit	0.069	-71.899	-4.433
8428	Underwear,nightwear etc.	0.067	-65.028	-43.774
8859	Time measuring equip.nes	0.066	-94.728	-61.157
1110	Non-alcohol.beverage,nes	0.060	-18.208	-0.282
5331	Other colouring matter	0.054	-69.690	-111.308
7486	Clutches,shaft couplings	0.049	-95.713	-22.882
0548	Veg.products,roots,tubrs	0.049	-40.289	-25.622
2924	Plants,pharmc.,perfm.etc	0.040	-90.069	-79.949
8421	Overcoats,oth.coats etc.	0.034	-79.641	-94.990
8994	Umbrellas,walking-sticks	0.033	-73.980	-3.781
7426	Centrifugal pumps, nes	0.033	-79.984	-21.595
7478	Taps,cocks, valve.etc.nes	0.032	-75.222	-2.447
2484	Wood,non-conifer, sawn	0.026	-74.329	-144.818
6715	Other ferro-alloys	0.016	-97.865	-10554.026
0354	Fish liver,roe,drd,smkd.	0.014	-38.690	-214450.046
7444	Jacks,hoists for vehicle	0.013	-98.446	-60.514
0561	Vegetables, dried	0.013	-89.664	-57.614
6652	Glassware,household etc.	0.012	-72.649	-47.266
0567	Veg.prepared,presrvd,nes	0.009	-28.199	-17.918
7163	Elec.motors,genrators.AC	0.007	-51.943	-20822.605
8943	Funfair,table game artcl	0.006	-99.506	-207.741
5311	Synth.organic dyestuffs	0.005	-95.571	-105.204
7266	Oth.printng,ancill.machs	0.005	-95.397	-176.567
8455	Brassieres,corsets,etc.	0.004	-99.549	-18.736
7812	Pass.transport vehicles	0.001	-98.113	-1774.992
5416	Glycosides; glands etc.	0.000	-99.977	-17.115
7523	Digtl proc,storage units	0.000	-98.749	-1.619
0441	Maize seed	0.000	-100.000	-0.088
0459	Buckwheat etc. unmilled	0.000	-100.000	-8228.664
0723	Cocoa paste	0.000	-100.000	-3.859
2223	Cotton seeds	0.000	-100.000	-374.109
2312	Natural rubber exc.latex	0.000	-100.000	-5174.158
5147	Carboxamide-func.compds	0.000	-100.000	-15.735

5243	Metallic acid salts, etc	0.000	-100.000	-3.884
6342	Densified,reconstit.wood	0.000	-100.000	-2.228
6513	Cotton yarn,excl. thread	0.000	-100.000	-1871.655
6791	Tube,etc.seamless,irn.st	0.000	-100.000	-661.510
7244	Spinning,extrud.mach.etc	0.000	-100.000	-19.219
7633	Turntables,record player	0.000	-100.000	-0.386

Source of data: PC-TAS