Chapter 4

Chapter4 Malaysia

4.1 Trade sector assistance from Japan

The first section of this chapter provides a general overview of trade sector assistance to Malaysia from Japan. On top of direct assistance, it includes the promotion of direct investment, fostering of SMEs and supporting industries, and other support for industry development.

4.1.1 Trade sector assistance provided by JICA

Table4.1 lists the most important of JICA's post-1980 assistance projects directed at Malaysia. JICA carried out the MATRADE project from 1997 to 1999. The project will be discussed in a latter section of this report. From 2001 to 2004, JICA conducted the WTO Capacity Building Assistance Program to help the Malaysian government implementing a WTO agreement. JICA's recent assistance in trade expansion mainly focuses upon capacity building in the government sector to fuel Malaysia's sustainable economic development.

In industrial development, JICA provided assistance in 1980's and 1990's when Malaysia had heavily fostered export-oriented industries. Some programs focused on individual industries such as metal and ceramics, while others, including the Industrial Development Plan between 1987 and 1990, supported multiple industries. In the IDP project, based on the New Aid Plan released in 1987 from Japanese Ministry of Economy, Trade, and Industries (METI), JICA lead an industrial development study while JETRO formed a consulting JV with private sector companies.

Since the early 1990's, JICA has shifted its priority from general industrial development toward the fostering of supporting industries and SMEs.

Table 4-2 shows the historical record in accepting trainees in the expansion of trade / direct investment, and fostering of SMEs. JICA's training program helps the work force of governmental agencies in their capacity building. The number of trainees from Malaysia in each assistance program changes over time. In the SME program, a small but stable number of trainees had participated in the 1980s, but after seven were accepted in 1992, that number declined. It becomes more frequent that no Malaysians participated in the JICA's program. In the trade expansion program, between 1986 and 1992, the average number of trainees that participated was two. Each year participants came from the Ministry of International Trade and Industry (MITI) and the Industries Development Corporation. The total number of trainees from Malaysia between 1980 and 2005 amounts to just 98, the lowest number among Thailand, Indonesia, and Malaysia.

Table 4-1 JICA's most important assistance programs in trade / direct investment, the fostering of SMEs and supporting industries, and industrial development (the project name and the year)

1. Trade

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Malaysia External Trade Development Corporation	Technical Cooperation Project																										
Capacity Building Program on the Implementation of the WTO Agreements	Development Study																										

2. Promotion of SMEs and Supporting Industry

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Metal Industrial Technology Center	Technical Cooperation Project																										
Casting Technology Center	Technical Cooperation Project																										
Formulation of an Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs	Development Study																										
Industrial Promotion and Development Plan (Supporting Industry)	Development Study																										
Supporting Industry Technology Transfer Project	Development Study																										

3.Industrial sector Promotion

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Research on Fine Ceramics	Technical Cooperation Project																										
Promotion and Development of industry sector	Development Study																										
Construction Project of Kulim Hi-Tech Park	Development Study																										

Note: The former "Technical Assistance in Project Form" is now called the "Technical Assistance Project".

Source: METI "Current status and issues of economic cooperation" every year, MOFA "ODA white paper", JICA and Institute for International Cooperation, "Effective approach toward development Issues", Records other than Technical Assistance Project and Feasibility Study are based only upon the listed MITI and MOFA information.

Table 4-2 Historical number of JICA trainees from Malaysia in trade / direct investment, and SMEs development

(number of trainees)

	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	80～05 total
SMEs	1	0	1	1	2	1	1	1	0	0	1	1	7	0	0	0	1	0	0	0	0	1	0	1	0	0	20
Investment	0	0	0	0	0	0	0	1	1	1	0	0	1	2	1	1	1	1	0	1	3	0	0	0	0	2	16
Export	1	0	1	1	1	1	0	1	0	0	0	0	0	1	0	5	4	5	5	1	0	1	0	1	1	0	30
Trade	3	0	0	1	1	0	3	2	2	1	2	1	2	0	1	1	0	0	0	1	2	0	2	2	2	3	32
Total	5	0	2	3	4	2	4	5	3	2	3	2	10	3	2	7	6	6	5	3	5	2	2	4	3	5	98

Source: JICA

4.1.2 Assistance from Japan in trade expansion

In addition to JICA's technical assistance, Japan provides TA from the Japan External Trade Organization (JETRO), Japan Overseas Development Corporation (JODC), and Japan Overseas Development Corporation (AOTS), and yen loans via the Japan Bank for International Cooperation (JBIC) in infrastructure development, which is necessary to enhance trade and investment.[26]

(1) JETRO

Table 4.1.3 describes JETRO's assistance programs in Malaysia. The original purpose of JETRO was to expand Japanese trade, but as the world economy has gone global, JETRO also provides assistance especially in Asia where many Japanese private sector corporations operate. JETRO's programs help developing countries strengthen their industrial infrastructure and build exporting capacity. The feasibility study in industrial development is a prominent achievement related to JICA. In this project, JETRO formed a consulting joint venture with private sector companies. In JICA's project to assist MATRADE, JETRO members made significant contribution as a JICA's professional.

[26] Examples of assistance from Japanese agencies in trade / investment promotion are; JBIC's international finance (investment and loans to trade activities and infrastructure projects), NEXI's trade and investment insurance. Source: JICA 2003.

Table 4-3 JETRO's records in assistance of Malaysian trade and industrial development

Participation in JICA's Industrial Promotion Development Study	JETRO organized JV with private companies for studies on Asian export promotion based on the New Aid Plan in 1987 and participated in JICA's development study as a consultant. JETRO conducted studies on pottery (including glassware), mold, electronics (OA equipment, PC), rubber products, casting products in Malaysia from 1988 to 1990.
Trade and Industry Promotion Center Project in Developing Countries (AC Project : Asian Cooperation Project, 1982～2000)	✚ Promotion of local small and medium enterprises - Development of local small and medium enterprises - Spreading appropriate technology of small and medium enterprises - System Standard Technology Information Cooperation Project ✚ Development of Product Export Project - Instruction for Product Improvement - Instruction for Trade Promotion
Training of Trade Promotion Organizations' staff (1988～2002)	JETRO invited middle-management executives in Malaysian trade promotion organization and implemented training in Japan. JETRO accepted trainees in 1988,1989, 1991, 1993, 1994 from Malaysia.
Supporting developing countries' local industrial basis project (1996～)	Implementation of support for automobile and devices, electric and electronic product and devices sector ✚ Instruction for development of local industries - Dispatch of experts to strengthen basis of industrial activities - Dispatch of technical guidance experts - Support for training of industrial trainers ✚ Promotion of local industrial exchanges - Promotion of industrial exchanges - Holding wide-area industrial exchanges events
Strengthening developing countries' supporting industries project (SI Project: Supporting Industry, 1994～)	JETRO's assistance includes studies on situations of supporting industries, dispatch of experts, acceptance of trainees for development of supporting industry. In Malaysia, JETRO's assistance includes studies, dispatch of experts and acceptance of trainees in such sector as mold and press working.

Source: JETRO (2000) "forty-year footprint of JETRO"

(2) JODC and AOTS

Table 4-4 and Table 4-5 list records of JODC's professional dispatch programs and AOTS's training programs.

JODC's dispatch program sends Japanese technical experts as TA professionals to local enterprises, either Japanese or non-Japanese, in developing countries. JODC's TA professionals help such local enterprises improve productivity, product quality, and management. This dispatch program is welcomed in various manufacturing sectors from textile, electronics, automobile, chemical, and recently, in the service sector. The accumulated number of JODC TA professionals sent to Malaysia between 1979 and 2004 adds to 296, and this is small in comparison with Indonesia and Thailand, both of which have welcomed more than a thousand JODC professionals.

AOTS' training programs have enhanced the economic cooperation between Japan and developing countries with the aim of fostering mutual economic development and good relationships. Various industries enjoyed AOTS training programs, as the number of Malaysian trainee surpasses nine thousand when totaling that of both domestic and overseas programs.

Table 4-4 JODC's TA professionals sent to Malaysia

Year	1979～1988 total	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1979～2004 total
Long-term Experts (number of experts)	10	2	3	9	5	4	6	4	14	7	4	7	7	12	2	13	9	118
Short-term Experts (number of experts)	32	2	2	1	0	1	0	9	2	3	43	14	14	13	28	5	9	178
Total	32	2	2	1	0	1	0	9	2	3	43	14	14	13	28	5	9	178

Note: Short term is within one year. Long term is longer than one year and shorter than two years. The figure is the number of professionals newly dispatched every year.

Source: JODC

Table 4-5 The number of participating AOTS trainees from Malaysia

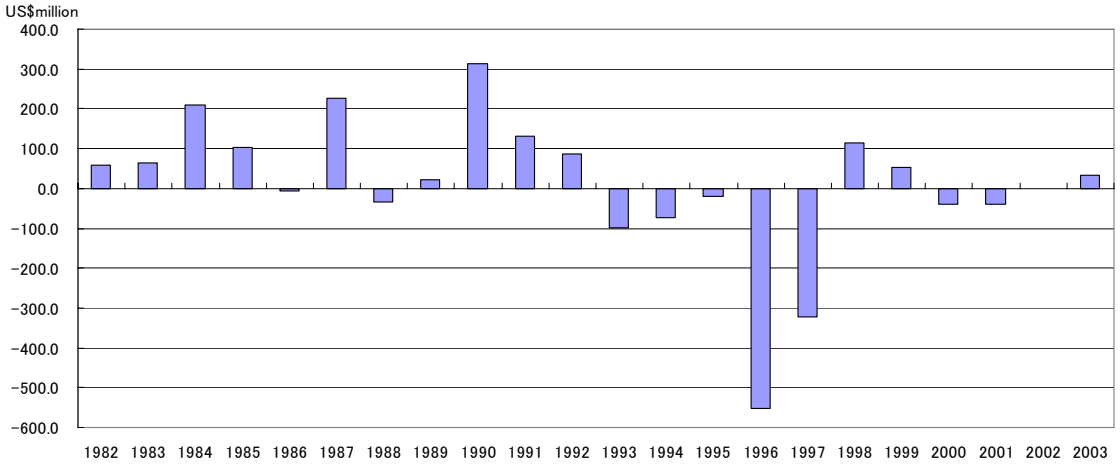
Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1980-2004 Total
Acceptance of Trainees (number of trainees)	95	124	278	409	485	288	256	201	231	252	291	335	264	331	264	309	312	246	173	205	205	165	149	150	154	6,172
Overseas training (number of trainees)	0	35	40	0	86	40	36	0	32	153	31	89	141	124	285	0	155	142	168	145	326	131	235	406	554	3,354
Total	95	159	318	409	571	328	292	201	263	405	322	424	405	455	549	309	467	388	341	350	531	296	384	556	708	9,526

Source: AOTS

(3) JBIC

In addition to the direct trade assistance described above, between 1970s and 1980s, Japan had actively provided yen loans to Malaysian economic infrastructure development, which is indispensable in the promotion of trade and investment, and industrial development. Since1990, however, with Malaysia having already enjoyed significant economic growth, the passage of years has seen the annual net outgoing amount of yen loans become negative, and the outstanding amount of yen loans decrease. Though a small portion of yen loans still remain in infrastructure, recent loans toward Malaysia place more emphasis on intangible or educational projects such as sending Malaysian students to Japan under the Look East Policy.

Figure 4-1 Annual net outgoing amounts of yen loans to Malaysia



Note: Calendar year, DAC counts, netting disbursement and repayment

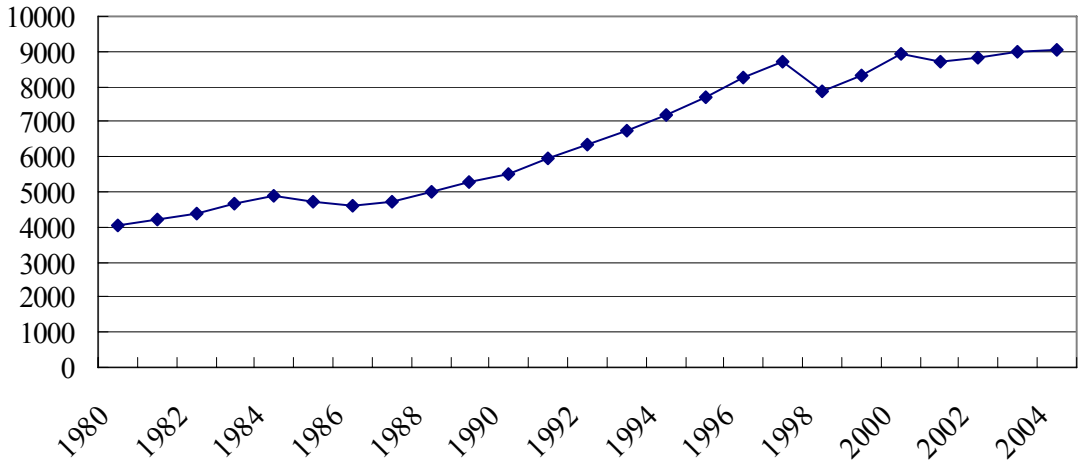
Source: MOFA "ODA data book" each year

4.2 Economic development, trade, and direct Investment

4.2.1 Economic development

By 1980, Malaysia's GDP per capita based upon PPP (Purchasing Power Parity) had surpassed $4,000 (in Constant 2000 international dollar). It continued to increase and reached $ 6,000 in the early 1990s, and $8,000 in 1996. Though the 1997 Asian financial crisis slowed the economic growth, per capita GDP has steadily maintained a level over $8,000.

Figure 4-2 Malaysian per capita GDP (PPP, Constant 2000 international $)



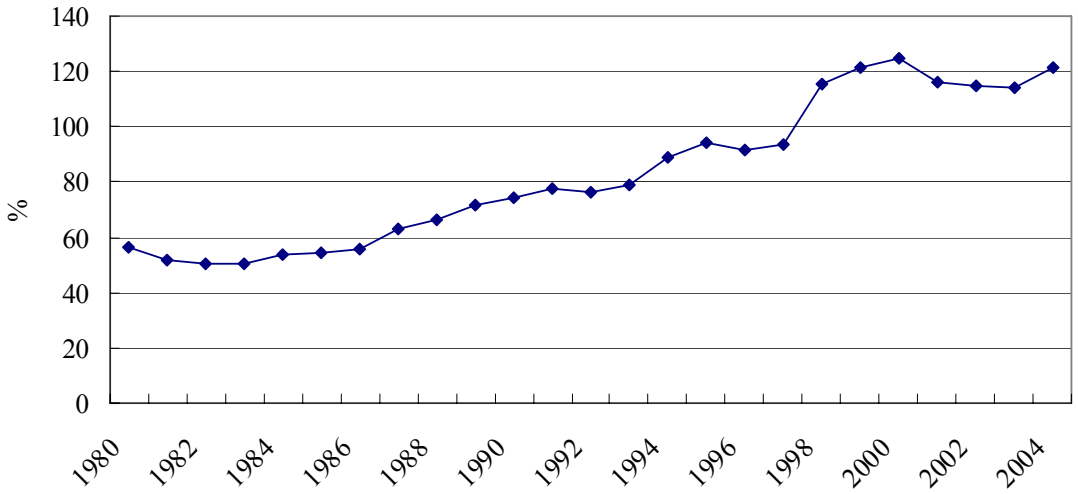
Source: World Bank, World Development Indicators

4.2.2 Trade and direct investment

(1) Trade (export)

Figure 4.3 shows the historical records of the ratio of Malaysian product / service export to GDP. The ratio had already reached 60% level in 1980s. Then the decline in international markets of primary commodities such as rubber and tin, which were at that time Malaysia's major export items, restrained exports. From the late 1980s to 1990, manufacturing pushed up the ratio.

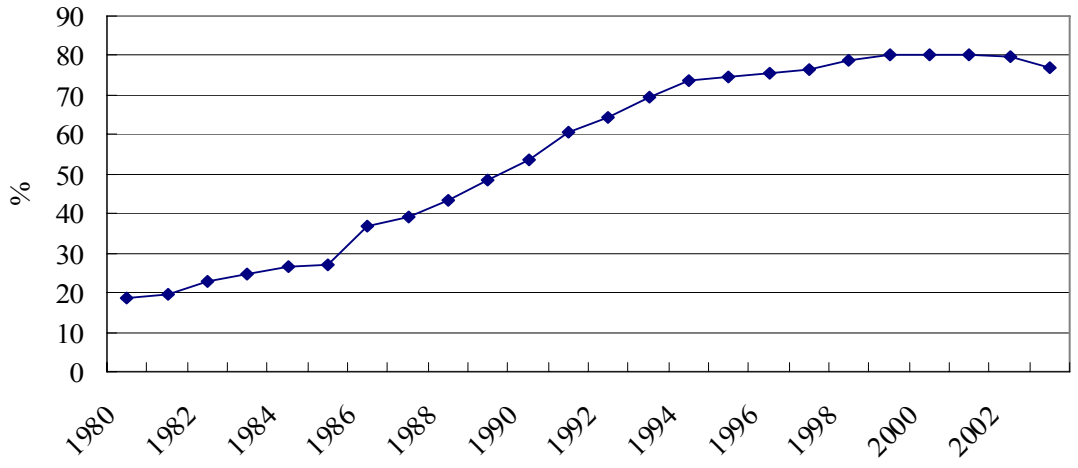
Figure 4-3 The ratio of Malaysian product / service export to GDP



Source: World Bank, World Development Indicators

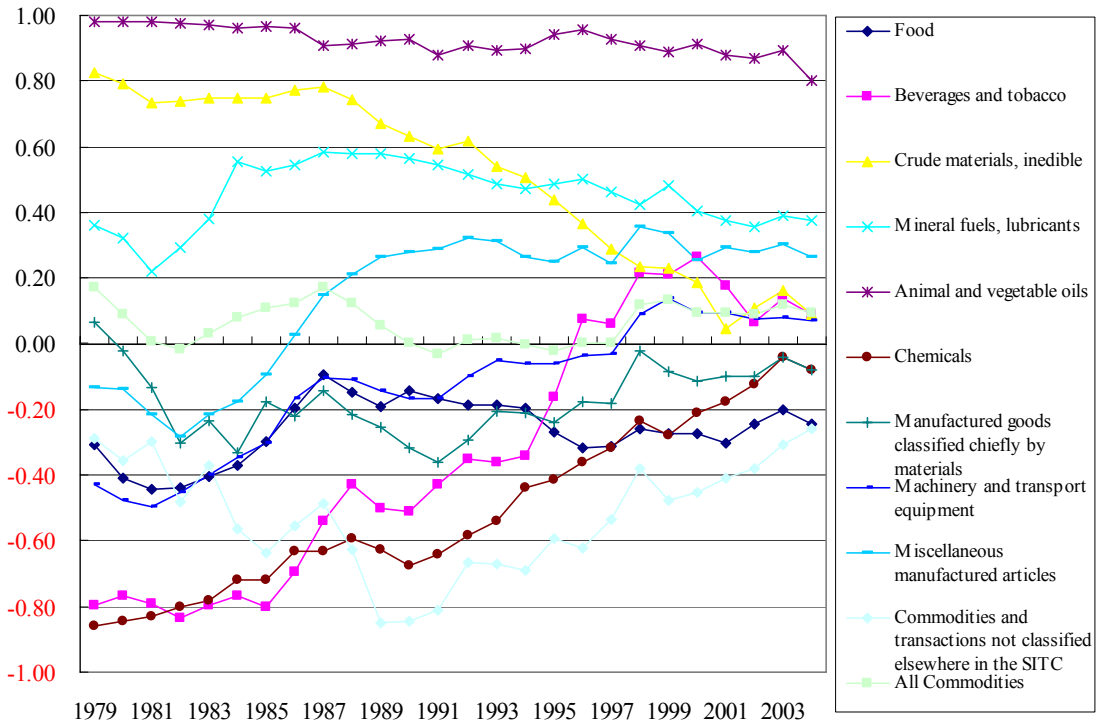
The rate of manufacturing sector in Malaysian export is shown in Figure 4.4, which clearly depicts the manufacturing sector has lead the export expansion in Malaysia. The ratio was in 20% level in early 1980s. It grew dramatically to 70% in the middle of 1990s, and surpassed 80% in early 2000s.

Figure 4-4 Rate of manufacturing sector in Malaysian export



Source: World Bank, World Development Indicators

Figure 4-5 International competitiveness of Malaysian export items categorized by SITC1



Source: United Nations, Commodity Trade Statistics Database （COMTRADE）

The international competitiveness index is defined as the difference of exports and imports divided by the sum of exports and imports. Figure 4.5 shows the historical shift in Malaysia's international competitiveness. The manufacturing sector includes chemical, machinery / automobile, and other manufacturing industries. The largest manufacturing industry in export is electronics, which accounted for more than 50% in total manufacturing export. Figure 4.5 is based upon SITC1 category, and shows the index of machinery / automobile was negative as imports surpassed export in 1980s. It became positive after late 1990s as the machinery and auto industries in Malaysia gained competitiveness. Other manufacturing industries, mainly textiles, maintain an international presence, and its index has been positive since 1980s.

(2) Direct Investment

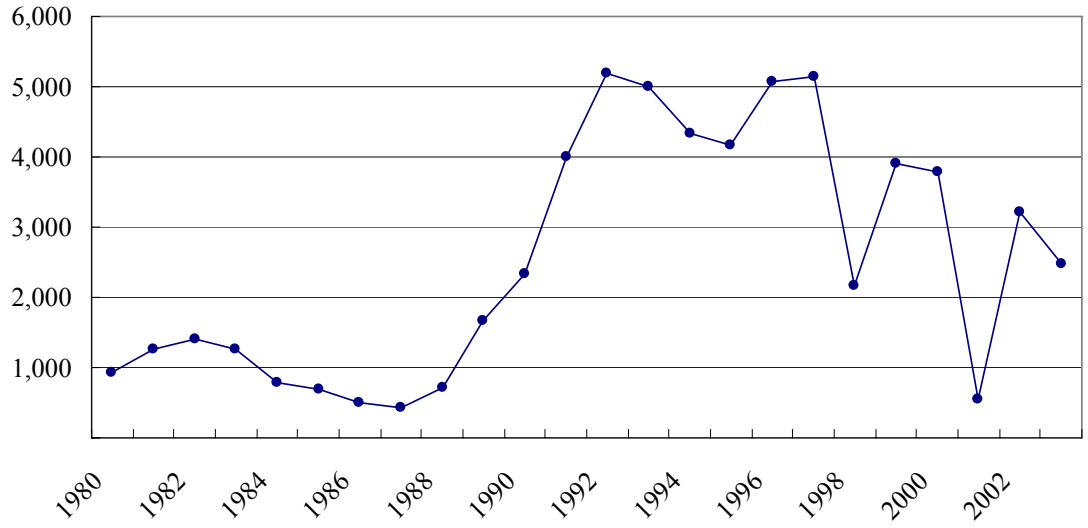
Malaysia has seen tremendous development in its electronics industry and has taken special effort to invite actively foreign direct investment into that industry since the 1970s. However, between the early and late 1980s, Malaysia declined in its competitiveness as investment destination, since incentives provided by the government for investors during 1970s expired, and Malaysian domestic labor cost had increased. Therefore, foreign direct investment decreased.

Then the Malaysian government took active measures and proposed new incentives to regain its

ground in inviting FDI. An increased number of international companies including Japanese ones preferred Malaysia. Japanese companies in particular expanded overseas operation, and invested in Malaysia as the yen had appreciated after 1985 Plaza Accord. FDI increased dramatically until the early 1990s.

The mid-90s saw a stable FDI rate, but it decreased in the late 1990s, when the Asian financial crisis in 1997 and the foreign exchange and investment controls imposed by the Malaysian government in 1998 decreased investment from Asian and other countries. FDI turned around in 2000 and 2001, but investment in the manufacturing sector decreased in 2002. The electronics industry decreased dramatically and chemicals / petroleum became the top export industry instead. However, in 2004 investment in the electronics industry doubled, and Malaysia has since increased its competitiveness in the industry.

Figure 4-6 Foreign direct investment inflow to Malaysia (net inflows, BoP, current US$)



Source: World Development Indicators

4.3 Trade capacity building in firms

4.3.1 Small and medium-sized enterprises (SMEs) and business organizations

(1) SMEs

The main issue of this report is the capacity building of local small and mid size enterprises or the local manufacturing sector and this section discussed the issue based upon the fundamental data of SMEs.

Table4.6 shows the number of business establishments in the Malaysian manufacturing sector.[27] Readers should be advised that the Censuses of 1981 and 2000 are the only full informational resources covering all sizes. In other years, information in small or home categories is limited. But as a whole the data shows an upward trend in the ratio of large and middle size enterprises.

Table 4-6 The number of business establishments in the manufacturing sector

	Number of establishments		
	Large / Medium	Small	Household
1981	4,696	6,917	8,816
1985	3,926	1,824	70
1989	4,308	1,719	65
1990	4,949	1,720	62
1991	5,717	1,700	44
1993	6,320	1,920	66
1994	6,333	1,928	67
2000	13,811	5,378	2,802

Note: 1981 and 2000 are Census data. Large and middle size are defined as ten million ringgit in revenue or employment over 51 persons. Small size is defined as between 250 thousand and ten million ringgit in revenue or employment between five and fifty persons. Home is less than 250 thousand ringgit in revenue or employment below five persons.

Source: Department of Statistics, Annual Survey of Manufacturing Industries, each year

In Table 4.6, large and mid size companies are grouped together, but Table 4.7 shows their numbers in separate categories. Comparing 1995 and 2000, the share of companies with less than 20 personals declines, while all categories above 20 personals increased their shares. After 1990, both large and middle size enterprises increased their shares. New employment data shows a similar trend. The only difference is that the category with more than 500 employees slightly loses shares. Data from 2004 have a different basis, but are included as a reference.

While the government's official statistics do not show the proportion of SMEs' export in total export, a report by Yamamoto and Igusa (1996) described the proportion of SMEs in total export in 1994 was 15%. Malaysian Small and Mid-size enterprises Development Corporation (SMIDEC) reported that 26% of all SMEs exported their services or products.

[27] More detailed data and research on Malaysian SMEs can be referred to JICA's report in 2003.

Table 4-7 Share of each size of enterprises in the number of business establishments, new employment, and added value in Malaysian manufacturing sector

	Number of Employees	Share in total (%)	Share in total (%)	Share in total (%)
1995	～19	66.2	6.4	2.7
	20～49	13.1	6.7	5.1
	50～99	8.7	10.0	8.8
	100～499	9.8	32.5	32.7
	500～	2.2	44.4	50.7
2000	～19	56.1	4.8	2.8
	20～49	16.7	6.8	4.1
	50～99	11.3	10.1	7.3
	100～499	13.1	34.3	29.5
	500～	2.8	44.2	56.4
2004	Employees: ～149 Annual sales: ～24 million RM	N.A.	31.4	25.9
	Employees: ～150 Annual sales: 25 million RM～	N.A.	68.6	74.1

Source: Department of Statistics, Malaysia, "Annual Survey of Manufacturing industries"（2004 data is provided by SMIDEC）

(2)Business groups

This section describes the major business and industry groups in private sector and their relationship with the Malaysian government.

① NCCIM (National Chamber of Commerce and Industry of Malaysia)

NCCIM was established in 1962 by merging four major domestic business groups; Malay Chamber of Commerce Malaysia （MCCM）,The Associated Chinese Chambers of Commerce and Industry of Malaysia （ACCCIM）, Malaysian Associated Indian Chambers of Commerce and Industry of Malaysia （MAICCI）, and Malaysian International Chamber of Commerce and Industry （MICCI）. In 1974, FMM（Federation of Malaysian Manufacturers）joined NCCIM.

NCCIM's main role is to mediate in providing political proposals, and participates in working groups or discussions with government including annual talks with the Ministry of Finance and the Ministry of International Trade and Industry. It joins international associations such as chambers of commerce in ASEAN or pan Asian-Pacific regions. While NCCIM does not provide direct service to specific companies, it hosts conventions and seminars for the benefit of the private sector in general.

② FMM（Federation of Malaysian Manufacturers）

FMM was founded in 1968 by local manufactures. All manufactures whether export oriented or domestically focused, are welcome to join. Currently 80% of the members are export oriented enterprises. 50% of the members are SMEs, and 20-30% are foreign affiliates. FMM currently describes itself as "the most active business group in Malaysia", as it has the largest association with 2,157 members in 2004 and 140 staff members. There are twenty four working groups under FMM categorized by industry, and they actively support the corporate activities of SMEs and coordinate

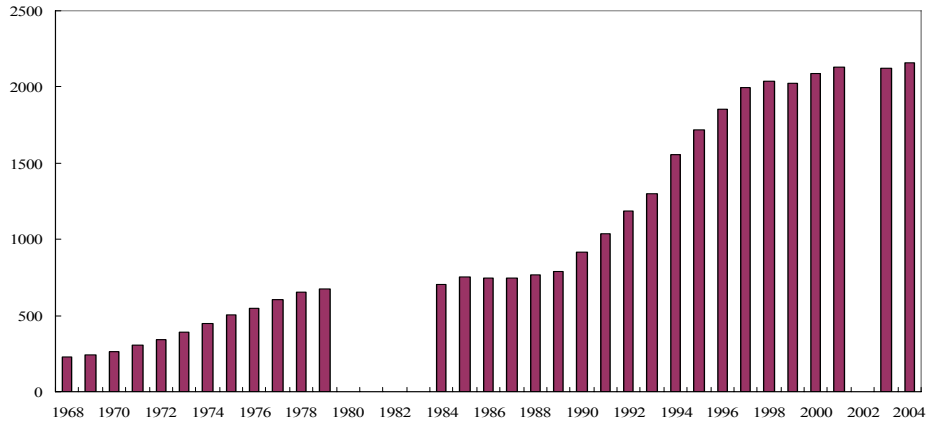
proposals to the government.

FMM basically welcomes Manufacturing ++ policy, under which the Malaysian government tries to develop both manufacturing and related service industries. However, it requires the government to lift or ease protective measures for industrial development.

The relationship between FMM and government agencies remains intimate. MATRADE was established based upon a FMM proposal, and MATRADE and FMM issue a corporate directory in partnership. FMM appreciates SMIDEC as it unifies policy measures for SMEs which used to be divided into many different agencies. FMM regularly holds meeting with MATRADE and SMIDEC, and proposes to improve their operation and function.

FMM's support for corporate activities includes business missions overseas and international conventions. FMM has an independent training affiliate that provides business training programs such as trade operation. The affiliate was once a department within FMM, but it became an independent entity as its operations expanded.

Figure 4-7 The historical number of FMM members



Note: Data could not be found between 1980 and 1983, and 2002

Source: Annual Report of FMM, each year

③ SMI Association of Malaysia

SMI started as a private organization neither controlled nor protected by law, and was approved and registered by the government. Its registered members are 450, and participants to SMI events reach 2,800 enterprises. SMI's activity is on a project basis, and it relies upon donations from large corporations for its financial base. Industries in which SMI puts emphasis on expand exports are; (1)Food, (2)Shoes, (3)Wooden products, (4)Automobiles, and (5)Steel products.

To strengthen the relationship with the government, SMI became a member of National Economic Action Council in 1998. It hosts an annual conversation with the Minister of Finance, Minister of

International Trade and Industries, Minister of Entrepreneurs, and the Minister of Human Resource, while it regularly meets with officers from ministries.

4.3.2 Trade capacity building of the private sector

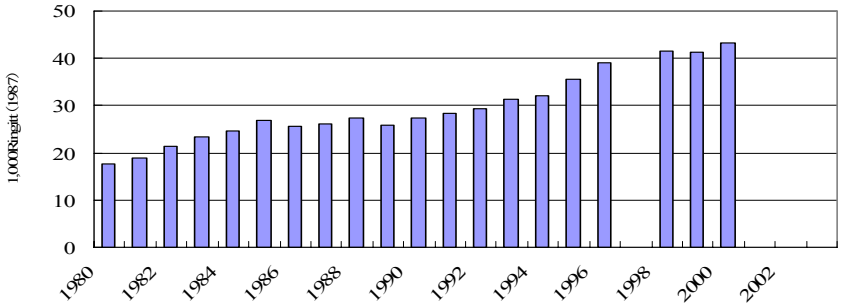
The first part of this section analyzes the process of trade capacity building in the private sector based upon actor factor analysis (easy version). The analysis defines the trade capacity of a company as being comprised of three factors; "Policy and measures ("P" factor)", "Human resources and organization ("R" factor)", "Knowledge and skills ("K" factor)", and selects an alternative index for each component. The alternative index for "Policy and measures ("P" factor)" is labor productivity, which is the amount of added values divided by the number of employees in manufacturing industries. The index for "Human resources and organization ("R" factor)" is the ratio of employees in manufacturing sector in total employees. The index for "Knowledge and skills ("K" factor)" is the school enrollment rate in secondary education.

When selecting those alternative indexes, the analysis considers not only the trade capacity of the currently exporting companies, but also the potential capacity of all companies. For "Policy and measures ("P" factor)", since it is difficult to determine an index that captures comprehensive measures of companies, the analysis uses labor productivity as an alternative. Due to limitations in data collection, the indexes for "Policy and measures ("P" factor)" and "Human resources and organization ("R" factor)" are based upon not only SMEs, but all manufacturing companies, while the index for "Knowledge and skills ("K" factor)" has to include all industries. In spite of such data limitations, the analysis still maintains its validity.

Labor productivity remained stagnant between mid-1980s and early 1990, but it has consistently grown over the whole period, though the level of productivity is still low compared with developed countries. For example, Malaysia's labor productivity in 2000 in US dollar terms was $13,545, while Japan's productivity was$73,864 using the same measurement.[28] Indonesia's same index in the same year is only 3,932, and Malaysia shows high productivity compared with surrounding countries. However, the difference in labor productivity between Malaysia and Japan is still large as Malaysia has to bear with low capital efficiency in production due to cheap labor

[28] Calculated with data provided by Ministry of Internal Affairs and Communications, 2006

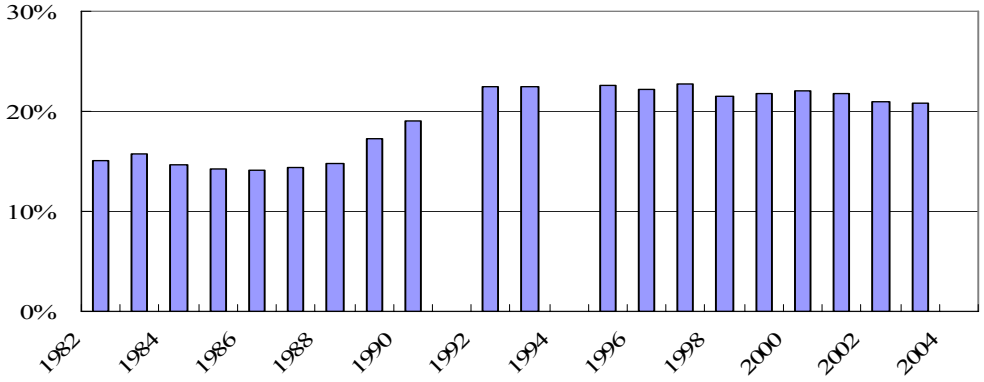
Figure 4-8 Labor productivity of Malaysian manufacturing sector



Source: ADB Key Indicators

The proportion of employees in the manufacturing sector in total employees is considered to be stable in the early 1990s. Only in the period just after the economic crisis did the proportion of the primary sector increased. The third sector has increased its shares steadily, showing a similar trend to that of developed countries. One difference is that the peak of the index has become stable at a lower level, though it is higher than in the comparable three countries.

Figure 4-9 The proportion of employees in the manufacturing sector in Malaysia

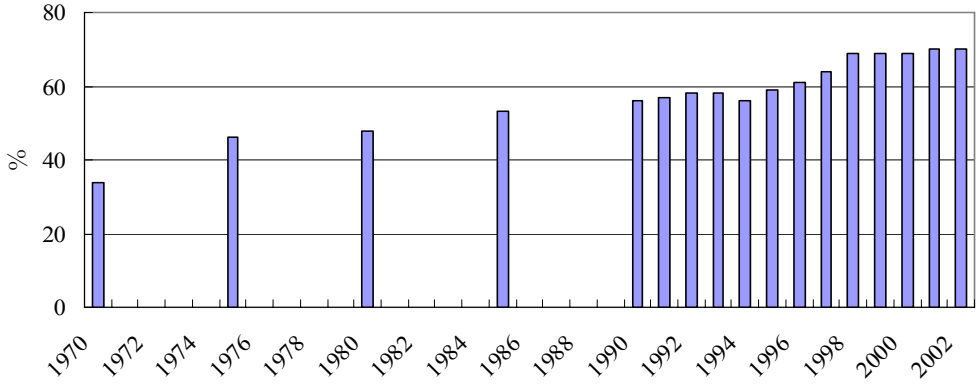


Source: ADB Key Indicators

Finally, the school enrollment in secondary education reached 50% in 1980, and increased to 70% by late 1990s. However the index has little progress afterwards, remaining at a lower level than in developed countries.[29]

[29] School enrollment rate in developed countries are as follows; Japan 100%, Canada 98%, Britain95%, France 92%, Korea 91%, Australia 90%, Germany 88%, and USA 87% (Global Education Database)

Figure 4-10 The secondary school enrollment in Malaysia



Source: Global Education Database

In sum, the analysis of "Policy and measures", "Employment and organization", and "Knowledge and skills" shows that the trade capacity of Malaysian companies was higher in 1980 among comparable countries, and that the capacity has steadily built though the index is at the lower level compared with developed countries. However, in terms of SME manufacturers, supporting industries in the electronics industry, which accounts to nearly 60% of export of manufacturing sector, have not developed yet. Malaysia needs further capacity building.

4.3.3 Self-analysis of trade capacity by enterprises

This evaluation program sent out questionnaires to Malaysian enterprises, and asked them to do a self-analysis of their competitiveness. This section discusses the current trade capacity of Malaysian companies based upon the questionnaire research.

(1) General overview of recipient companies

The questionnaire was sent to 400 companies among user members of MATRADE. The selection of recipients was designed to reflect the real composition of Malaysia's industries. In total twenty two companies answered. Among these, in 2000, twenty one still existed, thirteen are SME[30], and six were large enterprises.[31][32] The following analysis is according to (a)business model, (b)industry, (c)major export destination, and (d)foreign ownership.

(a) Business model

The companies were asked to categorize themselves according to their business model and were offered four possibilities: (1) manufacturing / direct exporter, (2) manufacturing / indirect exporter,

[30] SME in Malaysia officially means companies with employees less than 250. However, in this evaluation program, SME are companies with employees less than 300 based upon criterion of World Bank. This rule applies to SME in the latter discussion of this section.

[31] Two companies did not answer about 2000. One did not answer about 2004.

[32] The number of total answers does not match these numbers as some did not cover all questions, and some provide multiple answers in certain issues.

(3) non manufacturing exporter, and (4) others. Twelve companies in twenty two provided valid answers. Ten belong to category (1). One is (2), and another is (3).

(b) Industry

Though the number of responses was small, those companies that did respond belonged to a diverse group of industries. Nine answered “others”. Table 4.9 categorizes “other” industries.

Table 4-8 Industries reported in answers

Food	Apparel and textile	Pulp and paper	Chemical	Medical goods	Petroleum and coal product	Wood product	Rubber product	
1	0	1	2	0	1	2	2	
Glass, soil and stone product	Iron and steel	Nonferrous metal	Metal products	General machinery and parts	Electric equipment and parts	Transport equipment and parts	Precision equipment and parts	Others
0	1	0	2	1	1	0	1	8

Source : The questionnaire interview by the study team

Table 4-9 Detailed categorization of “other” in 2004

Breakdown of Others

Types of Industries	
Home Appliances	1
Healthcare	1
Design Services	1
Clay pottery/planters	1
ICT	1
Internet Protocol TV	1
Agrz Sprayer and tools	1
unknown	1

Source : The questionnaire interview by the study team

(c) Export destination

Most companies chose ASEAN countries, while only two answered that the US was their largest trade partner. The official trade statistics show that the largest export destination from Malaysia is the U.S., but this research shows the different results. The other difference is that few companies selected Japan as an export destination, though Japan is ranked third in the official statistics. Many answers for Middle East and Africa indicate that Malaysia places emphasis on export expansion to those areas.

Table 4-10 Answers for major trade destinations in 2004

Major export market	Number of Companies
ASEAN	11
Japan	3
China	6
South Korea	2
Central Asia	2
South Asia	3
Middle East	8
Western Europe	4
Eastern Europe	0
Africa	5
North America	2
Central and South America	2
Oceania	3

Source : The questionnaire interview by the study team

(d) Foreign ownership

Fourteen answers on foreign ownership in 2004 were valid, and the remaining eight companies did not answer. Among fourteen answers, eight were 100% local companies, three were 100% foreign owned, one was 72% foreign, another 4.46%, and the other 2.89%.

(2) Analysis of export capacity of SMEs based upon questionnaires

The questionnaire asked recipients to conduct a self-evaluation of three factors; (a) general competitiveness, (b) seasoned and skillful human resources, and (c) skills and know-how in each of four business processes; (1) production, (2) product development, (3) marketing, and (4) trade. The questionnaire advised the recipients that (b) seasoned and skillful human resources and (c) skills and know-how are defined to constitute (a) general competitiveness. This research result does not provide an objective portrait of trade capacity of Malaysian enterprises, as it is by definition a self analysis. However, it aims to capture the historical shifts and the relative level of capacity building using four business processes, three factors, measure at two different times: in 2000 and 2004.

The results shown in Table 4.11 indicate that capacity building has improved since all factors in all processes increased from 2000 to 2004. All factors in all processes scored three or higher on average in both points.

Table 4-11 Self evaluation of business capacity

			Satisfaction level further improved	Changed from negative evaluation to positive	Improved but still unsatisfied	Unchanged*
Evaluation of own company's performed work	Production	Overall Competitiveness				◎(＋)
		Number of Skilled/Specialized Staff				◎(＋)
		Technology/Know-how	◎			
	Product Development	Overall Competitiveness	◎			
		Number of Skilled/Specialized Staff	◎			
		Technology/Know-how	◎			
	Marketing	Overall Competitiveness				◎(＋)
		Number of Skilled/Specialized Staff	◎			
		Technology/Know-how	◎			
	Trade business	Overall Competitiveness	◎			
		Number of Skilled/Specialized Staff	◎			
		Technology/Know-how	◎			

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(－) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author

Table 4.12 shows the percentage increase in revenue and export of the answering companies from 2000 to 2004, as well as their self evaluation. It is listed according to percentage increase starting with the company with the highest percentage increase.[33]

The field work in Indonesia discussed in section three showed that companies with highly manufactured export items and good export performance evaluate themselves highly in trade capability, while companies with simply manufactured products have low self-evaluations.

In the research for Malaysian companies, due to the limited number of sample answers, it is difficult

[33] Responding companies that did not answer the monetary amount of its export, its industry, or export products are not included in the table.

to confirm whether or not Malaysian companies have similar interrelation between export performance and self evaluation. As for the sixteen companies, many of which produce highly manufactured goods, in Table 4.12, companies that evaluated themselves low improved their export performance, while those that evaluated themselves high declined. Of the two companies that evaluated themselves at the highest score in all factors in all business processes, one doubled its exports between 2000 and 2004, while the other decreased its exports to the half in the same period. This indicates that limited data with sixteen companies are not enough to make a conclusion.

Table 4-12 Answers on export performance and self evaluation on trade capacity

Company	Products (2004)	Sales amount (1,000 Ringgit)			Export Value (1000 Ringgit)			Production		Product Development		Marketing		Trading business	
	Items	2000	2004	Increase	2000	2004	Increase	Number of Skilled/Specialized Staff	Technology /Know-how	Number of Skilled/Specialized Staff	Technology /Know-how	Number of Skilled/Specialized Staff	Technology /Know-how	Number of Skilled/Specialized Staff	Technology /Know-how
Company1	Construction	66,000	201,000	205%	-	-	N/A	3	3	3	3	4	4	3	3
Company2	Automotive Parts	28,000	70,000	150%	5,000	30,000	500%	4	4	4	4	3	4	3	4
Company3	Medical Services	36,000	72,000	100%	.	1,000	N/A	2	3	3	4	3	3	2	3
Company4	Rubber Related Products	20,000	37,000	85%	6,000	12,000	100%	5	5	5	5	5	5	5	5
Company5	Paints, thinner and ink	7,700	13,000	69%		1,200	N/A	3	4	.	.	3	3	.	.
Company6	Chemicals	20,000	30,000	50%	15,000	22,000	47%	3	3	3	3	3	3	3	3
Company7	Chipboard	141,000	209,200	48%	61,750	70,100	14%	3	4	3	4	4	4	4	4
Company8	Design Services	10,000	14,000	40%			N/A	3	4	4	4	3	4	4	4
Company9	Polypropylene Split Yarn	1,894	1,687	-11%	.	.	N/A	4	4	4	4	4	4	4	4
Company10	Earthenware Pottery	2,934	2,558	-13%	2,934	2,558	-13%	4	4	4	4	5	4	5	4
Company11	Water meters	125,593	108,505	-14%	11,260	19,475	73%	2	3	2	3	3	4	4	4
Company12	Office Furniture	2,900	2,400	-17%	1,500	1,200	-20%	3	4	3	2	3	3	3	4
Company13	Wooden Furniture	14,600	10,200	-30%	14,400	9,700	-33%	3	4	3	3	3	3	3	3
Company14	Unpainted & Prepainted G.I Steel	105,000	72,000	-31%	.	.	N/A	3	4	4	4	3	3	3	4
Company15	TV/Aircond	3,000	1,000	-67%	2,000	500	-75%	5	5	5	5	5	5	5	5
Company16	Confectionery (Cookies, Mooncakes)	N/A	588,216	N/A	N/A	1,728	N/A	4	4	4	4	4	4	3	3

Column 2: Case studies of Malaysian enterprises

This research, along with the questionnaire, included interviews with local companies.. Here are the interviewed companies and their case studies.

1. Malaysian Company A (location: suburb of Kuala Lumpur, major export: confectionary)

The company was founded by a CEO who had worked for a company that produced sweets. It is managed by the CEO and his daughter, and can be defined as a family business. It employs thirty five full-time workers (twenty eight at the time of questionnaire) with several part-timers. Most of its full-time workers are the founding members, and only a few have left so far. It is a typical local Chinese small company with registered capital of 100 thousand RM. Total revenue sums to six million RM, including 1.73 million RM from its exports, and it has seen fast growth in its first three years. It produces sweets, mainly Chinese cakes and western cookies.

While most of its revenue derives from domestic sales through department stores and prominent supermarket stores, the dominant export destinations are Britain and Singapore. The CEO expects to start sales in Taiwan and Australia. In Britain and Singapore, the company directly sells its product in response to orders from high-class department stores and prominent supermarkets, and the company's products are placed in their fancy sweet displays. Its original marketing strategy does not involve sales agents overseas, but the CEO is considering selling via local agents in Taiwan, as one trading company in Taiwan is quite interested in the company's products.

The company's distinguishing strategy is seen in its product packaging, while it continues to develop characteristic sweet products. The CEO, was captured by the packages of high-class traditional Japanese sweets, and gains ideas from observing them when he frequently visits Japan.

The CEO appreciated MATRADE's convention the most among all governmental programs to support exports. At these event, he can learn about the packaging of competitive products and the tastes of each country. The CEO believed that in addition to the quality of products, entertaining and beautiful packaging was essential for the company's products to establish its high-class brand.[34] He wanted to continue to learn from Japan, however he became quite upset last year at the World's Sweet Convention in Japan, where the company's products were placed in displays for "dollar shop products". He also remembered that he had been disappointed to see that most Japanese visitors only

[34] Throughout the interview, the CEO repeatedly asked about the cost structure of the packages of high-class traditional Japanese sweets.

visited the booths of famous Japanese sweet companies and did not come to the displays of ASEAN and other countries; such behavior indicated how difficult it is to enter the Japanese market.

Though the company strongly desired that the Malaysian government provide training programs or informational services focusing on product design and packaging technology, it had never found any such program. The CEO did not find it necessary to receive ISO registration, which he believed amounted to little but official approval of the production process. Instead of ISO, the company had taken out HACCP that guarantees safety of food products. In terms of training programs to improve its workers skills, the company had never sent its employees as the cost was unbearable. The CEO did not cover all information of support program available from the government or business groups, and he did not know that SMIDEC provides service for SMEs.

2. Malaysian Company B (location: Kuala Lumpur, major export: apparel product)

The company was originally established in 1990. It sold building materials in the domestic market until the Asian financial crisis. In the crisis the domestic demand dramatically shrank, and the company had no choice but stop its operations. In 1999 it restarted its operations in the production and sale of textile products. Its revenue in 1999 was quite small, and the company did not answer the questionnaire. The company's produces T-shirts and male undergarments, and exports 100% of its products. It is considering selling in the domestic market, where the competition is intense. The number of employees was seven in 1999, and ten in 2004, not including the work force in those production lines owned by a different entity. It had contracted out its production to domestic factories, but it recently opened its own factories in China and Bangladesh. It shifted its production capacity to overseas because an increase in labor and utility costs in Malaysia undermined the company's price competitiveness. The interviewee considered it favorable that Bangladesh was in the Lowest Developed Country category and was given the most preferred tariff and no quantity limitation on textile exports to the US.

The company takes advantage of MATRADE's services including training programs and participation in trade fairs both domestic and abroad. The company appreciates both private and public programs, but it prefers governmental service because of information quality and lower costs. In 1990s, MATRADE did not have English speaking workers, and not match the needs of the private sector. However, in the last five years, the company has appreciated MATRADE for its active support to export expansion.

4.4 Capacity building of the government to expand Malaysian export

4.4.1 Government agencies provide service related to export

Table 4.13 lists government agencies related to trade expansion. The list categorizes agencies by their jurisdiction. The Ministry of International Trade and Industries (MITI) plays the most important role in basic law and basic policy making related to trade. MITI oversees MATRADE whose aim is to expand exports and SMIDEC, which focuses on fosterage of SMEs.

Table 4-13 The list of government agencies related to Malaysia's international trade

Government function in trade sector (Large items)	Government function in trade sector (Small items)	Examples	Regulating authority
Establishing Basic Conditions	Legal System Development for Commercial Transactions	Development of Civil laws, Commercial laws, Registration laws, Rehabilitation, reorganization and Bankruptcy law, Antitrust law, Immigration law and alien registration law	
	Provision of Economic Infrastructure	Transportation Infrastructure, Electricity generation, Transmission and Distribution Infrastructure, Telecommunication Infrastructure, Financial System, Standards and conformity Assessment System, Intellectual Property Rights, Statistics	Ministry of Transport
	Creation of Business Environment for Domestic Industries	Various forms of deregulation to promote new entries into the market, Establishing financial institutions, Promoting research and development activities, Supporting business services for small and medium enterprises	SMIDEC, MIDF
	Industrial Human Resources Development	Human resources development for science and mathematical education, as well as information technology education at elementary and intermediate levels of schooling, and High level specialized skills, English education, Certified engineers systems, Vocational training and job matching	Ministry of Education, Ministry of Human Resources
Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation	Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long term Perspectives	Formulate and implement their industrial and trade policies and implement WTO agreements	Strategic Planning (MITI)
	Establishment of Trade related Laws, Regulations, and Institutions	Basic Laws on Export and Import, Basic Laws on customs, Import-related laws （Quarantine Law), Export processing zone, Trade-related financial system(Trade insurance, export finance), Establishment of export promotion organization	Strategic Planning (MITI)
	Trade-related procedures	Test, Inspection, Custom, Quarantine	Trade Service (MITI)
Export support service	Providing information on the overseas markets	Organizing marketing seminar, trade shows and exhibitions of products	MATRADE
	Providing information on Foreign and domestic trade procedures, Incentives	Foreign trade system, procedure and business custom, Information on incentives, Strengthening of functions of trade promote organization	MATRADE
	Fostering Viable Private Sector	Management and technical guidance, Training for Product development and agrotechny	NPC

Source: JICA, 2003, "Effective approach to issues in development; international trade and foreign direct investment"

MITI takes a major role in international trade, investment, and industry development, and has its central organization with five independent administrative agencies shown in Figure 4.11. The five agencies are; the Malaysian Industry Development Agency (MIDA), which promotes direct investment, the National Productivity Corporation (NPC), which helps the private sector improve productivity, the Malaysian Industry Development Finance (MIDF), which provides finance for industry development, and MATRADE, and SMIDEC, which were described earlier in this section.

A ministry covering international trade and industry was established as the Minstry of Commerce and Industry after Malaysia's independence. Its name was changed to the Ministry of Trade and Industry in 1972. In 1990, the ministry was divided into two: The Ministry of Domestic Trade and Consumer Affairs and the current MITI.

The Strategic Planning Department designs related policies and coordinates among different divisions in MITI. As of August 2005, SPD has already started the Third Industrial Master Plan (IMP3, 2006-2020), and the plan will be officially announced in January, 2006.

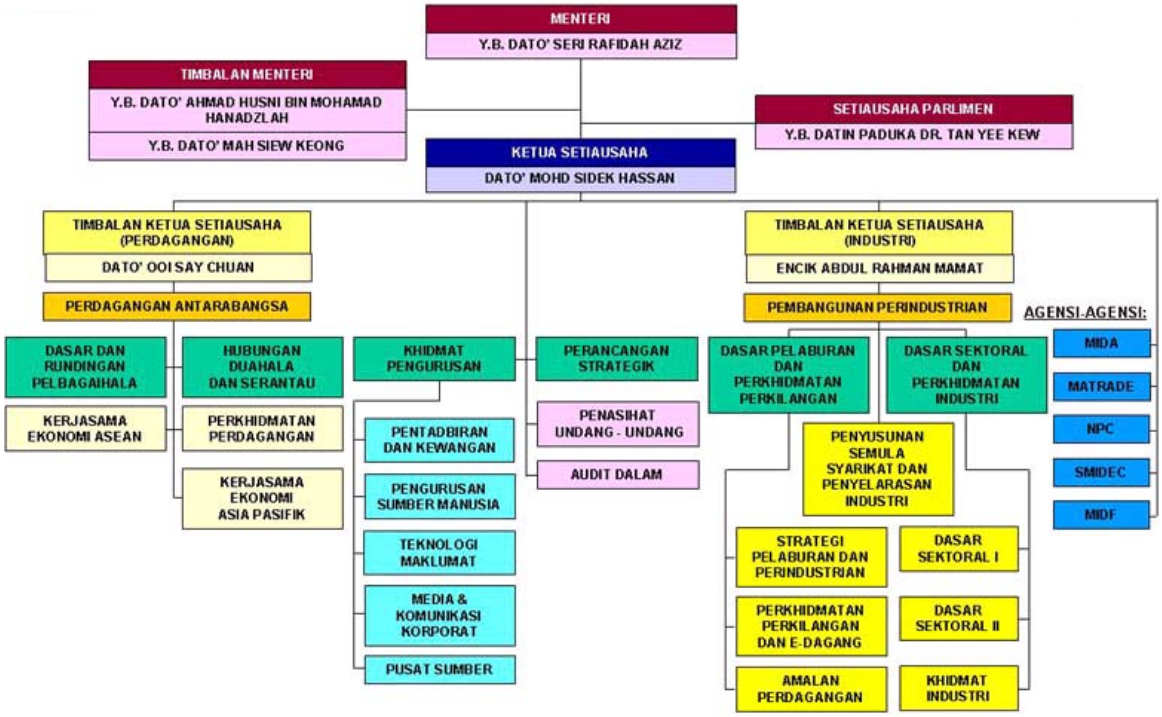
The first plan (IMP1, 1986-1995) was announced in the mid-1980s, when Malaysia had problems in; (1) relying too much on labor intensive industries and primary products, (2) the dominant presence of government affiliates and foreign affiliates, (3) few exports from industries other than electronics and textile, (4) lack of industry network without industries producing intermediate goods and production facilities. IMP had originally been simply an indicative plan to show the private sector the direction, as the plan did not involve legislation or budgetary measures. However, IMP has actually played significant roles in industry policy via making indicative laws such as the 1986 Act of investment promotion.

IMP has steadily promoted development of export-oriented industry from the first IMP to the third, though its approach has changed over time.

From 1986 to 1995, IMP1 supported each sector independently. IMP2 took a cluster or value chain approach in Manufacturing ++ and tried to strengthen industrial networks. The second plan listed three clusters and aimed to improve industrial accumulation. The three clusters were; (1) globally linked clusters such as the electronics industry, (2) clusters lead by the government including the automobile industry, (3) clusters such as the wood industry that take advantage of domestic primary products. The purpose of Manufacturing ++ is to boost highly value-added R&Ds and to improve

logistics. IMP2 also aims to develop knowledge intensive industries.[35] IMP3, taking a similar approach to the former plans, will place more emphasis on the service sector.

Figure 4-11 Organizational structure of MITI



Source: MITI Website

Among five MITI agencies, MATRADE is to expand exports and has similar functions to Japan's JETRO. MATRADE specializes in export from Malaysia according to its development stages.

The Malaysian Export Promotion Organization (MEXPO), the former incarnation of MATRADE, was established in 1980. MEXPO consisted of three units; the trade information unit, the exporters registry unit, and the exhibition unit, but had no overseas office. In response to requests from private business groups such as FMM, which was described earlier in this chapter, MEXPO was reorganized in 1993 as a government agency to provide service to private sector in the aim of export expansion. MEXPO was renamed MATRADE, and it has built its capacity sometimes. JICA provided support in certain periods. MATRADE has organically improved its organization in accordance with the shifting needs of private sector in 2003.

Figure 4.12 shows the current organizational structure of MATRADE. Under the central office in

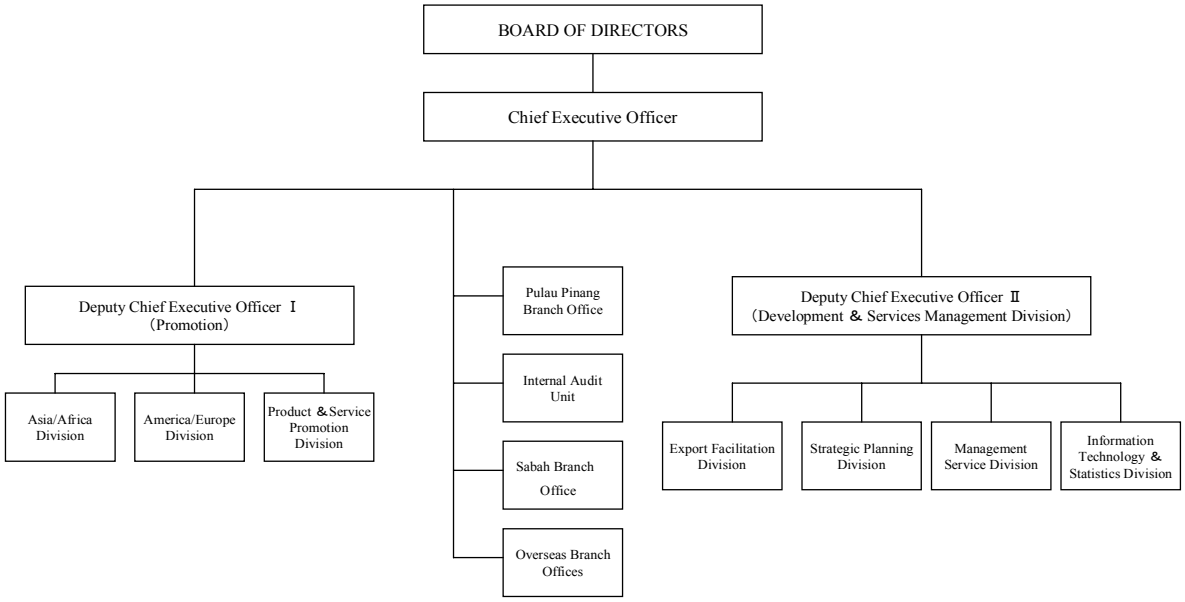
[35] Takeuchi (1998) describes the purpose of IMP1 and IMP2 in detail, and provides general information of IMPs.

Kuala Lumpur, it has two domestic (Penan and Saba) and thirty overseas offices. Total employees has grown from twenty at the foundation of MEXPO to over four hundred now, including one hundred staff members in overseas offices. The number of registered membership companies has surpassed 8,000, as shown in Figure 4.13. Figure 4.14 depicts the historical trends of the number of export marketing seminar and study groups. The number fluctuates in some periods, but the overall trend is steadily upward.

MATRADE has independently run a booth at conventions in Japan since 2000. There are some activities in which MATRADE performs better than JETRO. It has, for example expanded its export promotion activities in the service industry. Malaysian private sector entities have made positive comments about MATRADE;

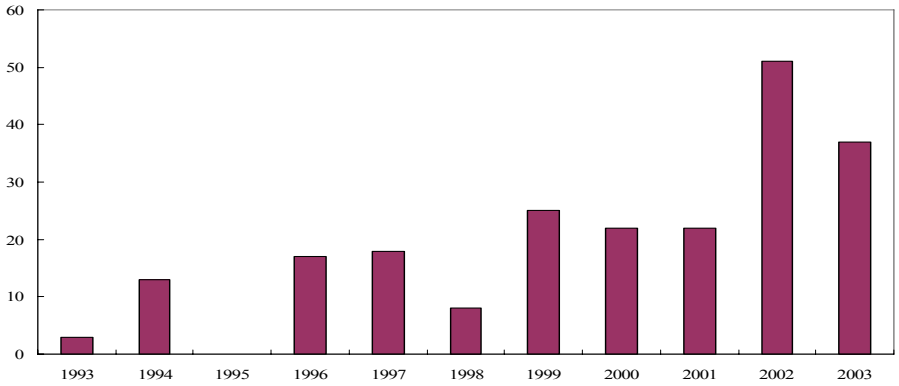
> NCCIM: MATRADE has streamlined its organization to focus trade promotion and has operated efficiently since the reorganization of MEXPO into MATRADE in accordance with requests from private sector.
>
> FMM: MEXPO as one division of the government was only a passive agency that displayed its service and information and took no active roles. After the corporatization, MATRADE has positioned itself closer than before to companies and actively provided support to private sector. It sometimes takes a leading role in international missions. FMM maintains a close partnership with MATRADE, as it sends board members to MATRADE and issues a corporate directory together.
>
> SMI Association of Malaysia: The quality of service provided by MATRADE has become better, but it still has room for improvement compared with similar organizations in Singapore and Hong Kong. Management of the agencies in such countries and regions actively listens to the voices of individual companies and rethinks their activities.

Figure 4-12 Organizational structure of MATRADE



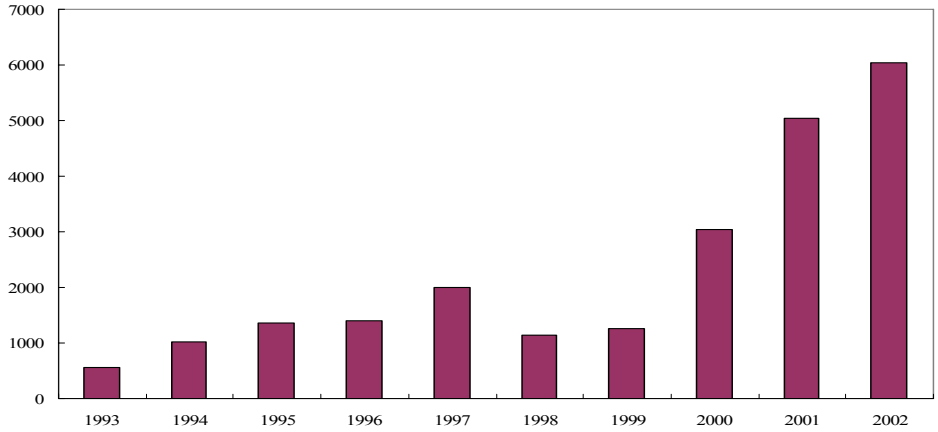
Source: MLAYSIA International Trade and Industry Report 2004

Figure 4-13 Changes in the number of registered membership companies of MATRADE



Source: Annual report of MATRADE, each year

Figure 4-14 The historical number of export marketing seminars and study groups hosted by MATRADE



Source: Annual report of MATRADE, each year

The following is a description of important divisions of MATRADE, focusing upon newly established divisions in reorganization in 2003.

(1) Services and Product Promotion Division

This division was newly established in September, 2003 and consists of six operational units according to industries. Its mission is to satisfy the needs of individual industries, which the regional desks could not fully meet before. It promotes participation of private sector companies in international delegation and convention by partnering governmental agencies in each industry and business group. The division placed more emphasis on: the health care industry in Vietnam and Bangladesh; the construction in Qatar, Bangladesh, and Pakistan; management consulting services. In order to evaluate its activities, the division uses the number of conventions as an indicator. It does not follow how much participants increase their export.

In terms of future capacity building, the division is considering hiring engineers. Current employees hired at the founding of the division are mostly from finance and trading companies. Its future challenge lies in linking international resources with export expansion of domestic enterprises. One program may be accepting overseas professionals to support individual companies. This derives from a bitter experience when MATRADE failed to provide market information for domestic companies to expand their exports to the EU when the EU considered anti-dumping measures against shoe imports from China creating missed business opportunities for the Malaysian shoe industry.

(2) Planning and Strategy Division

Planning and Strategy Division was set up in September, 2003, at the same time that the Services and Product Promotion Division was formed. MATRADE highly appreciates JICA as its support has been the building blocks of the resource center managed by this division. The reorganization in 2003 was the first since the founding of MATRADE, and the objective was to create an independent division to develop MATRADE's strategy and action plans for service to Malaysian industries, especially non-manufacturing.

As a result of the division, there are now 3 types of MATRADE independent plans under IMP; five-year middle term plans, three-year strategic plans, and annual action plans. It does not disclose its plans in a publication. The evaluation measurement for this division is cost effectiveness, which is gauged by the inputs and outcome. The outcome can be measured by the number of companies that exploit its services.

(3) Export Facilitation Division

The goal of the export facilitation division is to give useful advice concerning export for the member companies. Using the detailed list of the member companies, the division tries to respond sincerely to the questions from its members. It publishes directories and other works, provides useful information via internet, and hosts seminars.

The export training unit is found in this division. The unit hosts thirty six training seminars with various curriculums in a year. Seminars are one to one and a half days long. The entrance fee for those seminars hosted by MATRADE is around 100RM, much less expensive than that of seminars hosted by private business organizations (On average 1,000RM). Seminars typically cover a broad range of issues and do not target a specific group of companies. For example, one seminar title was "How to do business in Japan". Participant companies are interested in all regions around the globe, and MATRADE has to meet their diverse needs.

The last part of this section provides a general overview of the Small and Medium Industries Development Corporation (SMIDEC).

SMIDEC, originally a division of MITI, covers the development of manufacturing SMEs. It was newly established as an independent agency with its original seven staff members. Its staff has

grown from 60 to 190 after the reorganization in 2002 when SMIDEC broaden its scope to support Malaysian service sector. This change was in line with the Industrial Master Plan 2 (IMP2) and IMP3 in which the government put emphasis on development of SMEs.

The development of SMEs is one of the top priority policies, and eighteen ministries including the Ministry of Entrepreneurs, the Ministry of Finance, and the Ministry of Human Resources, as well as twelve agencies, and many other related organization take part. Among those agencies, SMIDEC takes the coordinating role, and conducts programs in the fostering of international suppliers, marketing, R&D, and the provision of loans. One example is the industrial linkage program to encourage technology transfer from large companies to SMEs.[36] In terms of introducing overseas resources, SMIDEC hosts the engineering lesson program for local auto-parts manufactures, inviting professionals from the Japanese Automobile Association (JAMA). It further invites support from Korea and Taiwan. Recently local companies are quite interested in product design, packaging technology, and marketing information, and SMIDEC now tries to develop programs targeting such issues.

In 1989, MITI issued the Action Plan for SMI Development 1990-2000. This plan differs from policy measures, active until early 1980, that were part of the social Bumiputraism policy, and reflects discussions after mid-1980s that encouraged small and medium supporting industries.

SMIDEC has itself developed a SMI development plan from 2001 through 2005. This new plan sets a goal in fostering knowledge intensive industries by providing appropriate measures to support internationally competitive SMIs. The quantitative target is to increase production per employee by 50% and added value by 60% from 2000 to 2005. Since IMP3 has an independent program for SMI for the first time, and SMIDEC coordinates a technical resource group to make suggestions for IMP3, there is no plan for SMIDEC to develop its original SMIDP after 2006.

4.4.2 Trade capacity building in the government sector

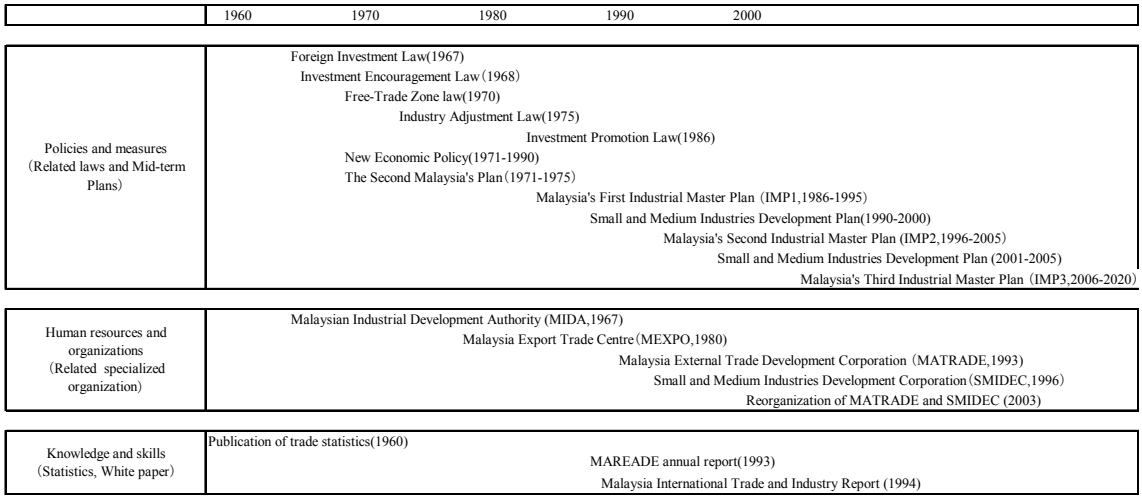
We discuss capacity development based on the benchmark of capacity development factors (figure 4.15).The government and agencies including MATRADE have expanded their capabilities to support exports. In response to industrialization and export-led growth by foreign direct investment in 1980s, the government took policy measures to support Malaysian manufacturing sector for their export. MATRADE was established in 1993, and SMIDEC in 1996. These were milestones that

[36] Policy programs of other government agencies for the development of SMEs are described in details in Japan Development Service (2002) pp.11-15.

showed the dramatic increase in Malaysia's social capacity to export.

JICA's support started during the same period that MATRADE was founded, and it is highly appreciated as JICA had broader scope than trade-supporting agencies from other countries. JICA's contribution has resulted in a reorganization in 2003 that highlighted the service sector.

Figure 4-15 Trade capacities building in the government sector



Source: the author

4.4.3 Evaluation by private sector of the government in supporting export

This section discusses how Malaysian enterprises evaluate policy measures in trade expansion and related service, and service provided by business organizations.

First, we look at answers for policy measures. The evaluation of the policy measures has not improved as shown in table 4.14. No answer was given in category (1): "the level of satisfaction increased", or category (3): "more satisfied but some problems remain." One example that fell in category (2): "changed evaluation from negative to positive," was a technical training program in human resources.

In all but the technical training program answers indicated that there has been no progress. Issues that scored below three on average are; the approval process for governmental standards, the job training program, industrial development program in both budgetary and tax incentives, speeding up tariff process. In sum, there remain many problems in government services, and the evaluation has not improved in general.

As to the knowledge/skill evaluation, trade statistics has already published since 1960. For the white books requiring the analysis in the related-areas, MTTI has put out Malaysia International Trade and Industry Report since the early 1990s. MATRADE and SMIDEC have also published annual reports since their establishment. Acquisition, analysis, improvement, and disclosure of information have been satisfactory.

Table 4-14 Evaluation of policy measures to support export

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
Evaluation of The Government's Export Promotion Measures	Improvement of legal systems					◎(+)
	Infrastructure building	Logistics				◎(+)
		Electricity				◎(+)
		Communication				◎(+)
		Water Supply				◎(+)
	Standard certification system					◎(−)
	Human resources development	Elementary and secondary education				◎(+)
		College/University education				◎(+)
		Vocational education				◎(−)
		Training programme for engineers		◎		
	Industrial and Trade development policy	Financial support				◎(−)
		Tax preferences				◎(−)
	Response to the trade liberalization	Reduction of import tariffs for raw materials				◎(+)
		Reduction of obstacles for foreign export				◎(+)
	Establishment and operation of the export processing zone					◎(+)
	Efficiency of the customs procedure					◎(−)

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(-) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

Second is the comparison between the evaluation of policy measures and that of services by business groups (see table 4.15).

Among answers on evaluation of trade related service of the government, there were none that fell into category (1): the level of satisfaction increased. Examples that fell in the category (2): evaluation changed from negative to positive were; information service in production, training seminars in product development, and information service in marketing. Individual advisory service in product development fell in category (3): improved but problems remain. Programs that had not shown any progress were: training seminars in production, information service in production, all programs in marketing except information service, and all programs in trade operation. All programs except marketing convention and trade fair scored below three on average. To summarize, there were some programs that were appreciated, but many others needed to improve. Local companies in general gave low valuation to the trade related service of the government.

Among recorded answers on the evaluation of the trade-related services of private business organizations, those programs that fell in the category (1): the level of satisfaction increased, were training seminar in product development and trade operation, training seminars in marketing, and conventions and trade fairs. Examples that fell in the category (2): changed valuation from negative to positive, were: all individual advisory service and information service in production, product development, marketing, and trade operation. There were no answers in category (3): improved but problems remain. A program that had not shown any progress was training seminars in production. In sum, all programs except training seminar in production either increased the level of satisfaction or turned around their valuation from negative to positive. Local companies in general gave high valuation to the trade related service of the private business group.

In comparison between the evaluation of policy measures and that of services by business groups, the government receives low valuation and private business groups high. In general Malaysian enterprises are more satisfied with business group than with the government in terms of trade related services.

Table 4-15 Evaluation of trade related services provided by the government and the local business groups.

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
Evaluation of trade-related services for companies by the government	Production	Individual counseling, Consulting		◎		
		Training, Seminar				◎(－)
		Provision of information				◎(－)
	Product development	Individual counseling, Consulting			◎	
		Training, Seminar		◎		
		Provision of information		◎		
	Marketing	Individual counseling, Consulting				◎(－)
		Training, Seminar				◎(－)
		Trade Fair, Exhibition				◎(＋)
		Provision of information		◎		
	Trading business	Individual counseling, Consulting				◎(－)
		Training, Seminar				◎(－)
		Provision of information				◎(－)
Evaluation of Trade-Related Services for Companies by the Business Sector	Production	Individual counseling, Consulting		◎		
		Training, Seminar				◎(＋)
		Provision of information		◎		
	Product development	Individual counseling, Consulting		◎		
		Training, Seminar	◎			
		Provision of information		◎		
	Marketing	Individual counseling, Consulting		◎		
		Training, Seminar	◎			
		Trade Fair, Exhibition	◎			
		Provision of information		◎		
	Trading business	Individual counseling, Consulting		◎		
		Training, Seminar	◎			
		Provision of information		◎		

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.◎(-) indicates that the average score was below three and the sample did not improve after four years.

4.◎(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

4.5 Malaysia's capacity development in trade and evaluation of support from Japan

4.5.1 Social capacity building path and development stages

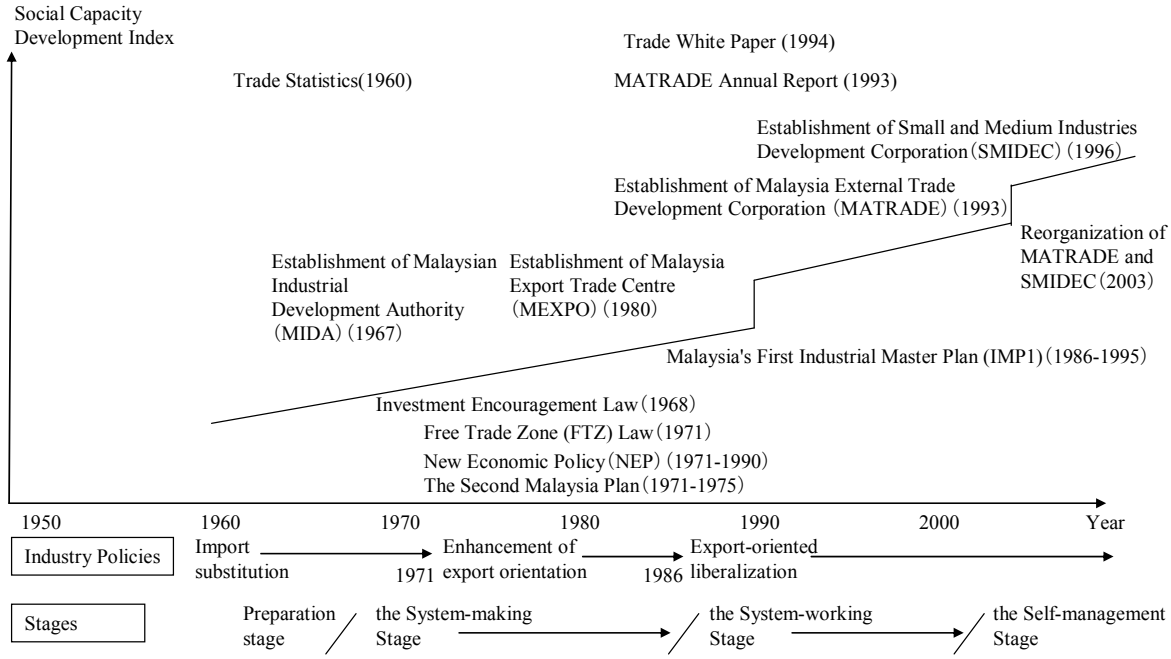
Here we discuss development path of trade social development and development stage.

(1) Historical assessment based on development stage analysis
(2) Assessment of social capacity based on actor/factor analysis
(3) Analysis on cause-effect relation between socio-economic development level and export performance as basis for the discussion on social capacity development

Based upon the analysis on both the private and public sector, the process of social capacity building can be depicted in Figure 4.16. Malaysia has enjoyed social capacity development in business sectors as well as governmental sectors. Malaysia's social capacity development stage had transition

from system-making stage system-working stage. It is supposed to developed into self management-stage.

Figure 4-16 Malaysia's social capacity development in trade-related field



Source: The author created this Figure based on field work, interviews, and related publications.

Secondary we discuss current social capacity based actor/factor analysis.

Table 4.16 shows the achievement level of Malaysia's social capacity development by using a checklist. Facilitating and limiting factors of the capacity development are also examined with the result of analysis.

Table 4-16 Social capacity development in the trade related area
(Government capacity and the relationship between Government and Enterprise)

Capacity Factors	Check items of capacity evaluation	Malaysia	
		1980	2005
Policies and Measures (P)	Medium and long-term plan-making (National development plan) on industry and trade	✔	✔
	Establishment of basic laws on export promotion	✔	✔
	Establishment of basic laws on SMEs promotion		
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✔
Human, financial and physical resources in organization (R)	Establishment of export promotion organization	✔	✔
	Establishment of overseas office of export promotion organization		✔
	Establishment of SMEs promotion organization		✔
	Self-management organization		✔
Knowledge and skills (K)	Publication of statistics	✔	✔
	Publication of trade white paper		✔
	Publication of annual report by export promotion organization		✔

Note 1. Cells are checked when items are achieved.

Source: The author

Regarding to the development of capacity factors in the governmental sector, legal and policy infrastructure ("P" factor) were basically formulated until mid-80's. Organizational infrastructure ("R" factor) including MATRADE and SMIDEC has been steadily developed as well.

The relationship between the government and enterprises (including economic organizations) seems to have met a certain level. This is exemplified by that fact that MATRADE has been established based on the recommendation of FMM, and their tight collaboration has been going on.

Table 4-17 Social capacity development in the trade related area (Companies' capacity)

	Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, %)
Malaysia	10,316 (1981)	15 (1982)	48 (1980)
	16,935 (2004)	21 (2004)	70 (2002)

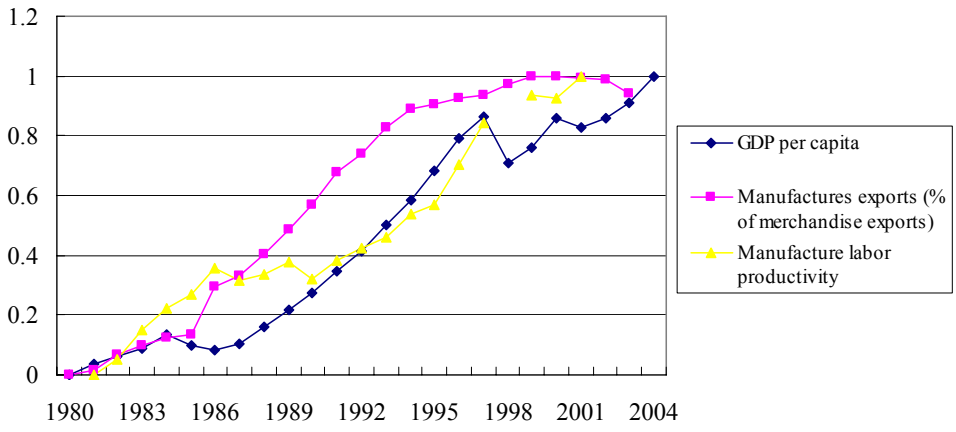
Source: the author

As for business sector, figure 4.17 shows the three factors have been steadily developed while Malaysia was already well-developed in terms of capacity development level as of 1980 among the four countries. Although the level is still lower compared with developed countries, Malaysia has been in an upward position. Major business group such as FMM can also play an significant role in advising policy recommendation to the government as well as in providing consultancy services to individual business.

Figure 4.17 shows the process of social capacity development as Total System. Social capacity is gauged by the measurement of labor productivity in the manufacturing sector. GDP per capita is used to measure social economic status, and to measure trade performance, the proportion of manufacturing goods in all export is used.

Throughout the analyzed period, all three indexes gauging the levels of social capacity, social economic status, and trade performance improved. Among those three, the levels of social capacity and social economic status rose more sharply due to an increase in FDI and exports of manufacturing goods after 1985 Plaza Accord.

Figure 4-17 Total System Indexes measuring the social capacity development

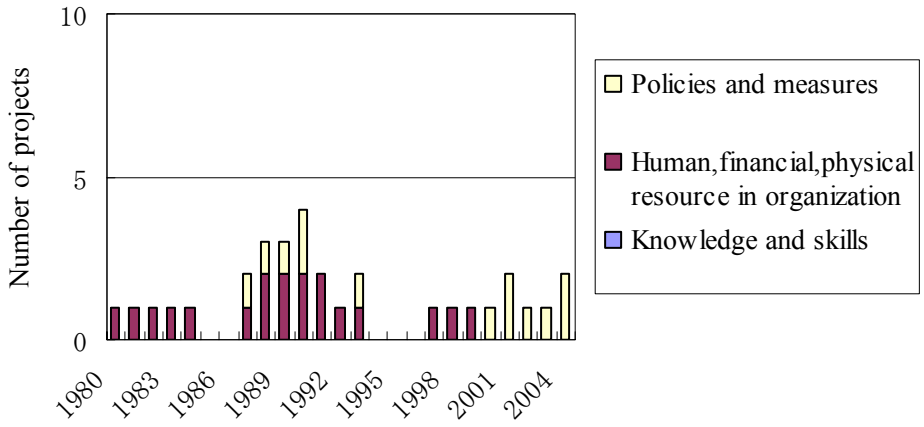


Source: WDI Online and ADB Key Indicators

4.5.2 Contribution of JICA's assistance to capacity development of the government

We discuss how JICA's aid inputs have contributed to social capacity development of the government. Figure3-19 shows chronological inputs of JICA's aid by the social development factors. The number of the projects is classified into the factors and summed up annually.

Figure 4-18 JICA's assistance inputs in Malaysia by development themes by capacity factor



Note: no inputs of human, financial, physical resource in organization during the period

Source: the author

Figure 4.18 shows JICA's aid inputs by project in detail.

Table 4-18 JICA's assistance inputs in Malaysia by development themes

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Establishment of trade-related legislation	The Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Promotion and Development of industry sector					
		Construction of Kulim Hi-Tech Park					
		Promotion and Development of industry sector (Supporting industry)					
		Supporting Industry Technology Transfer Project					
		Formulation of Action Plan to Develop Advisory Capabilities of Malaysian Development Financial Institutions for SMEs					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Malaysia External Trade Development Corporation					
	Promotion of SMEs, supporting industry and industry	Metal Industrial Technology Center					
		Research on Fine Ceramics					
		Casting Technology Center					

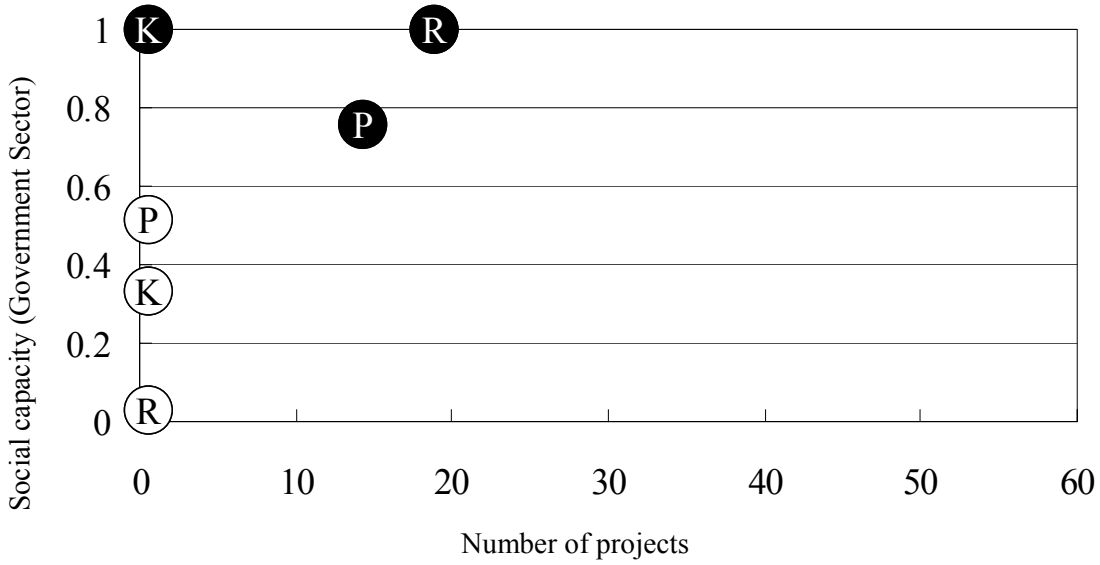
Source: the author

Considering the implication by Figure 4.18 and table 4.16, we can easily understand the situation of JICA's contribution, which is summarized in figure 4.19. It depicts the number of the projects in horizontal axis and social capacity (government) in vertical axis to illustrate transition of the

capacity development factors from 1980 to 2005. The number of the project is in each year based on the categories in accordance with relavant capacity factors. The social capacity level is mapped based on the implementation of the government policy (fully-implemented=1, no implementation=0).

As a result, it has become clear that Malaysia has smoothly developed its social capacity in spite of relatively little aid inputs from JICA. It is assumed that Malaysia itself has had strong ownership and led its capacity development on its own; therefore, development assistance has been extended at a minimum level required.

Figure 4-19Contribution of JICA's assistance to capacity development of the Malaysian government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

4.5.3 Consistency with Malaysia's social capacity development stage

Table 4.19 shows Malaysia's social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, Malaysia moved from its system-making stage, to system-working stage, and to self-management stage; therefore, JICA's assistance inputs are plotted under corresponding stages. Assistance inputs are sorted out in accordance with capacity factors of "P"

factors, “R” factors, and “K” factors.

Table 4-19 Malaysia’s social capacity development stages and JICA’s support

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures（P）	Export-promoting development plan			
	Trade-related legislation (Response to liberalization and facilitation such as WTO)		2	2
	Promotion and development of SMEs, supporting industry and industry	5	3	2
	Establishment of industry-related legislation			
Human, financial, and physical resources in organization（R）	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)		3	
	Promotion of SMEs, supporting industry and industry	15	1	
	SMEs promotion organization			
Knowledge and skills（K）	Acquisition, analysis and release of trade-related information (such as statistics) and skills			
	Acquisition, analysis and release of industry-related information (such as statistics) and skills			
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Then at the transition stage from the System-working Stage to the Self-management stage, JICA provided support programs related to trade such as assistance to MATRADE and WTO capacity building programs. Compared with the situation in Indonesia and the Philippines, JICA projects in Malaysia have successfully come to exits, and it seems that JICA effectively organizes the schedule of its assistant program according to the social capacity development stages of the recipient country.

As Malaysia’s capacity development has shifted to the Self-management Stage, JICA actively promotes South-South cooperation under Malaysian Technical Cooperation Programme (MTCP) scheme. MTCP originally started in early 1980s, and there are three main programs; providing short term (less than three months) training programs, accepting trainees, and sending professionals to local businesses. The largest program is the short term training program, and the number of participant trainees has increased annually and has reached 1,790 as of October, 2005. Those trainees come from 135 countries and regions, and the largest number of trainees is from ASEAN regions. In

the trainee program, nearly 100% percent of trainees belong to governments or non-governmental agencies, and the Malaysian private sector enterprises kindly accepts some trainees. JICA paid all the expense in the MTCP program until 2001, but after that, under newly a developed scheme called MTCP-TCCP, the Malaysian government and JICA began to split the costs evenly.

In terms of south-south cooperation, JICA helped develop training programs in which MITI, MIDA, and NPC accept trainees from developed countries. MIDA has hosted seminars for LDC on inviting FDI since the late 1990s. MATRADE will start its training program in 2006.[37] JICA is also planning to support to Malaysia in south-south cooperation.

4.5.4 Consistency with Malaysia's development policy and the cooperation of JICA with other Japanese agencies

As described earlier in this chapter, Malaysian government has taken a consistent strategy of export-oriented industrialization from IMP1 (1986-1995) to today. IMP1 took different approaches in different sectors. As for assistance from Japan, in 1983 prior to IMP1, JETRO's ASEAN Cooperation (AC) program started in Malaysia, and the program promoted technology transfer to local enterprises and hosted trade fairs. At that time, JETRO's AC program covered the metal manufacturing industry and the plastic molding industry, both of which were the priority targets in IMP1. Even before AC, JICA had started technical assistance for the metal manufacturing technology center of SIRIM.

In 1987, Japan's Ministry of Economy, Trade, and Industry proposed its new aid plan for the purpose of developing export-oriented industries by boosting "the trinity of trade, direct investment, and economic cooperation". In Malaysia, there were nine industries targeted by the new aid plan; metal molding, metallic auto-parts, ceramic, glass, electronics for business use (CRT) cathode ray rubes, ceramic IC package, rubber shoes, cast, and computers and related machines. JICA conducted feasibility studies on development of these nine industries, paving the way for the later concrete assistance programs of JICA and JETRO.

Later in the IMP1period, FDI peaked out, and other developing countries such as China joined the competition especially in labor intensive industries. In response, Japan's METI announced "1993 Visions for advanced industrialization in ASEAN", which stressed the importance of supporting industries. In 1994, JICA started a development plan for industrialization (supporting industries), and

[37] In 2005, in preparation of new training program, MATRADE hosted seminars in Zambia and Uganda providing lessons from Malaysia's experience. Former MIDA staff member gave lectures there.

JETRO initiated its programs to foster supporting industries (SI). In Malaysia, SI were defined as metal molding, press working, and rubber for industrial use.

After IMP1, IMP2 (1996-2005) shifted strategy and took a cluster and value chain approach, called Manufacturing++. SI and SMEs are essential for Malaysian industry to strengthen its industrial agglomeration and interaction within. JICA's related assistance and METI's 1993 vision were in perfect accordance with the situation. The goal of Manufacturing++ was to build the international competitiveness of the Malaysian private sector by promoting vertical integration and development in R&D, production, logistics, and other parts of the value chain. One example of JICA's programs designed to work un unison with Manufacturing++ was the technical assistance program for SIRIM in R&Ds, as the program aimed to increase competitiveness in local manufacturers. In sum, JICA has remained well coordinated with Malaysia's policy and cooperative with local agencies.

JICA's input to Malaysia was not quite large compared to that to other comparable countries. JICA has conducted a smaller number of projects because some projects conducted in other three ASEAN nations were not implemented in Malaysia. Even compared to Thailand which also received small input from JICA, Malaysia did not need technical assistance in legislation related to industrialization, especially in fields such as standardization, intellectual property, and accounting. It seems that Malaysia had a stronger tendency than other countries to promote industrialization on its own, depending mostly on its private sector. Considering Malaysia's needs, one can state that JICA has provided appropriate inputs in terms of quality, quantity, and timing.

Recently, Malaysia has positioned itself as a powerful nation in non-aligned countries and Islamic countries, and has taken an active role in south-south cooperation. JICA is fully aware that the level of urgency in direct technical assistance is diminished as Malaysia has grown already. JICA tries to maintain accordance with Malaysia's policy for developing countries and emphasizes support for Malaysia's south-south cooperation programs.

4.6 Lessons leaned and recommendations

(1) Program-based aid

All of assistance, trade, and investment has been effective in accordance with the related policy measures of Malaysian government such as IMP. In this sense, one can now recognize that Japan's cooperation had thorough consistency as a "program". Japan was able to select and conduct effective assistance programs in line with local needs. Experience with Malaysia provides useful insights

about the roles of supporting countries and recipient countries.

One valuable lesson from Malaysia is that future assistance should be based upon long-term, consistent strategy that will tie all projects together in accordance with the local policies and situation. No project should be conducted without such strategy or "consistent programs" as a whole.

(2) Strategic positioning of trade sector assistance : application to CLMV countries or African regions.

As described earlier, Malaysia has promoted south-south cooperation, and has already shifted into the operational stage. Malaysia has built a track record in supporting CLMV and African countries. JICA and other Japanese agencies will have to continue to assist Malaysia's south-south cooperation and to take advantage of their experience with ASEAN countries in the "trinity with assistance, trade, and direct investment". In this context, it is important to consider the recent movement of FTA and WTO for applying Malaysia's experience to the assistance. Further information collection and data including research papers and interview with experts is important as well.

Chapter 5

Chapter5 Philippines

5.1 Trade sector assistance from Japan

The first section of this chapter provides an overview of trade sector assistance for the Philippines from Japan. In addition to the direct assistance, it includes promotion of investment, fosterage of small-to-medium-sized enterprises (SMEs) and supporting industries, and other supports in industry development.

5.1.1 Trade sector assistance provided by JICA

Table 5.1 lists the projects of the main trade sector assistance toward the Philippines provided by JICA after 1980. As assistance for the Philippine trade sector by JICA, the project by the Institute for International Studies and Training is the first one, and is the main target of this evaluation.
After a feasibility study on the export processing zone was conducted in 1993, trade sector assistance was not provided by JICA in the 1990s. Since 2000, technical assistance has been provided with the goal of advancement of trade administration capacities and facilitation of trade such as the WTO Capacity Building Assistance Program and research on time required for trade procedures.

As assistance for industry development by JICA, the Metal Casting Technology Center Project was executed in the 1980s to support the improvement of metal mold technology. In the late 1980s, feasibility studies such as the Coal Industry Technology Development Master Plan Study and industrial Standardization and Quality Improvement Plan were implemented. In addition, from 1989 to 1992, the Industrial Sector Growth and Development Plan, which was consulted by a consortium of JETRO and private companies, was conducted based on the new-aid plan presented by the Japanese government in 1987.

JICA's industrial development assistance was also actively implemented in the 1990s. Especially, JICA's assistance for the Philippines focused on electric and electronic product and software industries, in which the Philippines seems to be superior to other countries. The Technical Cooperation Project for the promotion of the food industry in local regions started in 2005 in light of the disparity in wealth between central and local areas.

Table 5.2 presents a past record of accepted trainees by JICA in the field of trade and investment and SME development. JICA's acceptance of trainees assists the upskilling of workers from government agencies. The number of accepted trainees differs in the period of acceptance in all sectors of trade, investment, export, and SME. The trade sector accepted the largest number of trainees in these four sectors. It accepted one to four persons, every year from the 1980s to the early 1990s. Government agencies which sent trainees to JICA were the Ministry of Trade and Industry, Philippine Export Council, Board of Investment, and Center for International Trade Expansions and Missions. From 1998 to 1999, during a period of a project conducted by the Institute for International Studies and Training, a total of five workers from that institution were accepted as trainees.

Table 5-1 JICA's most important assistance programs in trade and direct investment, the fostering of SMEs and supporting industries, and industrial development (the project name and the year)

1. Trade

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Trade Training Center	Technical Cooperation Project							■	■	■	■	■	■																		
Trade Training Center (Follow-up)	Technical Cooperation Project												■	■																	
Capacity Building Program on the Implementation of the WTO Agreements	Development Study																						■	■	■	■					
Study on Measurement of the Time Required for Trade	Industrial Project Formation Basic /Select confirmation Study																							■	■						
Development of Cavite Export Processing Zone and Investment Promotion Plan	Development Study														■																

2. Promotion of SMEs and Supporting Industry

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Plan-Making Support of SMEs Development	Development Study																								■	■					

3. Industrial Sector Promotion

Project Name	Types of Schemes	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Metal and Casting Technology Center	Technical Cooperation Project	■	■	■	■	■	■	■																							
Industrial Standardization and Electric Testing Technology	Technical Cooperation Project														■	■	■	■	■	■											
Software Development Training Center	Technical Cooperation Project																■	■	■	■	■										
Improvement of Mold Techenology	Technical Cooperation Project																		■	■	■	■	■	■							
Electronic Products Testing Technical Cooperation Project	Technical Cooperation Project																				■	■	■	■	■						
Industrial Property Modernization	Technical Cooperation Project																				■	■	■	■	■						
Improvement of Regional Food Packing Technology Project	Technical Cooperation Project																										■	■	■	■	■
Master Plan of Coal Industrial Technology Development	Development Study								■	■																					
Industrial Standardization and Quality Control Project	Development Study									■	■																				
Promotion and Development of industry sector	Development Study										■	■	■	■																	
Production Statistics Development Plan	Development Study																					■	■	■							
Industrial Environment Management Study	Development Study																							■	■						
Production Statistics Development Plan Follow-up Study	Development Study																							■	■						

Note: Previous "Technical Cooperation in Project Format" is listed as "Technical Cooperation Project."
Source: Arranged by the research group based on: Ministry of International Trade and Industry "Current conditions and issues of economic cooperation" Annual; Ministry of Foreign Affairs "Official Development Assistance" Annual; Japan International Cooperation Agency and Institute for International Cooperation (2003) "Effective approach for development subject: Trade and Investment Development". The Technical Cooperation Project is based only on information from the Japan International Cooperation Agency and Institute for International Cooperation (2003).

Table 5-2 Historical number of JICA trainees from the Philippines in trade and direct investment, and SMEs development

(number of trainees)

	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	80～05 total
SMEs	0	1	1	1	1	1	1	0	1	0	2	0	2	0	0	0	1	1	1	1	1	1	5	0	0	0	22
Investment	0	0	0	0	1	0	0	1	1	2	1	1	1	2	2	2	2	1	1	0	1	1	2	1	1	2	26
Export	1	1	1	2	0	1	1	1	3	1	1	0	2	2	0	0	0	0	1	1	0	0	1	1	1	0	22
Trade	1	2	3	2	1	1	3	1	1	3	4	2	1	2	0	0	3	1	0	0	1	0	4	3	4	3	46
Total	2	4	5	5	3	3	5	3	6	6	8	3	6	6	2	2	6	3	3	2	3	2	12	5	6	5	116

Source: JICA

5.1.2 Assistance from Japan in trade expansion

In addition to JICA's technical assistance, trade sector assistance by Japan involves the following: technical assistance by Japan External Trade Organization (JETRO), Japan Overseas Development Corporation (JODC), Association for Overseas Technical Scholarship (AOTS), and yen loans by Japan Bank for International Cooperation (JBIC) that supports infrastructure building, a prerequisite for trade and investment[38]. An overview of the assistance is as follows:

(1) JETRO

Table 5.3 lists assistance for the Philippines by JETRO. JETRO is an organization that was originally intended for promoting Japanese trade. As a result of the economic globalization, it started providing assistance for enhancement of industrial infrastructure and export capability in developing countries. A prominent achievement related to JICA is the feasibility study in industrial development. JETRO conducted the feasibility study as a consultant formed as a consortium of JETRO and private companies.

[38] Examples of assistance from Japanese government agencies in trade and investment promotion are: JBIC's international finance (export finance, overseas investment), and NEXI's trade and investment insurance. JICA and Institute for International Cooperation, 2003

Table 5-3 JETRO's records in assistance of Philippine trade and industrial development

Trade and Industry Promotion Center Project in Developing Countries (AC Project : Asian Cooperation Project, 1982～2000)	↓ Promotion of local small and medium enterprises - Development of local small and medium enterprises - Spreading appropriate technology of small and medium enterprises - System Standard Technology Information Cooperation Project ↓ Development of Product Export Project - Instruction for Product Improvement - Instruction for Trade Promotion
Supporting developing countries' local industrial basis project (1996～)	Implementation of support for automobile and devices, electric and electronic product and devices sector ↓ Instruction for development of local industries - Dispatch of experts to strengthen basis of industrial activities - Dispatch of technical guidance experts - Support for training of industrial trainers ↓ Promotion of local industrial exchanges - Promotion of industrial exchanges - Holding wide-area industrial exchanges events
Strengthening developing countries' supporting industries project (SI Project: Supporting Industry, 1994～)	JETRO's assistance includes studies on situations of supporting industries, dispatch of experts, acceptance of trainees for development of supporting industry. In the Philippines, JETRO's assistance includes studies, dispatch of experts and acceptance of trainees in such sector as press working and plastic processing.
Participation in JICA's Industrial Promotion Development Study	JETRO organized JV with private companies for studies on Asian export promotion based on the New Aid Plan in 1987 and participated in JICA's development study as a consultant. JETRO conducted studies on mold, wooden furniture, computer software, chemical product, fashion accessory, stuffed toy in the Philippines from 1990 to 1992.
Training of Trade Promotion Organizations' staff (1988～2002)	JETRO invited middle-management executives in Philippine trade promotion organization and implemented training in Japan. JETRO accepted trainees in 1988, 1989, 1991 from the Philippines.

Source: JETRO (2000) "forty-year footprint of JETRO"

(2) JODC and AOTS

Tables 5.4 and 5.5 summarize the past record of dispatch of JODC experts to the Philippines and acceptance of trainees by AOTS.

JODC has sent technical specialists as JODC experts to Japanese-affiliated firms and non-Japanese-affiliated local companies in developmental countries. The dispatch of experts in the service sectors has been implemented in these years, in addition to the textile industry, electric and electronic industry, and a wide range of manufacturing industries such as automobiles and chemical products. The accumulated number of JODC experts between 1979 and 2004 is 349, which is a small number of people compared to Indonesia and Thailand, where more than 1,000 experts have been dispatched.

AOTS has been accepting industrial-technique trainees from foreign countries in order to enhance economic development and friendly relations between Japan and developing countries by furthering economic cooperation. There are a large variety of areas that accept trainees through AOTS. In the case of the Philippines, more than 8,000 Philippine workers were accepted to either domestic or overseas training between 1980 and 2004.

Table 5-4 JODC's TA professionals sent to the Philippines

Year	1979～1988 total	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1979～2004 total
Long-term Experts (number of experts)	69	2	5	3	5	3	5	3	6	5	5	10	4	8	1	3	13	150
Short-term Experts (number of experts)	67	3	1	4	0	0	5	1	4	6	31	23	10	17	17	9	1	199
Total	136	5	6	7	5	3	10	4	10	11	36	33	14	25	18	12	14	349

Note: Short term means less than 1 year. Long term means between 1 year and 2 years. The number marks a record of new dispatch.

Source: Primary data from JODC

Table 5-5 The number of participating AOTS trainees from the Philippines

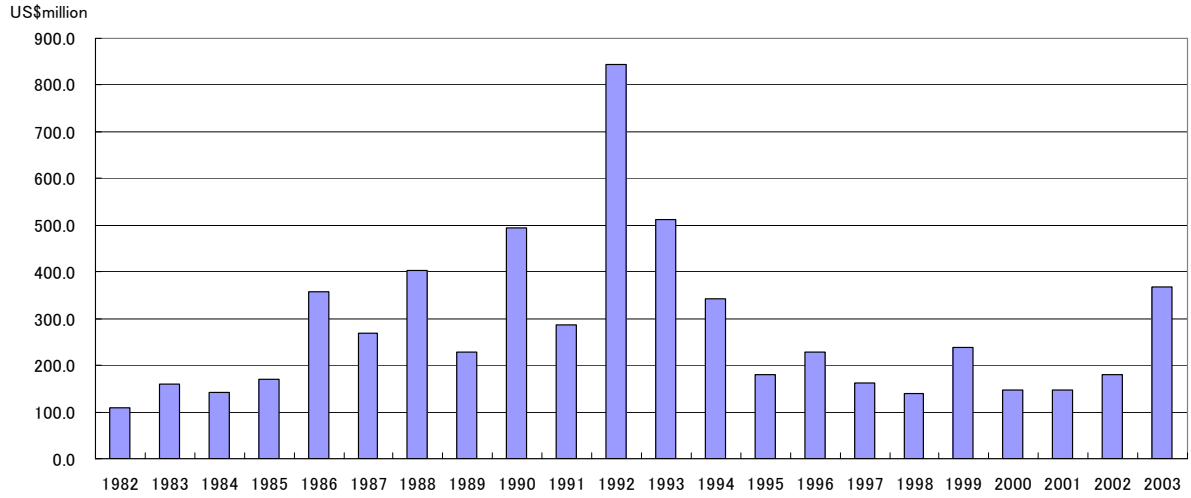
Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1980-2004 Total
Acceptance of Trainees (number of trainees)	71	95	72	80	44	53	37	45	87	117	125	133	215	226	351	332	308	281	371	403	398	419	348	352	250	5,213
Overseas training (number of trainees)	50	0	0	60	0	0	0	0	35	24	135	229	0	99	150	189	258	248	306	149	136	216	60	395	456	3,195
Total	121	95	72	140	44	53	37	45	122	141	260	362	215	325	501	521	566	529	677	552	534	635	408	747	706	8,408

Source: Primary data from AOTS

(3) JBIC

Although it does not offer direct assistance to the trade sector, Japan has taken an active role in cooperation through yen loans to build an economic infrastructure which is integral to trade and investment promotion and industry development in the Philippines. Table 5.6 indicates the transition of provisions of yen loans (net base of expenditure) since 1980. The social-service sectors, including education and the agricultural sector, are included in the entire yen loan. As to the yen loans for the Philippines, They have been fairly provided for infrastructure building such as for electric power, roadways, railroads, harbors, and water and sewage. These are inevitable for economic performance.

Figure 5-1 Annual net outgoing amounts of yen loans to the Philippines



Note: Calendar year, DAC aggregate basis, net base of expenditure

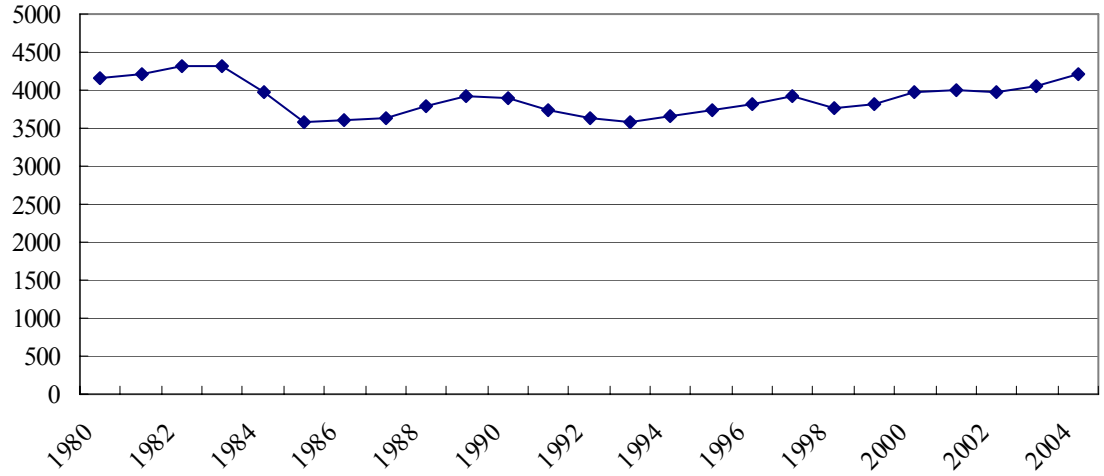
Source: Ministry of Foreign Affairs, ODA Country-by-country data book, Annual

5.2 Economic development, trade, and direct Investment

5.2.1 Economic Development

Philippine GDP per capita based upon Purchasing Power Parity (PPP) has remained at a certain level between the high 3,000 dollars and the low 4,000 dollars since 1980 (real price in 2000). Although the GDP per capita of about 4,000 dollars seems to be a high standard for a developing country, the Philippine socioeconomic level has remained flat over the last 25 years. Also, the Philippines has issues of economic discrepancy between the Manila metropolitan areas and local regions. It is conceivable that the economic level of local areas is far below the standard of 4,000 dollars.

Figure 5-2 Philippine per capita GDP (PPP, Constant 2000 international $)



Source: World Bank, World Development Indicators

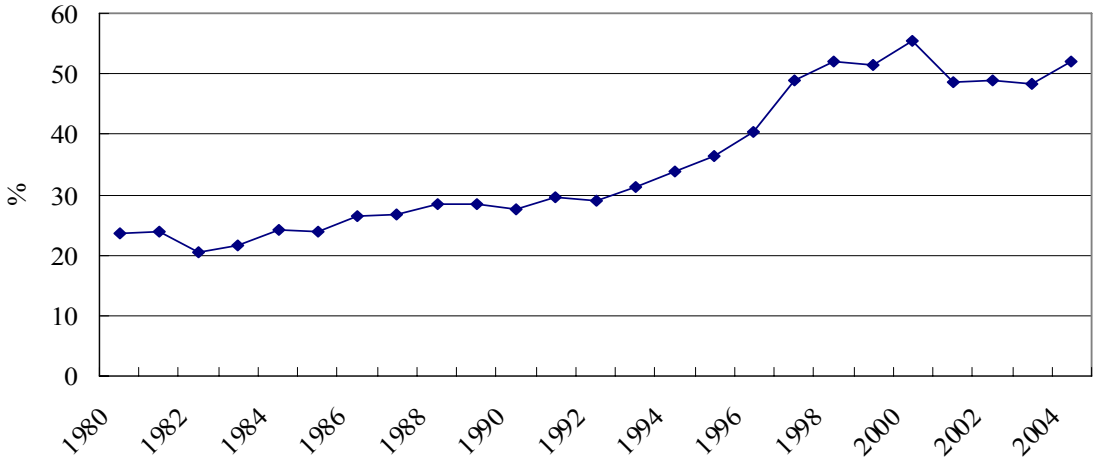
5.2.2 Trade and direct investment

(1) Trade (export)

Figure 5.3 shows transition of the ratio of product and service exportation to GDP in the Philippines. The ratio of exportation that accounts for GDP in the Philippines, which remained around the lower 20% in the early 1980s, gradually increased and exceeded 30% from the late 1980s to the early 1990s. It currently remains at approximately 50% after having rapidly increased between the late 1990s and the 2000s.

The Philippine export structure had widely depended on primary commodities until the early 1970s. Exportation of non-traditional industries such as clothing and electronic components increased in the 1970s. Then, in the early 1980s the ratio of these non-traditional industries rose in ratio to over 50%.

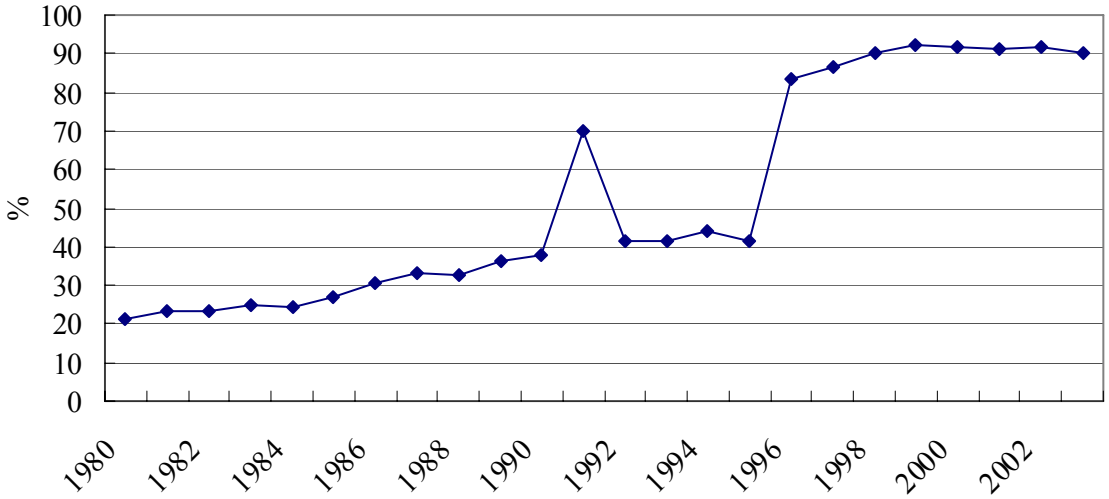
Figure 5-3 The ratio of Philippine product and service export to GDP



Source: World Bank, World Development Indicators

It is considered that Philippine exports saw sluggish growth in the 1980s because it was greatly influenced by the struggling international market of primary commodities at the time. On the other hand, continuous growth of the export of the manufacturing industries such as clothing and electronic components contributed to the modest development of the exports of that time. As a result of the stabilization of the vulnerable political situation in the 1980s and the foreign capital inducement positively initiated by the government, in the 1990s exports shifted favorably against a background of rapid expansion of export-driven industrialization initiated by foreign capital. Particularly in the late 1990s, export of electronic components and products such as semiconductor material and hard disc drives increased with a focus on exporting to the U.S.

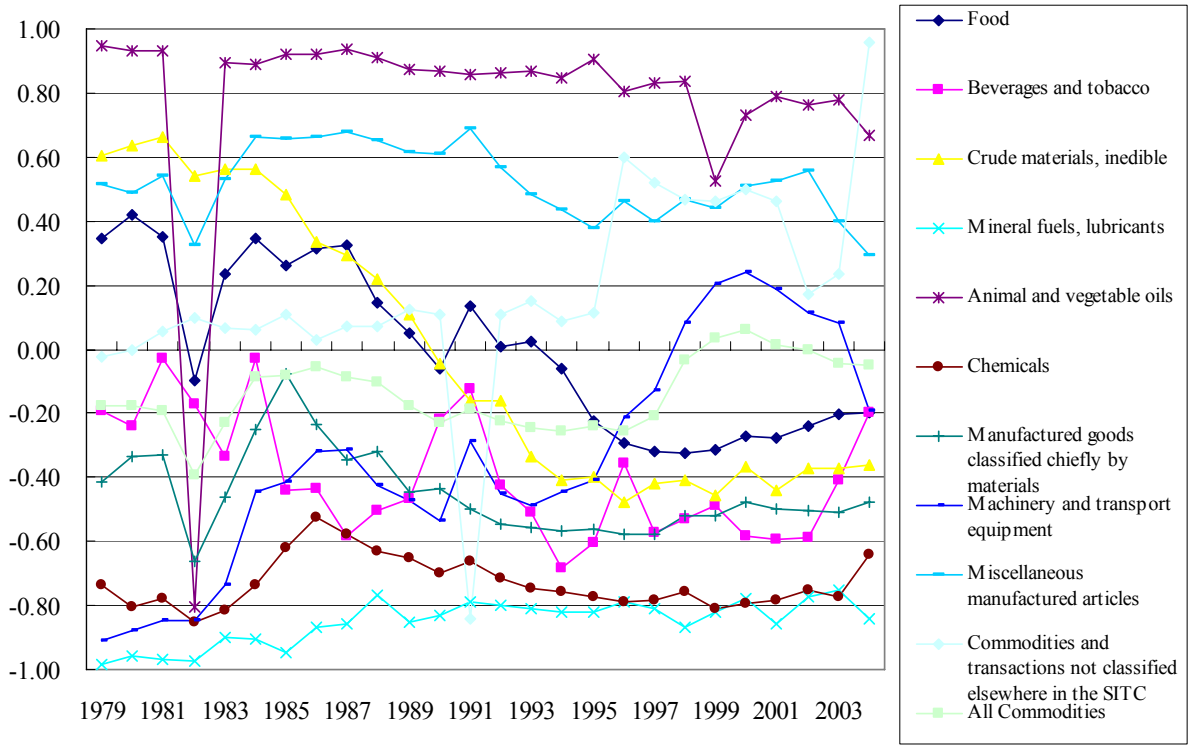
Figure 5-4 Rate of manufacturing sector in Philippine export



Source: World Bank, World Development Indicators

Growth of the manufacturing export in the 1990s is reflected in the transition of the export ratio of the manufacturing industry that accounts for commodity export. Export of electronic and electric equipment and components and auto parts has expanded since the middle 1990s in the Philippines. Because of that, manufacturing export has started taking over more than 80% of the commodity export of the Philippines (Figure 5.4).

Figure 5-5 International competitiveness of Philippine export items categorized by SITC1



Source: United Nations, Commodity Trade Statistics Database (COMTRADE) 2005

Finally, change in the global competitiveness of the Philippine trade sector, especially the sector of manufacturing industry, is examined through fluctuations of the global-competitiveness index [(export-import) and (export+import)]. From among the items presented in figure 5.5, chemical products, manufactured goods classified chiefly by material, machines and transport equipment, and miscellaneous manufactures fall under the category of the manufacturing industry.

It seems that the Philippines has kept a high competitiveness in miscellaneous manufactures (especially in textiles). The Philippines has historically focused on export of light manufacturing outputs for the purpose of an industrialization policy. However, in recent years, the competitiveness index in the textile sector shows a downward tendency, which can be derived from the fact that the competition between the Philippines and advanced developing countries such as China and Vietnam has been toughening, and also from the fact that the industrial structure has been shifting from the textile industry to the electronic and electric industry.

On the other hand, export of machines and transport equipment anchored by the electric and electronic industry has increased its global competitiveness since the 1980s. In particular, the enlargement of the export ratio is notable in the late 1990s. The export of the electric and electronic industry firmed up quickly after its stagnation period when it was hit by the IT slump in the year 2000. The electric and electronic industry showed an excess of imports in 2004 because of the increase in importing electric and electronic components that are assembled in the Philippines. This indicates the enhancement of exporting electric and electronic products of the Philippines.

(2) Direct Investment

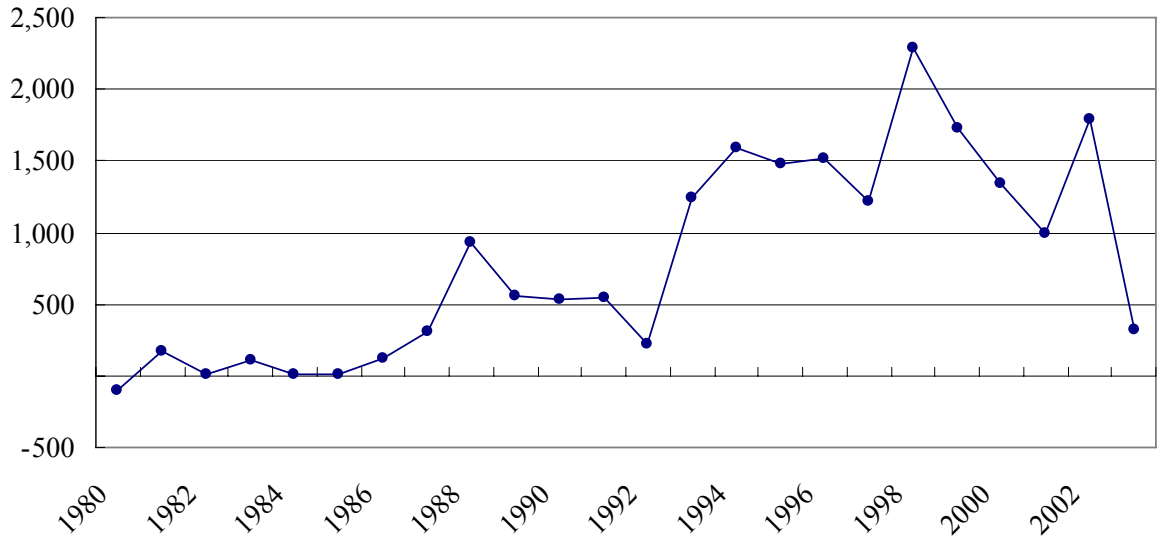
Figure 5.6 shows the net inflow of foreign direct investment into the Philippines. The approved amount of foreign direct investment in the Philippines steadily increased from the late 1970s to the early 1980s. However, then the net amount of direct investment in the Philippines barely grew until

the middle 1980s due to the strained political situation symbolized by the assassination of Benigno Aquino in 1983, and the exacerbated economic situation, such as a boost in prices and unemployment.

The government was stabilized under the Aquino Administration, which replaced the Marcos Administration in 1986, and after this, direct investment from foreign countries showed signs of recovery. The direct investment into the Philippines smoothly expanded with a focus on investment in the manufacturing sector until 1989. However, it decelerated during the presidential election in 1992 because of an aborted coup attempt and natural disasters like the drought, earthquake, and typhoon that struck the Philippines in succession.

The government was stabilized under the Ramos Administration established through an election in 1992. As a result, the Philippines regained the trust of investors. Through the mid 1990s direct investment into the Philippines was positively utilized. Although it slowed due to the influence of the Asian economic crisis in 1998, the inflow amount of foreign direct investment into the Philippines increased through the late 1990s with the IT-related direct investment. However, the worldwide IT slump hit investment in the Philippines, and with the additional destabilization of the political situation, the direct investment slowed down through the year 2003.

Figure 5-6 Foreign direct investment inflow to the Philippines (net inflows, BoP, current US$)



Source: World Development Indicators

5.3 Trade capacity building in firms

5.3.1 Small and medium-sized enterprises (SMEs) and business group

(1) SMEs

As the main scope of this evaluation is a capacity development of local SMEs (manufacturing industry), the corporation sector is reviewed based on the fundamental data of SMEs.

As the table 5.6 describes, the number of establishments and employees in medium-to-large-sized companies (more than 10 employees) increased after the stagnation period of the mid 1980s. The amount of added value has been consistently increasing as well.

As to small companies, the number of both business establishments and employees indicates exceeded growth compared to medium-to-large sized companies since 1988. The value-added amount has been in a stagnation period after the mid 1990s. Small companies have an overwhelming share of the number of establishments, which is 87.3%, while the number of employees undergoes a transition below about one-fourth and the value added never exceeded 5%.

Table 5-6 Establishments, employees, and the value added by size of firm in the Philippine manufacturing industry

	Number of establishments				Number of employees				Value added			
	Large / Medium		Small		Large / Medium		Small		Large / Medium		Small	
1983	5,733				700,894				55,477,503			
1984	5,435				645,516				68,766,417			
1985	5,369				623,671				79,020,469			
1986	5,294				636,219				97,747,092			
1987	5,000				675,206				105,382,060			
1988	11,488	15.2%	64,147	84.8%	856,951	78.5%	234,428	21.5%	133,823,686	97.0%	4,075,974	3.0%
1989	10,154	13.1%	67,651	86.9%	949,488	78.6%	258,311	21.4%	160,021,700	95.4%	7,747,538	4.6%
1990	10,446	12.5%	73,379	87.5%	932,999	76.0%	294,853	24.0%	206,419,446	95.9%	8,790,114	4.1%
1991	11,426	12.9%	76,872	87.1%	946,094	76.6%	289,060	23.4%	239,661,293	95.7%	10,639,422	4.3%
1992	11,764	12.8%	80,022	87.2%	968,628	75.6%	312,704	24.4%	269,100,537	96.2%	10,529,499	3.8%
1993	11,005	12.1%	80,131	87.9%	908,686	74.1%	317,896	25.9%	299,147,649	96.4%	11,013,169	3.6%
1994	10,726	11.6%	81,544	88.4%	895,252	75.7%	287,630	24.3%	325,083,594	95.6%	14,921,601	4.4%
1995	10,219	10.6%	86,484	89.4%	911,319	74.4%	313,019	25.6%	394,018,898	95.6%	18,158,247	4.4%
1996	13,526	12.6%	93,530	87.4%	1,062,985	75.1%	352,798	24.9%	498,310,513	96.3%	19,112,766	3.7%
1997	14,734	12.7%	101,052	87.3%	1,109,676	74.4%	382,610	25.6%	558,643,874	97.0%	17,527,053	3.0%

Source: Republic of the Philippines (2001) Philippine Statistical yearbook

Table 5.7 presents newer data since 2000. As to the number of business establishments, there is no big difference compared to the transition indicated in the table 5.6. As to the number of employees, the ratio of small companies that had increased until 1997 decreased to the level of the late 1980s until 2003[39].

[39] The share that accounts for the whole export of SMEs cannot be obtained from any statistics

Table 5-7 Share of each size of enterprises in the number of business establishments, new employment, and added value in the Philippine manufacturing sector

	Number of Employees	Share in total (%) (Establishments)	Share in total (%) (Employees)	Share in total (%) (Value added)
2000	Employee: 1～9 Asset: ～3 million Peso	86.9	22.3	N.A.
	Employee: 10～99 Asset: 3 million Peso～15 million Peso	11.3	22.3	N.A.
	Employee: 100～199 Asset: 15 million Peso～100 million Peso	0.9	9.5	N.A.
	Employee: 200～ Asset: 100 million Peso～	1.0	45.9	N.A.
2003	Employee: 1～9 Asset: ～3 million Peso	88.2	21.5	N.A.
	Employee: 10～99 Asset: 3 million Peso～15 million Peso	9.9	18.0	N.A.
	Employee: 100～199 Asset: 15 million Peso～100 million Peso	0.8	8.7	N.A.
	Employee: 200～ Asset: 100 million Peso～	1.1	51.7	N.A.

Source: National Statistics Office, "Annual Survey of Establishment" [2000 and 2003 editions are obtained from Bureau of Small and Medium Enterprise Development (BSMED) of Department of Trade and Industry (DTI)]

(2) Business groups

This section introduces activities of the Philippine Chamber of Commerce and Industry (PCCI) as a dominant economic organization.

The current PCCI was established through an affiliation of the Chamber of Commerce of the Philippines and the Philippine Chamber of Industry in 1978. It consists of 102 local chambers of commerce and industry and 142 industry organizations. 18,000 SMEs are affiliated with the PCCI. In addition, cooperative members from 18,000 companies are also associated with it. The main activities of the PCCI are policy recommendation and service provision to the members. Regarding policy recommendation, the PCCI has connections between government agencies such as the National Economic Development Authority (NEDA) and the Department of Trade and Industry (DTI). As to providing services to the members, the PCCI holds trade fairs and facilitates a dispatch of missions to promote exports. Because a large number of SMEs that account for more than 90% of all companies in the Philippines are located in local areas, the PCCI is focusing more on relations with the local governments than with the central government as partners in trade promotion projects.

5.3.2 Trade capacity building of the private sector

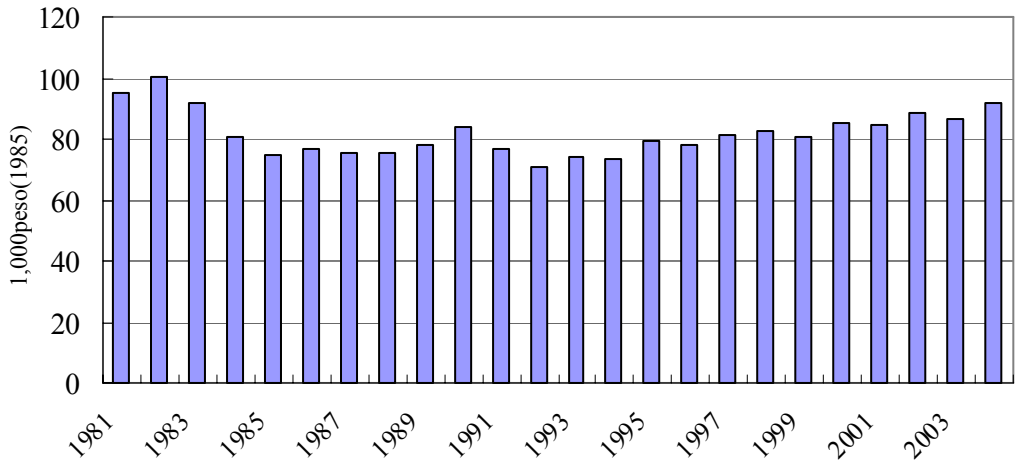
This section analyzes the developmental process of export capacity in a cooperative sector. It is defined that the export capacity of companies consists of 3 factors: "policy and measures ("P" factor)", "human resource and organization("R" factor)", and "knowledge and skills("K" factor)". Alternative indicators for these factors are selected as follows: an alternative indicator for "policy and measures ("P" factor)" is the labor productivity of the manufacturing industry (amount of added value/number of employees); "human resource and organization ("R" factor)" is the ratio of employees in the manufacturing industry that accounts for all employees; and "knowledge and skills ("K" factor)" is the gross ratio of secondary-education enrollment.

While selecting these alternative indicators, we attempt to understand potential capacity in other companies as well as in currently exporting companies. As for "policy and measures ("P" factor)",

labor productivity resulting from action is adopted because it is difficult to set indicators that evaluate actions that are comprehensively implemented by companies. Also, due to the limitation of the data, "policy and measures ("P" factor）" and "human resource and organization ("R" factor）" target not only SMEs but also whole manufacturing companies, and "knowledge and skills ("K" factor）" selects general indicators including other industries as well as the manufacturing industry. In spite of the limitation, it is conceivable that each index keeps relevance to a certain extent.

The Philippines has grown distinctively stagnant in indicators compared to other countries. The labor productivity has yet to retrieve its standard after reaching its peak in 1982. The level of labor productivity has also been low. For example, the labor productivity of the Philippines in 2000 converts to 6,045 US dollars at the going price, while Japan's is 73,864 dollars in a similar conversion[40]. Though the Philippines shows higher labor productivity compared with the standard of Indonesia in that year (3,932 dollars), the price gap is large in any case.

Figure 5-7 Labor productivity of the Philippine manufacturing sector



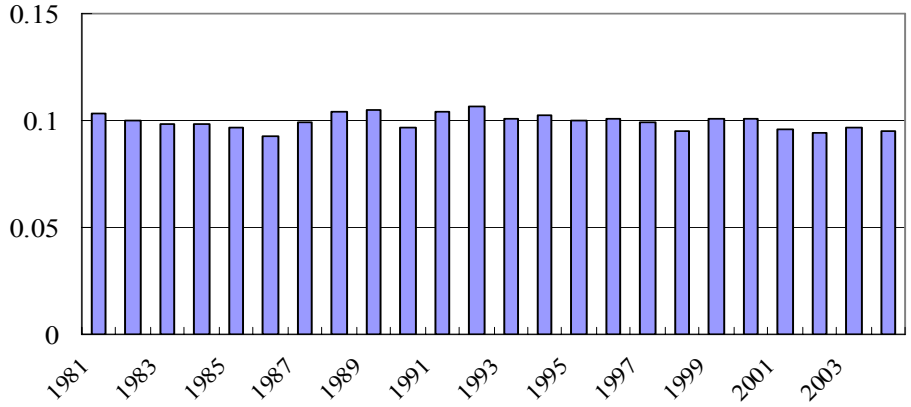
Source: ADB Key Indicators

As for the employee ratio, this undergoes a transition of around 10%. The attempt to create new employment through the facilitation of business promotion, including small businesses, has not sufficiently paid off. The productivity of Indonesia, which was below that of the Philippines in the early 1980s, went over 10% in the early 1990s, and since then has shown around 10% to 15%, which excels the productivity of the Philippines. The standard of employee ratio in the Philippine manufacturing industry is the lowest among the target countries, which points to the existence of large discrepancies in comparison with the industrialization of advanced countries[41].

[40] Derived from the data of Statistics Bureau Ministry of Internal Affairs and Communications (2006)

[41] Japan had already reached 30.7% in 1962, and reached a peak of 36.6% in 1973. Then, with shift into tertiary industries, the employee ratio decreased to 27.5% in 2004.

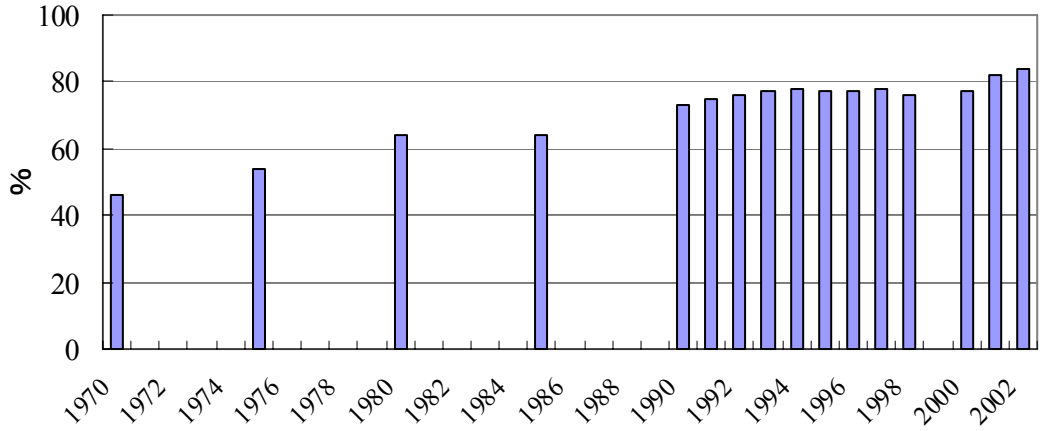
Figure 5-8 The proportion of employees in the manufacturing sector in the Philippines



Source: ADB Key Indicators

The gross ratio of secondary-education enrollment indicates a relatively high level since the 1970s, and it has risen above a major mark of 80% from 2000 onwards. This seems to be favorable when compared to other indicators. Though it has not yet reached the standard of advanced countries[42], the achievement is valuable. However, the accumulation of "knowledge and skills" has not been sufficiently reflected in the capacity development of "human resource and organization" and "policy and measures".

Figure 5-9 The secondary school enrollment the Philippines



The data is not available for 1971,1974,1976~1979,1986~1989,1997,1998
Source: Global Education Database

Not only three indicators covering the private sector, at corporate and industrial levels, the promotion of SMEs and supporting industries and export performance seem to be worse than in other target countries. Taking these prospects into account, the export enhancement system is still in the process of its development.

[42] The gross ratio of secondary-education enrollment of advanced countries in 2000 is as follows; Japan 100%, Canada 98%, England 95%, France 92%, Korea 91%, Australia 90%, Germany 88%, and the USA 87% (Global Education Database)

5.3.3 Self-analysis of trade capacity by enterprises

In the questionnaire survey implemented as part of this evaluation, responding companies were requested to evaluate their own competitiveness. Based on this questionnaire survey, the current situation of export capacity of SMEs is examined as follows.

While SME indicates a company that employs fewer than 200 people in the case of the Philippines, in this survey, SMEs are selected based on the World Bank standard of fewer than 300 people in terms of comparison with other countries. (Hereinafter, SME means a company with fewer than 300 employees.)

(1) General overview of recipient companies

The questionnaire survey in the Philippines was conducted from September to October 2005 for 500 companies that were selected carefully in an industrial classification based on the corporation directory made by the Department of Export Promotion and Philexport. A total of 124 companies replied. Among these responding companies, 77 out of the total of 113 companies that existed as of the year 2000 and 78 out of the total of 124 companies that existed as of the year 2004 are SMEs[43]. Attribution of these companies is outlined below, in which parameters of (a)business model, (b)industry, (c)major export destination ,and(d) foreign-capital ratio are analyzed based on the results of the questionnaire survey.

(a) Business model

Regarding business configuration, the questionnaire asked the companies to choose a matched classification from (1) manufacturing-direct exporter (2) manufacturing-indirect exporter (3) non-manufacturing-exporter, and (4) others. In response to the question, 69.0% of the total responding companies answered as (1) manufacturing-direct exporter, 16.7% as (2) manufacturing-indirect exporter, and 9.5% as (3) non-manufacturing-exporter.

Regarding answers from SMEs on the same questions, as of 2004, 66.32% answered as (1) manufacturing-direct exporter, 18.36% as (2) manufacturing-indirect exporter, and 10.20% as (3) non-manufacturing-exporter. In other words, manufacturing and direct exporters account for more than 65% of both all companies and small-to-medium-sized responding companies.

(b) Industry

The industrial sector of responding companies has spread over almost all areas. As a whole, the number of companies in the 4 machinery areas is small. The ratio of light industry such as textile, clothing, and wood product is high. The ratio of food processing manufacturers is also high. Examining the breakdown of the rest, as responded by many companies, the light industries like furniture and handcrafts account for a high rate.

[43] As for the questionnaire items below, the total number of responses is not consistent with the number of companies because some companies failed to make valid responses to all questions and also several answers were accepted for some questions.

Table 5-8 Industries reported in answers (2004)

Company Scale	Food	Apparel and textile	Pulp and paper	Chemical	Medical goods	Petroleum and coal product	Wood product	Rubber product	Glass, soil and stone product
Small and Medium (under 300 people)	18	16	5	3	0	0	19	2	3
Large (more than 300 people)	2	7	3	0	0	0	4	1	2
Company Scale	Iron and steel	Nonferrous metal	Metal products	General machinery and parts	Electric equipment and parts	Transport equipment and parts	Precision equipment and parts	Others	Total
Small and Medium (under 300 people)	3	2	9	0	0	3	0	33	116
Large (more than 300 people)	0	0	2	0	0	0	0	6	27

Source: The questionnaire interview by the study team

Table 5-9 Detailed categorization of "other" in 2004

Breakdown of Others (Medium and Small Companies)

Types of Industries	
Handicraft	5
Accessories	5
Interior accessory	4
Caps,Hats	2
Bags,Baskets	1
Bags, houseware	1
Bamboo furniture	1
Electronics	1
Phones	1
Houseware	1
Dolls	1
plastic packaging	1
Tin can	1
Hand painted canvass	1
Virgin coconut oil	1
Aqua feeds	1
House plant	1
Garments	1

Breakdown of Others (Large Company)

Types of Industries	
Handicraft	1
Interior accessory	1
Leaf tobacco	1
Dinnerware	1
contact image sensor	1
Basket, lampshade	1

Source: The questionnaire interview by the study team

(c) Export destination

North America is the most selected region as an export market by either all companies or SMEs. For the Philippines, the U.S. is the largest destination for export, which is consistent with the result of this survey. Other than North America, ASEAN, Japan, the Middle East, East and West Europe, and Central and South America are most selected.

Table 5-10 Answers for major trade destinations in 2004

Major export market	Small and medium companies	Total
ASEAN	26	30
Japan	25	31
China	14	14
South Korea	7	7
Central Asia	2	2
South Asia	4	4
Middle East	15	17
Western Europe	30	41
Eastern Europe	17	21
Africa	4	5
North America	50	70
Central and South America	27	32
Oceania	7	8

Source: The questionnaire interview by the study team

(d) Foreign Ownership

As to the foreign-capital ratio of these companies, 64 companies (about 77% of all responding companies) were local companies that have 0% of the foreign-capital ratio. For SMEs, the ratio of local companies was relatively high, and 8 companies (82%) have 0% of the foreign-capital ratio.

Table 5-11 Foreign-capital ratio of the responding companies (2004)

Small and medium Companies	Foreign capital ratio	0%	15%	40%	70%	80%	90%	95%	99%	100 %	計
	Number of companies	64	1	2	1	1	3	0	1	5	78
Large Companies	Foreign capital ratio	0%	15%	40%	70%	80%	90%	95%	99%	100 %	計
	Number of companies	8	0	1	0	0	0	1	2	3	15

Source: The questionnaire interview by the study team

(2) Analysis of export capacity of SMEs based upon questionnaires

This survey required self-evaluation regarding the corporation's competitiveness. Responding companies were asked to consider four items; (1) production, (2) product development, (3) marketing, and (4) trading business, from the perspective of (a) overall competitiveness, (b) the number of experienced and skillful staff, and (c) skill and know-how. The answers were derived with the presumption that (b) the number of experienced and skillful staff and (c) skill and know-how are important factors that build (a) overall competitiveness. The survey does not necessarily indicate the objective standard of the companies' export capacity because it was a self-evaluation by each company. However, changes during the period can be presumed from the differences between 2000 and 2004, and the relative standard of capacity development from the result of 4 items x 3 factors.

When comparing the answers of 2000 and 2004 and the approximate average of all survey results, the evaluation as of 2004 indicates improvements in almost all items and factors if compared to those of 2000. However, individually many companies evaluate 2000 and 2004 the same. Many companies consider their own competitiveness to be at the same level as that of other domestic companies in the same trade. The ratio of answers in which the company claims international competitiveness or the top level of competitiveness in the country is not a small portion, but not so large.

When looking at each factor of capacity (competitiveness, the number of experienced and skillful staff, and skill and know-how), production and product development are relatively high and marketing and trading business are low in both 2000 and 2004. On the other hand, considering the evaluation of [competitiveness], [the number of experienced and skillful staff], and [skill and know-how] through each company's viewpoint of production, product development, marketing, and trading business, production and product development show [skill and know-how] > [the number of experienced and skillful staff] ≧ [competitiveness]. Therefore, it seems clear that the technical know-how and human resources that have built up inside companies have not necessarily resulted in greater competitiveness.

Table 5.12 presents companies selected based on their high performances (positive increase) in terms of an increase in sales and export value between 2000 and 2004. It also shows self-evaluation of the aforementioned companies. In this table, the upper half shows companies that have high self-evaluation (companies that put 5 on at least one item or factor) and the lower half shows companies that have relatively low self-evaluation (do not put 5 on any evaluations).

Regarding correlation between export performance and self-evaluation of capacity, the analysis of the questionnaire survey conducted in Indonesia, which was mentioned in chapter 3, indicates that companies having high export performance and exporting high-quality products estimate higher on self-capacity. Companies that have high export performance but export low-quality products show a tendency to estimate lower on self-capacity.

From the questionnaire survey for the Philippines, on the other hand, a similar tendency is not clearly perceived. For instance, "Company 24" from the table 5.12 produces and exports parts for two-wheeled vehicles and exports high-quality products. It marks 4 (meaning the top class within the country) on the number of experienced and skilful staff in manufacturing, but other than that, it marks less than 3 on other items. In the marketing section, it marks 2 (meaning inferior to other shareholders) on the number of experienced and skillful staff and know-how. In light of these evaluations, "Company 24" seems to efficiently produce designated spec products and export them to specific contractors along the lines of fixed procedures. Based on the analysis of the answers it is speculated that manufacturing capacity is highly evaluated rather than capacity in trading business, and export is expanding due to demand. Meanwhile, as seen in "Company 13", some companies have increased 150% in sales and 100% in exports during the past 4 years, though they mark 3 (meaning equivalent to other shareholders) on all items and factors. This indicates that development of capacity (based on self-evaluation) is not always a prerequisite of improvement in export performance.

Also, there are some companies that have high self-evaluation but whose performances have been deteriorating. For example, there is a company which exports interior decorations. The company marked 5 on capacity as of 2004 in manufacturing, product development, marketing, and trade business, but sales in fact decreased 17% from 200 to 2004. Also, a company exporting pearl adornments marked 5 on manufacturing and skill and know-how of product development as of 2000 and as of 2004, but its exports were down by half from 2000 to 2004.

As just described, according to this questionnaire survey, it turns out that (self-evaluated) capacity

development does not necessarily result in enhancement of export performance, though many companies seem to have improved self-capacity from 200 to 2004. In other words, as to companies responding to this survey, it is conceivable that, in addition to their own capacity, demand and market condition had a great influence on their export performance.

Table 5-12 Answers on export performance and self evaluation on trade capacity

Company	Products (2004)	Sales amount (1,000 peso)			Export Value (peso)			Production		Product Development		Marketing		Trading business	
	Items	2000	2004	Increase	2000	2004	Increase	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how	Number of Skilled/Specialized Staff	Technology/ Know-how
Compnay 1	bamboo furniture	1,800	14,000	678%	1,300	14,200	992%	3	4	4	5	4	4	4	4
Compnay 2	fashion accessories	25,000	126,000	404%	25,000	126,000	404%	4	5	5	5	5	5	4	4
Compnay 3	nata de coco	300	1,300	333%	225	700	211%	4	4	5	4	4	3	4	3
Compnay 4	food mixes and sauces	216,000	411,000	90%	132,000	256,000	94%	5	5	5	5	5	5	5	5
Compnay 5	coco milk/nata de coco	30,000	50,000	67%	30,000	50,000	67%	5	4	4	4	4	4	4	4
Compnay 6	gift boxes	12,000	19,000	58%	1,750	9,072	418%	4	4	5	4	4	4	4	4
Compnay 7	buntal hats	600	950	58%	600	950	58%	5	5	4	4	4	4	4	4
Compnay 8	local woods	3,000	4,000	33%	3,000	4,000	33%	5	5	5	5	5	5	5	5
Compnay 9	home décor	150,318	199,800	33%	150,318	199,800	33%	5	5	5	4	5	5	4	4
Compnay 10	hand painted canvass	2,000	2,500	25%	1,965	2,090	6%	4	5	5	5	5	5	5	5
Compnay 11	paint	650,000	703,000	8%	1,500	22,000	1367%	4	5	4	4	4	4	4	4
Compnay 12	bamboo furniture	1,400	8,300	493%	1,700	8,500	400%	4	4	4	4	4	4	4	4
Compnay 13	home décor	1,000	2,500	150%	1,000	2,000	100%	3	3	3	3	3	3	3	3
Compnay 14	metal, wood handicrafts	2,000	5,000	150%	30,000	55,000	83%	3	3	4	4	3	3	3	3
Compnay 15	bags/baskets	986	2,186	122%	986	2,186	122%	4	4	4	4	4	4	4	4
Compnay 16	leather gloves	14,414	31,724	120%	14,414	30,724	113%	4	4	4	4	4	4	4	4
Compnay 17	sports apparel	100	200	100%	150	250	67%	3	4	3	4	3	4	3	4
Compnay 18	rubber pots	5,433	9,249	70%	23,280	34,954	50%	3	4	3	4	3	4	4	4
Compnay 19	furnitures	5,000	8,000	60%	5,000	8,000	60%	4	4	4	4	4	4	4	4
Compnay 20	native processed food	1,200	1,800	50%	1,000	1,200	20%	3	3	3	3	3	3	3	3
Compnay 21	handicraft	17,500	26,400	51%	17,500	26,400	51%	3	2	4	3	3	2	3	2
Compnay 22	condiments	112,000	165,000	47%	15,000	15,000	0%	3	3	3	3	3	3	3	3
Compnay 23	talahib stick, sea shells	3,500	5,000	43%	322	1,705	430%	4	4	3	4	3	4	3	4
Compnay 24	parts of motorcycle	12,000	14,000	17%	8,000	9,500	19%	4	3	3	3	2	2	3	3
Compnay 25	caps	1,800	2,100	17%	1,650	1,925	17%	4	4	4	3	4	4	4	4
Compnay 26	children's and infant's wear	167,655	186,283	11%	167,655	186,283	11%	3	3	4	4	4	4	4	4
Compnay 27	lingerie	2,551	2,728	7%	1,439	1,877	30%	4	4	4	4	3	3	4	4

Source: the author

Column3: Case studies of the Philippine enterprises

In this research, an interview survey was conducted along with the questionnaire survey for the Philippine companies. Based on the interview survey, the case examples of export trend and export capacity of the Philippine companies are summarized as follows.

1. Philippine Company A (location: Manila, major export: handicraft)

The company. was established in 1996 with a 100% local capital, but the company existed before then. The current chief executive explained the reason as described below. She used to work with the former CTC Export Philippines, Inc. as a local buyer representative for a French buyer. However, since 1993, the former company has broken down and the former CEO run away with the facility and workers left behind. As a result, she took over the management of the company.

The company sells and exports handicrafts made of wood, bamboo, rattan, indigenous materials. These products can be seen at the company's website. Italy, France, Greek are the major markets. Export for East European countries such as Poland and Czech Republic, Turkey, and UAE has started. As for Japan, though the company sent some samples which were requested via web, it has not closed a contract with Japanese buyers.

The number of workers has increased in the past 5 years, and the job separation rate has been low. Most workers make articraft. The company requires these workers have completed primary and secondary education due to the need of read/write, but it does not request the higher educational level. In the export part, the company has rarely used the assistant services from the Government. Although the company has started providing information via web, it has not been able to evaluate the effectiveness of the web and decide whether it needs amelioration.

The company also answered that they felt private economic organizations has started providing a variety of export assistance since 2004. The company said it heard about the situation; under a project of Canadian International Development Agency (CIDA), CIDA has started focusing on functional reinforcement of the intermediate organizations. Competitiveness, level of workers, skill and know-how of this company has improved in the past 5 years, which is mostly based on its self-efficacy.

2. Philippine Company B (location: Manila, major export: metal products)

The company was established in 1981. The company produces and exports metal and plastic products. It is also a SME with a 100% local capital. The company mostly supplied the products to foreign companies in export processing zone as of 1999, but recently the direct export has been increasing. Its export dimension has also enlarged in the past 5 years. The company has obtained "ISO9001" because the destinations for export such as Japanese companies have cared about it. The chief executive complained that it has been difficult to assure benefits of the metal products because the price of the products made based on the specifications of the delivered companies has been cutting down every year. The company also makes plastic products by using its metal molding techniques and sells the products via own roots, which shows higher profit rate.

The company does not evaluate the government's project about export assistance services. It thinks that the government does not work on fosterage of local SMEs, especially in manufacturing business. From its perspective, the government seems to give too much focus on service industry and IT industry. It says the current government's services are less valuable compared to the previous ones. In other words, the company stopped using the government's programs and seminars because they were too general to answer its specific needs. The company is dissatisfied with the services from private agencies as well. Rather, it acquired its know-how through supports from foreign assistance organizations and self efforts. For example, the company has attended the programs of Japan AOTS, Holland CBI, Germany GTZ, and Canada CIDA. The company says that it participated in trade fairs in Hanover three times in the past with the assistance from GTZ, and this experience was helpful to develop products and facilitate marketing.

The chief executive of this company is not a technical expert, but teaches how to develop and design products (with using 3 dimensional CAD) to the employees. (Though, there are many cases that the employees change occupations after mastering these skills.) The chief himself attends trade fairs to learn the standard of international market and the technique level of foreign fellow-traders, and use that experience for developing the products and promoting the manufacturing efficiency.

5.4 Capacity building of the government to expand Philippine export

5.4.1 Government agencies provide service related to export

The government relation to the main trade is summarized in the table 5.13. Though each main regulating authority is listed for its role, the Department of Trade and Industry (DTI), which has primary control over establishment of the trading policy and maintenance of the operation, is the important player.

Table 5-13 The list of government agencies related to Philippine's international trade

Government function in trade sector (Large items)	Government function in trade sector (Small items)	Examples	Regulating authority
Establishing Basic Conditions	Legal System Development for Commercial Transactions	Development of Civil laws, Commercial laws, Registration laws, Rehabilitation, reorganization and Bankruptcy law, Antitrust law, Immigration law and alien registration law	
	Provision of Economic Infrastructure	Transportation Infrastructure, Electricity generation, Transmission and Distribution Infrastructure, Telecommunication Infrastructure, Financial System, Standards and conformity Assessment System, Intellectual Property Rights, Statistics	Ministry of Transportation and Communications
	Creation of Business Environment for Domestic Industries	Various forms of deregulation to promote new entries into the market, Establishing financial institutions, Promoting research and development activities, Supporting business services for small and medium enterprises	BSMED
	Industrial Human Resources Development	Human resources development for science and mathematical education, as well as information technology education at elementary and intermediate levels of schooling, and High level specialized skills, English education, Certified engineers systems, Vocational training and job matching	PTTC, Ministry of Education
Establishing System for Formulating Trade-related Policies and Institutions and their Proper Implementation	Formulation and Implementation of Industrial and Trade Policies Based on Medium- to Long term Perspectives	Formulate and implement their industrial and trade policies and implement WTO agreements	Office of Policy Research (DTI)
	Establishment of Trade related Laws, Regulations, and Institutions	Basic Laws on Export and Import, Basic Laws on customs, Import-related laws （Quarantine Law), Export processing zone, Trade-related financial system(Trade insurance, export finance), Establishment of export promotion organization	Office of Policy Research (DTI)
	Trade-related procedures	Test, Inspection, Custom, Quarantine	BIS（DTI）
Export support service	Providing information on the overseas markets	Organizing marketing seminar, trade shows and exhibitions of products	CITEM, PTTC, BSMED, BETP
	Providing information on Foreign and domestic trade procedures, Incentives	Foreign trade system, procedure and business custom, Information on incentives, Strengthening of functions of trade promote organization	CITEM
	Fostering Viable Private Sector	Management and technical guidance, Training for Product development and agrotechny	PTTC, BSMED, CMDF, PDDCP

Source: Japan International Cooperation Agency, 2003

(1) Department of Trade and Industry (DTI)

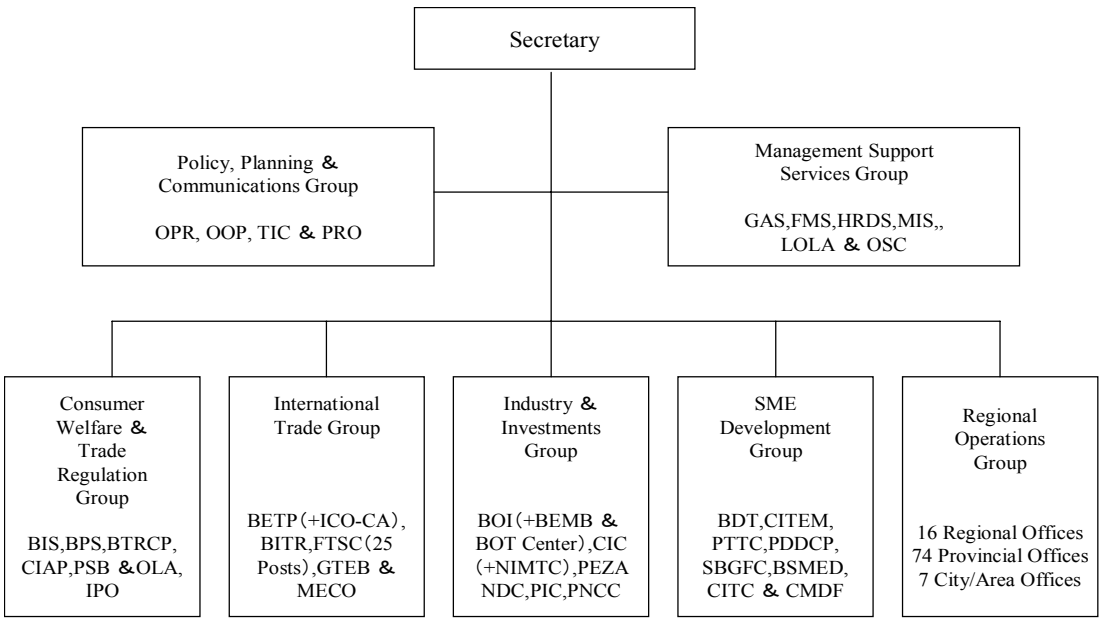
The Department of Trade and Department of Industry affiliated in 1981 and become DTI. As of

August 2004, the number of employees was 4,484, which is 73% of the fixed number of 6,122.

Figure 5.10 presents the organizational chart of DTI. In addition to the 6 groups of line departments; consumer welfare, trade restriction, international trade, industry and investment, development of SME, and local jobs, DTI consists of 2 groups of staff departments; policy and planning and press release and management supporting services.

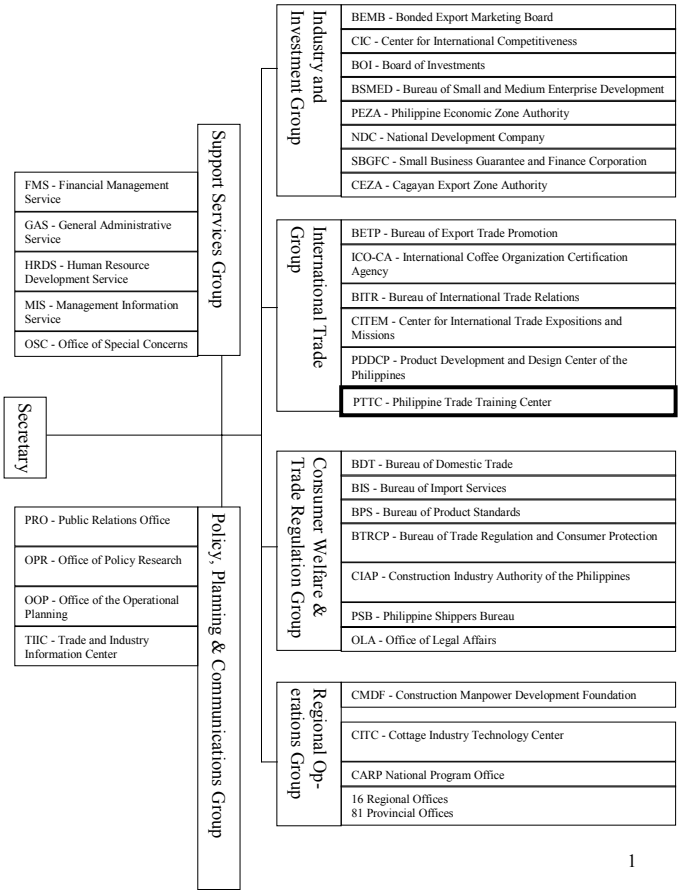
The group for promoting SME was constituted in 2004. Related organizations from the 3 groups of consumer welfare, trade restriction, and industry/investment take part in that group (Figure 5.11; see the organizational chart before reform). In relation to this survey, it is remarkable that PTTC, CITEM, and the Product Development and Design Center of the Philippines (PDDCP) have moved from the international trading group. The focus on fostering export-driven companies as a goal to promote SME is reflected in the organizational restructuring. However, some say the constitution of SMED Group does not necessarily have much impact on the day-to-day operations. It is necessary that an organization belonging to the Industry & Investment Group become more export-oriented in order to work on organizational restructuring.

Figure 5-10 Organizational structure of Philippine Department of Trade and Industry (DTI) (2004 revision)



Source: DTI

Figure 5-11 Organizational structure of Philippine Department of Trade and Industry (DTI) (2004 pre-revision)



Source: DTI

After the inauguration of the Aquino Administration in 1986, the Philippine government established omnibus investment in 1987 and enlarged the investment incentive to promote foreign capital inflow. Along with the Medium-Term Economic Development Program (1987-1992), DTI announced the political outline for industrial development named “Development and Industrialization: Our Vision” in 1989. The main measures of this vision were the development of local small companies, the promotion of domestic commerce and price stabilization, the facilitation of industrial development investment, and the reinforcement of the export sector.

In response to this vision, the policy/organization/plan related to SME and export promotion was organized. In 1991, the “Great Charter” was endorsed by the president in order to implement an SME agenda such as financial, technical, and management guidance. The Council for the Development of Small Companies was established thereafter. Then, the SME Development Strategy

was created in 1998. In accordance with this, the National SME Development Plan was introduced in 2002. The reinforcement of industry linkage, enrichment of financial support, and efficiency of measures are listed as main parameters.

Currently, the National SME Development Plan 2004-2010, which is a replacement plan, is being implemented. In this plan, contribution to the export development is listed as a goal of strategy development. SME development and export promotion are distinctly connected to the development[44]. Currently, creation of an action plan is being implemented in response to the plan.

On the other hand, as to the export promotion, we find enforced the creation of the Export Development Plan, the establishment of the Export Development Council that monitors the practice of the plan, and the export development law defining the preferential treatment to companies engaging in export business. The Export Development Plan is continually revised as the new plan is made every 3 years.

Hereinafter, activities of related departments in DTI are mentioned.

(2) Center for International Trade Expansions and Missions (CITEM)

The CITIM, established in 1983, provides support mainly to SEMs by organizing trade fairs and exhibitions both at home and abroad. It conducted 32 events in 2005, and beyond this, it conducts various activities such as company/market developing programs, product/technique consulting programs, and recognition of exporting companies. CITIM also made the first proposal on PTTC. Due to the limitations on manpower and estimated costs, it seeks cooperation from the aid agency. For example, the fixed number of employees is 194 but the current number is only 130. The budget increased from 50,000,000 pesos in 1998 to 90,000,000 pesos in 2004, which does not indicate business enlargement because it only compensates for the loss of currency exchange. Also, CITIM has a limited function compared to trade promotion agencies in other 3 countries. For instance, it has no choice other than depending on DTI attaché because it does not have its own bases in foreign countries.

The Bureau of Export Trade Promotion (BETP) is an international trade group of CITIM. While CITEM provides exclusive services for its users, BETP operates widely to analyze information and promote exportation. BETP plays a role in connecting foreign support agencies and private

[44] Productivity development, production and sales enhancement, and new business are also listed.

organizations.

In an interview for economic organizations, the following opinion was expressed; the two functions of trade promotion by CITEM and training by PTTC are more efficient and effective if implemented through one organization. Dividing PTTC from CITEM when it was established in fact became a disincentive for capacity development of these two organizations.

Table 5-14 Center for International Trade Expansions and Missions (CITIM); Activity Profile of Exhibitors by Sector, Total 1827 （1999）

Total: 26

Market Weeks (%)	Trade Fair Participation (%)	Trade Missions (%)	Special Projects (%)
8	61	8	23

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

Table 5-15 Center for International Trade Expansions and Missions (CITIM); Activity Activities Classified by Sector, Total 26 （1999）

Total:26

Agrimarine (%)	Hardgoods (%)	Industrial Goods and Services (%)	Softgoods (%)
38	35	23	4

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

Table 5-16 Center for International Trade Expansions and Missions (CITIM); Activity Profile of Exhibitors by Size, Total 1827 （1999）

Micro (%)	Small (%)	Medium (%)	Large (%)	Others (%)
5	60	23	7	4

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

Table 5-17 Center for International Trade Expansions and Missions (CITIM); Activity Profile of Exhibitors by Sector, Total 1827 （1999）

Agrimarine (%)	Hardgoods (%)	Industrial Goods and Services (%)	Softgoods (%)	General (%)
14	80	4	0.4	2

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

Table 5-18 Center for International Trade Expansions and Missions (CITIM); Activity
Total Negotiated Sales, Total 358.46 Million $ （1999）

Market Weeks	International Trade Fair Participation	Trade Missions	Special Projects	Infolink	Incoming Missions
235.46	60.98	6.08	1.97	52.97	1

Source: Center for International Trade Expansions and Missions (CITIM) “Annual Report” (1999)

(3) Philippine Trade Training Center (PTTC)

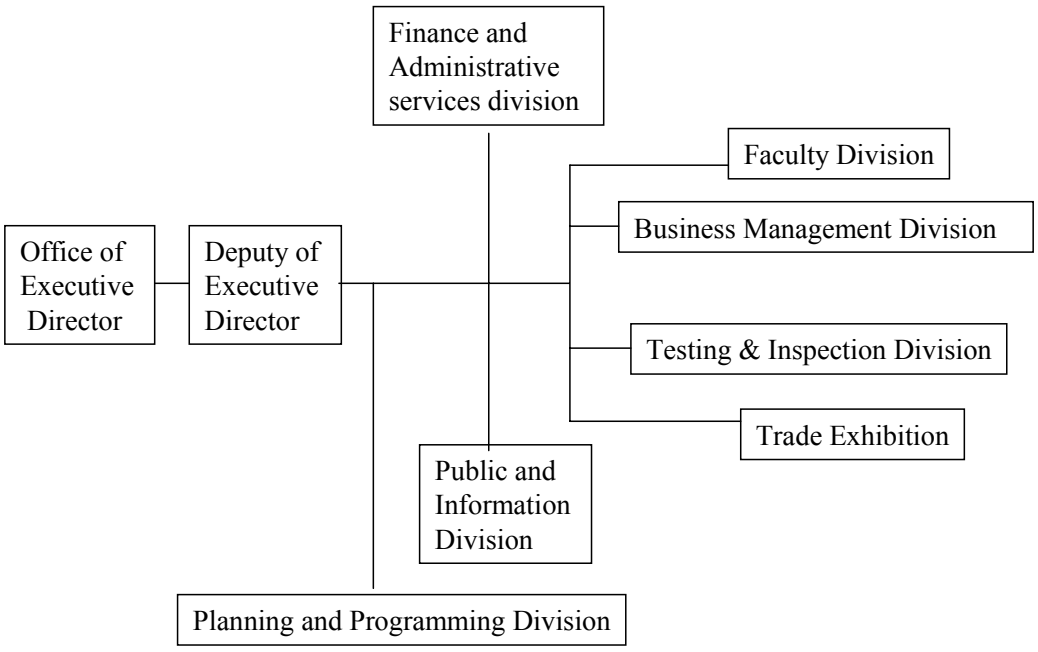
Business surrounding export promotion was emphasized when collaborated with JICA. However, general business-training is recently emphasized, because the promotion of SMEs became a priority under the Arroyo Administration. To be more precise, PTTC targeted 3 sectors of International Marketing, Testing and Inspection, and Trade Exhibition at first before the addition of Production Efficiency, Quality and Productivity Improvement, Entrepreneurship Development, and IT/E-Commerce[45].

A half-day training course (How to Start a Business) costs 50 or 75 pesos and a several-day training course (Export basics, E-commerce) costing from 1,000 to 3,000 pesos. PTTC is also used as an event site for trade fairs at the same time, which are generally better known. When the project was implemented, though 100 people were expected to participate in the training, actually 80 people were the limit. Since then the budget and manpower have decreased, and currently there are 60 employees.

This emphasis on general business-training reflected that the SEM development as well as the direct export promotion gained more focus in DTI. Given that PTTC is a training center affiliated with DTI, PTTC plays a sufficient role. It needs to be mentioned that the needs of the business world are difficult to introduce directly into PTTC. BETP communicates the feedback from exporting companies to PTTC and supports the amelioration of the training curriculum. Meanwhile, economic organizations mentioned that the training program provided by PTTC is too foundational to answer the needs of companies.

[45] The function of export inspection at that time had already moved to the Bureau of Standards. This is because the importance has decreased as the export inspection has shifted into production system evaluation as represented by ISO.

Figure 5-12 Organizational structureof Philippine Trade Training Center (PTTC)



Source: PTTC

(4) Bureau of Small and Medium Enterprise Development (BSMED)

The Bureau of Small and Medium Industry, which is a predecessor of BSMED, was established in 1974 and became the Bureau of Small and Medium Business Development in 1987. It was later reorganized and became the current BSMED in 2002.

The number of people in BSMED has decreased from 60 people as of 1987 to 40 people. Due to the limited governmental budget (25,000,000 pesos), it relies on nongovernmental resources and assistance from donors (like CIDA). Though there is an argument for establishing a Small and Medium Enterprise Board with a central focus on BSMED, this is not easy to make happen. In the existing system of SME export support, while the International Trade Group positively works on marketing, the development of SMEs has not improved. BSMED aims for SME export promotion to improve efficiently through the establishment of SMEDG.

At the local level, the budget of BSMED is given to local and state offices of DTI, in which SEM promotion is conducted. Since 1996, SME Centers which are responsible for provision of information to SMEs and the implementation of the project have been located in each state, a total of 79 places. However, many SME Centers located in the state offices of DTI have not been able to

conduct substantial activities due to a deficiency in budget and manpower. A small portion of them supported by local Chambers of Commerce and Industry have brought the greatest results.

(5) Office of Operational Planning & Office of Policy Research

Both offices belong to the Policy Planning & Communication Group, and the breakdown of medium-term developmental projects and the adjustment of services of each department are their main business. They are trying to make the SME Promotion Master Plan (M/P) established with JICA's assistance into an Action Plan, which is going to be settled in 2005. As for export, they aim to increase 10% of the amount of exports, which seems far from reassuring.

5.4.2 Trade capacity building in the government sector

In the governmental sector, as stated above, capacity development is analyzed by using a benchmark corresponding to factors of the following capacity (Figure 5-13);

Necessary requirements for system development:

Policy/Action ("P" factor): Trade promotion act, Small and Medium-Sized Firm Basic Act
Human resource/Organization("R" factor): Trade Training Center, Export Promotion Agency, Ministry of Small Medium-Sized Firms, Financial Institution for Small and Medium-Sized Firms
Knowledge/Skill("K" factor): Export Promotion Mid-Term Plan, Small and Medium Promotion Midterm Plan
When these requirements are met, transition to system operation happens.

In the case of the Philippines, as to legislation, a law promoting investment and export was enacted in the late 1960s. In addition to this, a law related to SMEs was established from the 1980s to the mid 1990s. At this point, institutional legislation was completed. As a midterm program Philippine has export development plan(1993)and SME development plan 2004-2010(2004). The action plan for these tow midterm program, however, are not finalized yet.

As for organizational improvement, exclusive organizations related to export have been established; CITIM in 1983, PTTC in 1988, and the Export Development Council in 1994.
However, insufficient manpower and budgets limit their activities, as seen in the fact that CITIM does not have its own overseas offices. It should be noted that these are not as good as similar

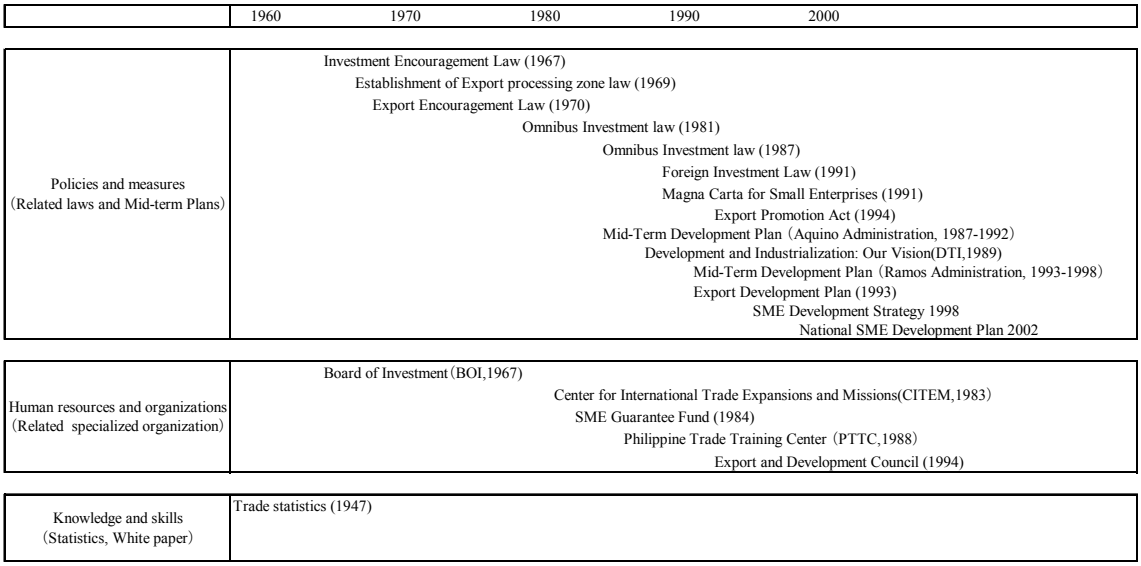
institutions in other target countries. The establishment of "the Small and Medium Enterprise Agency" has been a pending issue. System development continues when seen by all government sectors.

As to knowledge and skills annual reports and white papers are not regularly published by DTI and SITEM while related statistics has been regularly published since the beginning of 1960.

As described above, it seems that the requirements to complete the system development have been improved. However, the Philippine MTI and CITEM have smaller organization compared to similar institutions in other countries. Also, it is not permitted to fill in empty posts with new employment. Satisfying services can not be provided due to the limited budget. As just described, the export development capacity of the government is not necessarily favorable.

While the master plan concerning export and SME promotion has been established, there is considerable difficulty in carrying the plan into effect. The SME Development Group was created in DTI in 2004, and export promotion institutions (PTTC and CITIM) have moved from the International Trade Group to the newly created group. This is because SMEs are the main recipients of the export promotion institution, but it has not been paid off at this point.

Figure 5-13 Trade capacities building in the government sector



Source: The Author

5.4.3 Evaluation by private sector of the government in supporting export

In this section, evaluation of export-promotion policies and trade-related services by the government are examined below. An evaluation of trade-related services by economic organizations is also considered. Note: these evaluations were obtained through the company questionnaire survey.

First, the government's satisfaction level improved in many items in the evaluation for the export-promotion policies (Table 5.19). Breaking down these items into 3 categories, they are classified as (1) items that further improved satisfaction, (2) items that shifted from negative to positive evaluations, and (3) items that still left some complaints even though improved. Category (1) includes infrastructure (communication, water supply) and human resource development other than elementary and secondary education. Category (2) shows legislation and operation, infrastructure (distribution, electricity), certification systems by government standards, human resource development in primary and secondary education, and establishment and administration of export processing zones. As to (3), the category indicates the response to courtesies on tax incentives and deregulation of trade (reducing import customs of primary materials, minimizing export barriers), and facilitation of customs procedures for the industry/trade promotion policies. Meanwhile, the items that have not improved efficiently are financial support for industry/trade promotion policies, which remains at an average of 3 points and under. Therefore, it is conceivable that effective improvement was seen on many items. Especially regarding human resource development, the satisfaction level has increased on all items other than primary and secondary education. However, in industry/trade promotion and trade-related sectors, there remain many unsatisfactory items with low evaluations.

Table 5-19 Evaluation of policy measures to support export

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged
Evaluation of The Government's Export Promotion Measures	Improvement of legal systems			◎		
	Infrastructure building	Logistics		◎		
		Electricity		◎		
		Communication	◎			
		Water Supply	◎			
	Standard certification system			◎		
	Human resources development	Elementary and secondary education		◎		
		College/University education	◎			
		Vocational education	◎			
		Training programme for engineers	◎			
	Industrial and Trade development policy	Financial support				◎(−)
		Tax preferences			◎	
	Response to the trade liberalization	Reduction of import tariffs for raw materials			◎	
		Reduction of obstacles for foreign export			◎	
	Establishment and operation of the export processing zone			◎		
	Efficiency of the customs procedure				◎	

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3. (-) indicates that the average score was below three and the sample did not improve after four years.

4. (+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

Next, the evaluation for trade-related services by the government and economic organizations is compared (see Table 5.20). In the evaluation for trade-related services by the government; (1) There is no answer on the items that further improved satisfaction; (2) 3 items of individual consultation, training and seminar, and information service in the production section are shifted from negative to positive evaluation; (3) Items on individual consultation and information service in the production section and individual consultation in the marketing section still show some complaints even though improved. Also, the items that have not improved efficiently are the trade fair and exhibition in the marketing section, which remains on average 3 points and under. To sum up, many items received positive evaluation and the evaluation as a whole has improved.

In the evaluation for trade-related services by economic organizations; (1) Items that showed improved satisfaction are training and seminar and information services in the production section, individual consultation and information services in the production development section and also in the trade business section, and individual consultation in the marketing section; (2) Items that shifted from negative to positive evaluation are individual consultation in the production section, training and seminar in the production development section and also in the trade business section, and training and seminar and information service in the marketing section; (3) There is no answer on the items that still left some complaints even though improved. The items that have not improved efficiently are the trade fair and exhibition in the marketing section. In summary, we conclude that the evaluation as a whole has improved because all answers are categorized into the (1) items that showed improved satisfaction or (2) items that shifted from negative to positive evaluation except for the item of training and seminar in the marketing section.

In conclusion, the evaluations for trade-related services from the government and economic organizations are compared. While there are some items that still showed complaints in the evaluation of the government's services, the evaluation for the services from economic organizations mostly improved.

Table 5-20 Evaluation of trade-related services by the government and the local business groups

			Satisfaction level further improved	Changed from negative evaluation to positive evaluation	Improved but still unsatisfied	Unchanged-
Evaluation of trade-related services for companies by the government	Production	Individual counseling, Consulting			◎	
		Training, Seminar		◎		
		Provision of information			◎	
	Product development	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Provision of information		◎		
	Marketing	Individual counseling, Consulting			◎	
		Training, Seminar		◎		
		Trade Fair, Exhibition				◎(－)
		Provision of information		◎		
	Trading business	Individual counseling, Consulting		◎		
		Training, Seminar		◎		
		Provision of information		◎		
Evaluation of Trade-Related Services for Companies by the Business Sector	Production	Individual counseling, Consulting		◎		
		Training, Seminar	◎			
		Provision of information	◎			
	Product development	Individual counseling, Consulting	◎			
		Training, Seminar		◎		
		Provision of information	◎			
	Marketing	Individual counseling, Consulting	◎			
		Training, Seminar		◎		
		Trade Fair, Exhibition				◎(＋)
		Provision of information		◎		
	Trading business	Individual counseling, Consulting	◎			
		Training, Seminar		◎		
		Provision of information	◎			

Note: 1. T-evaluation using SPSS 13.0J for Windows

2. Evaluation samples are only for companies established before 2000.

3.□(-) indicates that the average score was below three and the sample did not improve after four years.

4.□(+) indicates that the average score was above three and the sample did not improve after four years.

Source: The author makes the table according to the research.

5.5 Philippine capacity development in trade and evaluation of support from Japan

5.5.1 Social capacity building path and development stages

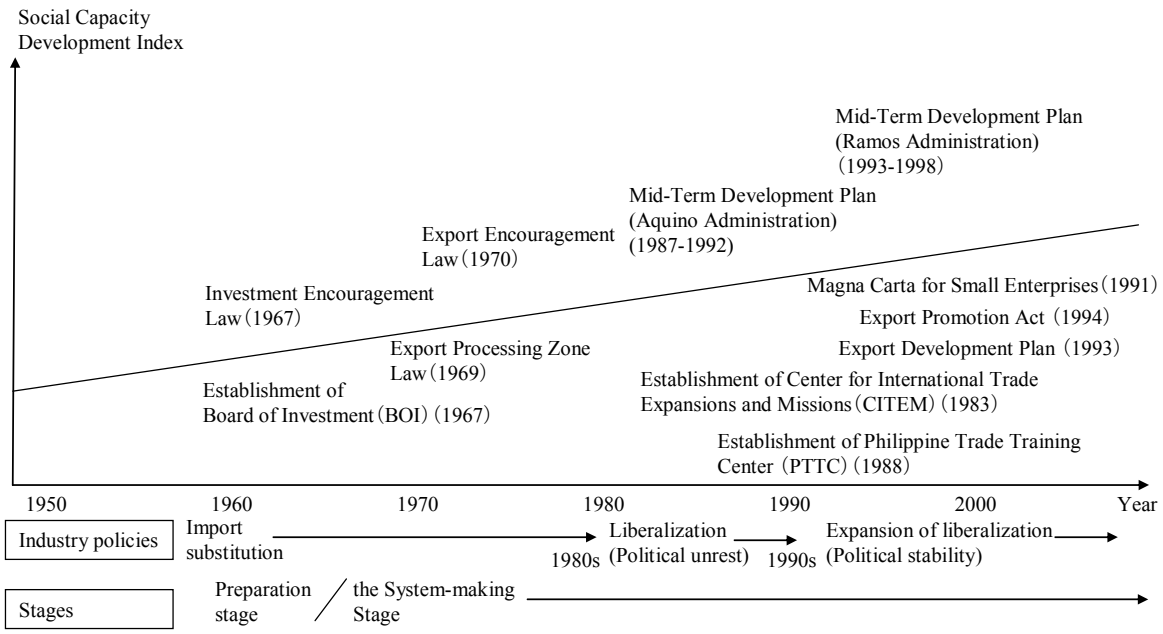
Here we discuss development path of trade social development and development stage.

(1) Historical assessment based on development stage analysis
(2) Assessment of social capacity based on actor/factor analysis
(3) Analysis on cause-effect relation between socio-economic development level and export performance as basis for the discussion on social capacity development

Based upon the analysis in both private and public sectors, the process in social capacity development can be depicted in figure 5. 14.

The Philippine social capacity has provided consistent results regarding educational standards and objective legislation and administrative organization and plan formulation in both the private and public sector. However, there is no capacity leading to enhancement of the export performance. Therefore, The Philippines has not yet reached the System-Working Stage.

Figure 5-14 Philippine social capacity development in trade-related field



Source: The author based on an interview survey and several documents

Table 5-21 Social capacity development in the trade related area

(Government capacity and the relationship between Government and Enterprise)

Capacity Factors	Check items of capacity evaluation	Philippines	
		1980	2005
Policies and Measures (P)	Medium and long-term plan-making （National development plan) on industry and trade	✔	✔
	Establishment of basic laws on export promotion	✔	✔
	Establishment of basic laws on SMEs promotion		✔
	(Relationship between the government and enterprises) Dialog and meeting between the government and enterprises		✔
Human, financial and physical resources in organization （R）	Establishment of export promotion organization		✔
	Establishment of overseas office of export promotion organization		
	Establishment of SMEs promotion organization		✔
	Self-management organization		
Knowledge and skills（K）	Publication of statistics	✔	✔
	Publication of trade white paper		
	Publication of annual report by export promotion organization		

Note 1. Cells are checked when items are achieved.

Source: the author

Table 5.21 indicates the achievement level of the Philippines' social capacity development by using a checklist. Facilitating and limiting factors of the capacity development are also examined with the result of analysis.

Regarding to the development of capacity factors in the governmental sector, "policy/action factors ("P" factor:the formulation of medium-to-long-term plan of industry/trade [National Development Policy] and fundamental law and basic plan of export/SME promotion)" have steadily achieved the benchmark. Among "Human resources/organization factors ("R" factor: the establishment of export-promoting agencies [the establishment of foreign and local offices, SME promoting agencies, and the organizational restructuring adapting to environmental changes])", the item of export-promoting agencies seems to be inferior when compared to other countries (in fact, CITIM does not have foreign of local offices.). The stagnation of capacity development of "human

resources/ organization (“R” factor)” factors is considered to be the limiting factors of capacity development of other two factors.

“Knowledge/skill factors (“K” factor)” have met a certain standard of the establishment of statistics. As to the white books and annual reports of related organizations, there should be ameliorations. It is conceivable that the limiting factors rest in the room for improvement because the establishment of other two reports needs more political and strategic judgment compared to the establishment of statistics.

The relationship between the government and enterprises (including economic organizations) seems to have kept a certain standard. The Export Development Council consisting of representatives of public and private has established in 1994 and the foundation to accept policy proposals made by private agencies has developed.

In terms of the enterprise sector, the capacity development has seen sluggish growth though it had desirable initial condition (in 1980). “Knowledge/skill factor (“K” factor) (represented as approximate enrollment ratio of secondary education)” has kept the top position among four countries during the period of the project, but it does not contribute to the capacity development related to “human resource/organization factor (“R” factor) (as manufacturing employment rate out of all employment rate)”. It does not reflect on “policy/action factor (as labor productivity) (“P” factor) either.

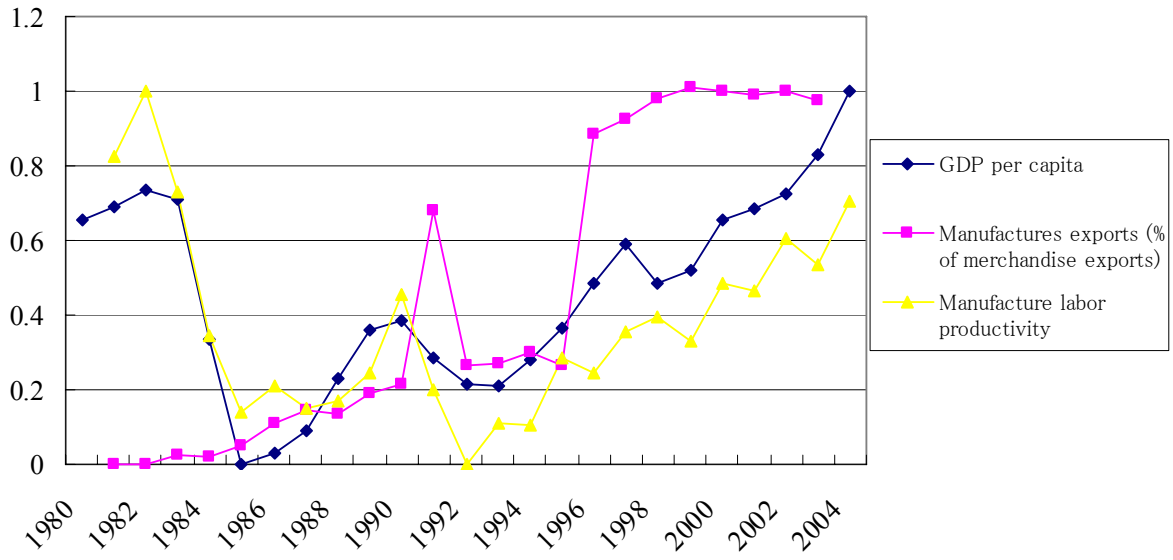
The capacity development process is defined by the interrelation between socioeconomic standards and export performance. The developmental process of Total Systems can be described as figure 5.15. Total System consists of three items (capacity level, socioeconomic level, and export performance level) and these three items are digitalized in that figure. Labor productivity in manufacturing is adopted as the capacity level, GDP per capita as the socioeconomic level, and export ratio of manufacturing products as the export performance level. Compared to the three other countries (Indonesia, Malaysia, and Thailand) , which generally show a positive transition in Total System, the Philippines shows it experienced a slump for ten years following the mid 1980s in all items of capacity level, socioeconomic level, and export performance level. After that, capacity level and socioeconomic level in the Philippines recovered due to the expansion of industrial export, which shows a similar transition in Total System to that of other countries.

Table 5-22 Social capacity development in the trade related area (companies' capacity)

	Policies and measures (P) (Labor productivity of manufacture industry constant 2000 US$)	Human, financial and physical resources in organization (R) (Ratio of employees in manufacture industry to employees in total, %)	Knowledge and skills (K) (Enrollment rate of secondary education, %)
Philippines	6,754 (1981)	10 (1981)	64 (1981)
	6,507 (2004)	10 (2004)	84 (2002)

Source: the author

Figure 5-15 Total System Indexes measuring the social capacity development



Source: The Author

5.5.2 Consistency with Philippine social capacity development stages

We discuss how JICA's aid inputs have contributed to social capacity development of the government. Figure5-16shows chronological inputs of JICA's aid by the social development factors. The number of the projects is classified into the factors and summed up annually.

Figure 5-16 JICA's assistance inputs in the Philippines by development themes by capacity factor

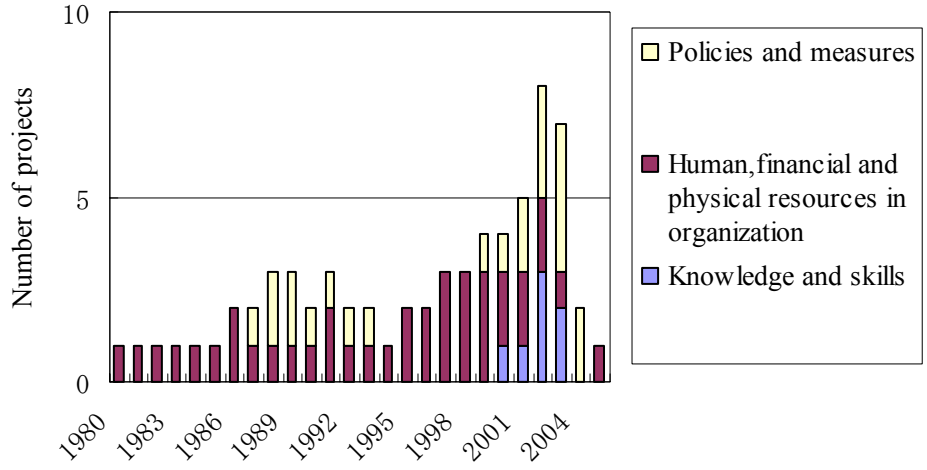


Table 5-23 Philippine social capacity development stages and JICA's support

Capacity factor	Development themes	Name of projects	1980	1985	1990	1995	2000
Policies and measures (P)	Export-promoting development plan	Development of Cavite Export Processing Zone and Investment Promotion Plan					
	Establishment of trade-related legislation	The Capacity Building Program on the Implementation of the WTO Agreements					
	Promotion and development of SMEs, supporting industry and industry	Master Plan of Coal Industrial Technology Development					
		Promotion and Development of industry sector					
		Industrial Environment Management Study					
		Plan-Making Support of SMEs Development					
	Establishment of Industry-related legislation	Industrial Standardization and Quality Control Project					
		Industrial Property Modernization					
Human, financial, and physical resources in organization (R)	Assistance for trade center	Trade Training Center					
		Trade Training Center (Follow-up)					
	Promotion of SMEs, supporting industry and industry	Metal and Casting Technology Center					
		Industrial Standardization and Electric Testing Technology					
		Software Development Training Center					
		Improvement of Mold Technology					
		Electronic Products Testing Technical Cooperation					
		Improvement of Regional Food Packing Technology					
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information and skills	Study on Measurement of the Time Required for Trade					
	Acquisition, analysis and release of industry-related information	Production Statistics Development Plan					
		Production Statistics Development Plan Follow-up Study					

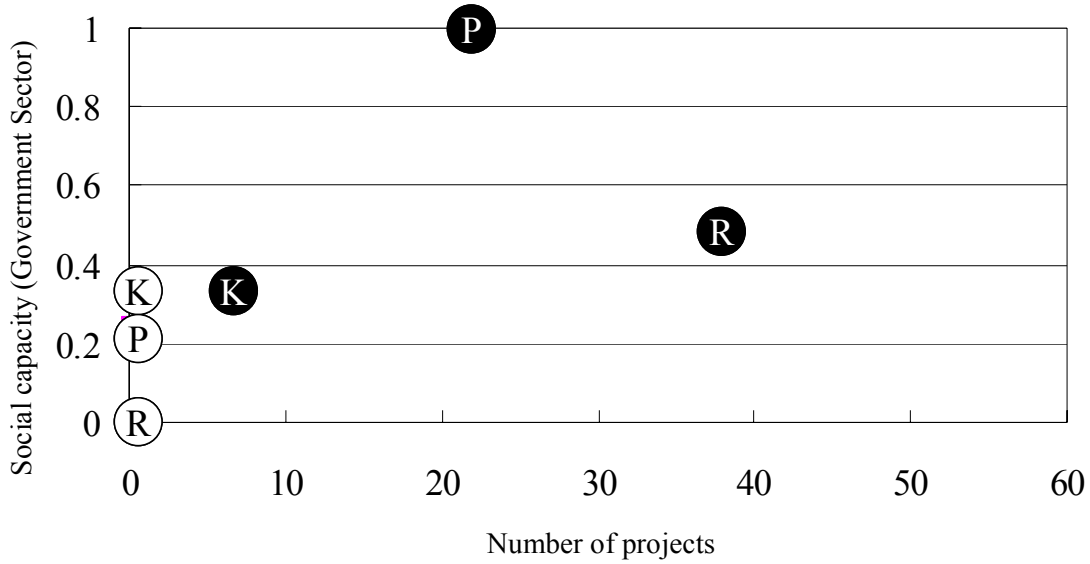
Note: The matrixes colored with gray indicate that JICA provided its service

Source: The Author

Considering the implication by Figure 5.16 and table 5.23, we can easily understand the situation of JICA's contribution, which is summarized in figure 5.17. It depicts the number of the projects in horizontal axis and social capacity (government) in vertical axis to illustrate transition of the capacity development factors from 1980 to 2005. The number of the project is in each year based on the categories in accordance with relavant capacity factors. The social capacity level is mapped based on the implementation of the government policy (fully-implemented=1, no implementation=0).

There has not been necessarily seen sufficient contribution of JICA's assistance to social capacity development in the Philippines when it is compared to the other three countries. There are several constraints that have hindered contribution of JICA's assistance to the Philippines' social capacity development; for instance, the country has received a relatively small number of projects compared to Indonesia and Thailand; and its government sector has limited human and financial resources.

Figure 5-17 Contribution of JICA's assistance to capacity development of the Philippine government



Note 1. P indicates policies/measures factors; R indicates human, financial, and physical resources in organization factors; and K indicates knowledge/skills factors.

Note 2. ○ indicates the capacity level as of 1980; and ● indicates the capacity level as of 2005.

Source: The author

5.5.3 JICA's contribution to Philippine social capacity development

Table 5.24 shows the Philippines' social capacity development stages and JICA's assistance inputs from 1980 to 2005. During this period, the Philippines was in its system-making stage; therefore, all JICA's assistance inputs are shown under its column. JICA's assistance inputs ("P" factor , "R" factor and "K" factor), have sorted out in accordance with relevant capacity factors.

Table 5-24 JICA's assistance inputs in the Philippines by development themes

Capacity development stage		System-making Stage	System-working stage	Self-management stage
Policies and Measures (P)	Export-promoting development plan	1		
	Trade-related legislation (Response to liberalization and facilitation such as WTO)	4		
	Promotion and development of SMEs, supporting industry and industry	10		
	Establishment of industry-related legislation	7		
Human, financial, and physical resources in organization (R)	Establishment of trade-related organization, Human resource development (such as customs, quarantine and trade finance)			
	Assistance for Trade Center (Export-support, information, training for private companies)	8		
	Promotion of SMEs, supporting industry and industry	30		
	SMEs promotion organization			
Knowledge and skills (K)	Acquisition, analysis and release of trade-related information (such as statistics) and skills	2		
	Acquisition, analysis and release of industry-related information (such as statistics) and skills	5		
Support for south-south cooperation				

Note. The numbers are the total number of projects

Source: the author

Overall, a variety of assistance was provided to the Philippines at the same time after 2000 as was done for Indonesia. The performance of economic support in the trade investment sector from Japan includes not only the Philippine Trade Training Center (PTTC) project but also reinforcement of customs systems, WTO capacity building. In addition, JICA plans to implement food packaging technical cooperation projects. A lack of assistance to the supporting industries seems to reflect the fact that foreign capital is not as active as in other target countries.

What it comes down to is that JICA's trade sector assistance in the Philippines needs additional and intensive inputs of assistance to actualize the transition to the system-working stage because the Philippines' social capacity has not sufficiently developed compared to Malaysia and Thailand. The country is still in the phase where focused capacity development is necessary in order to achieve transition to the system-working stage. Accordingly, it is necessary for the international community as well as Indonesia itself to continue to invest more resources inputs for capacity development.

In conclusion, JICA's trade sector assistance has been provided when the social capacity is not wholly developed. The Philippines needs intensive assistance from JICA and other donors for transition to system working stage.

5.5.4 Consistency with The Philippines development policy and the cooperation of JICA with other Japanese agencies

The four countries (Indonesia, Malaysia, Thailand and the Philippines) have the common policy of "earning foreign currency through fostering export industry and then trying to develop their economics". JICA's assistance for each country is adequate on that point.

From the survey results, there appears a gap between capacity of accepting assistance and the policies of the local governments. It is easy just to criticize the "additional-input", but that is not enough to learn lessons for the future.

As assistance from Japan, the ASEAN Cooperation Program by JETRO began in the Philippines in 1983. Technical transfer was implemented to the local companies and exhibitions were conducted. At that time, four categories of business, metal processing skill, plastic molding, metal casting, and electric silverizing, were targeted based on the request from local companies. For metal casting, JICA provided assistance to the Metal Casting Technique Center between 1980 and 1984 in coordination with the Philippines.

In 1987, the Ministry of International Trade and Industry of Japan set up a new aid plan with the goal of "the development of the export industry by the trinity of trade, investment, and economic cooperation". Six categories of business - metal molding, wooden furniture, computer software, stuffed toys, costume jewelry, and the oleochemical industry, were targeted in the Philippines. JICA conducted a feasibility study on these businesses, which contributed to the concrete assistance provided later from JICA and JETRO.

"The ASEAN industrial upgrading vision" (1993) established by the Ministry of International Trade and Industry of Japan focused on the importance of assisting supporting industries, after which Supporting-Industry promotion(SI) was begun by JETRO. In SI in the Philippines, press working, plastic molding, and metal casting were targeted business.

As a characteristic of the Philippines, it is pointed out that though export promotion was one of the significant problems under each administration, the manufacturing industry did not account for a large part of export promotion as it did in other countries[46]. Rather, the service industry seemed more

[46] SME Development Agenda implemented under the Arroyo Administration did not necessarily focus on promoting export industry. Because growth of the domestic market is adequately anticipated based on the increase in population 2 to 3 % every year, the industrial market does not gather strength.

promising, taking export feasibility into account. As JICA's assistance considered this characteristic, it seems to have kept the accordance.

Column4: Canadian International Development Agency (CIDA)
Private Enterprise Accelerated Resource Linkages Phase II (Pearl 2) Project;
A successful case of G to B (Government to Business) Assistance

Pearl 2 project, which is a CIDA's project that aims at promoting SMEs, has been carrying out for 5 years from 2002 to 2007 with the estimated budget of 8,600,000 Canada dollars (860,000,000 yen). This project consists of following three sub-projects.

(1) Sectoral Enhancement (SE): this project supports 6 businesses (furniture, food processing, clothing, nature and organic products, gift and domestic house-ware, and IT) out of major 10 businesses of DTI through the economic organizations.

(2) Partnership Development Facility (PDF): this project implements the partnership development based on the proposals from economic organizations and also based on the general principle of cost-share.

(3) Capacity Development for Investment Promotions (CDIP): this project supports the investment promotion agencies that reinforce businesses in which employment creation and investment enlargement are feasible.

Pearl 1, which has been implemented from 1996 to 2001, targeted CCI and NGO for assistance, but Pearl 2 includes economic organizations and investment promotion agencies. This largely impacted on the success of the projects. As of the end of September, 2005, benefited SMEs by assistance form the 47 organizations are more than 3,000 companies. The number of employees of these companies is close to 100,000 people. It becomes about 500,000 people if includes employees from its subcontractor.

As a government agency, DTI and NEDA have participated in the steering committee, but they have not deeply engaged in this project. Because this project is practical and effective, the government which has limitation on resources stands to facilitate it.
In the project of SE, 1,400 companies ate targeted through the 19 economic organizations. CCI and the economic organizations that are benefited from separated-sector strategies are required to submit proposals, then assistance are provided based on the result of the proposals. SE targets the short-term projects like 6 months to 1 year period. Benefited agencies may need to provide counter fund due to the relatively small assistance amount from SE. Benefited agencies also need to submit the business

report every 3 months. SE provides guidance by dispatching consultants and also provides training in Manila and Canada. For example, SE has sent business advisors to the training center in Atheneo University Business School in Davao.

To provide assistance to the local companies through the economic organizations, developing framework of the organization is needed in several cases. Because of that, Pearl 2 project also provides support for labor costs to develop framework of head offices. Christmas Décor Producers & Exporters Association of the Philippines is one of these cases.

This association did not have a permanent head office. It was established each time with the rotation of its chairman. The activities were also influenced by a chairman of that time. Then, with the assistance from Pearl 2, the association became able to employ a chairman of the head office as a full-time staff from October, 2004. In the first year, the project absorbs the entire expenses. Second year and after that, the expenses are going to be divided into halves between the project and the association. Taking advantage of this support, the association has started new businesses. With an initiative of the head office, it has participated in trade fairs in Dubai and Frankfurt. Then, the sales of the companies in the association have increased to twice its amount. In addition, it has been dealing with developing e-commerce website and is going to start its business on March, 2006. Also, the association is going to implement the business training for affiliated companies in 2006. As a result, the number of affiliate companies has increased from 60 to 75, and the ratio of paying membership fee has been increasing.

The Pearl 2 project office is set up in Cebu, in addition to the headquarters in Manila. The headquarters has 8 employees (one is Canadian and the rest are Philippine) and is going to employ 2 more workers in the beginning of 2006.

CIDA takes a stance of carrying out the projects without any restriction if they seem to bring essentially good consequences. In the case of the Philippines that the government has considerable limitation on resources, CIDA thinks that it is more reasonable that the government does not engage in daily administration of the project and the private organizations become direct beneficiaries. Although CIDA focuses on private agencies, it will be a problem if they continuously depend on the assistance from CIDA as the government does. In the DTI office in Visaya state, as the same as Pearl 2 project, DTI has been trying to support fosterage of local companies through CCI. Although it may not directly contribute to the government's capacity development, it can be concluded that the effect of the demonstration by the government has arose.
CIDA has started considering the implementation of the third project in 2007.

5.6 Lessons learned and recommendations

(1) Program-based aid

In the case of the Philippines, assistance has been provided to bring about an effect through the trinity of aid, trade and investment as has been done in other target countries. Projects that seemed necessary from the after-the-fact point of view have been covered.
In order to realize transition from system making stage to system working stage the Philippines may need additional and intensive assistant inputs. In this connection it is better for us to utilize SIDA's experience, which has already provided similar assistance ("G to B" program assistance).

(2) Shifting from "G to G" to "G to G plus G to B"

In the case of the Philippines, "additional input" aid was adopted because it was difficult to throw a stand-alone project mainly into the government sector when companies did not have enough capacity, because of the governments limited resources such as fund and human resources. In this case, as learned from the case examples of the Philippine CIDA, throwing projects into the non-government sector is more effective.

In Actor Factor analysis, which is a technique of social capacity evaluation, capacity among the actors has substitutability. It is not a good idea to limit the target actors of assistance in advance.

There are government-supported SME centers all over the Philippines, the most successful of which is a center in Davao run by the chamber of commerce and industry. This means SME centers run by private initiative are more competent. Japanese agencies including JICA need to actively provide assistance, from which private agencies benefit in the long run. However, because JICA does not have enough know-how in these fields as of today, it is advisable that JICA engage in assistance in cooperation with other donors in the short term.