

Japan's Official Development Assistance (ODA) to the Philippines

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Abstract

This paper examines Japan's ODA to the Philippines from a historical perspective. It traces the evolution of aid institutions and policy framework over time; the disbursement patterns and strategic priorities of Japanese assistance to the Philippines and the evolving and deepening aid relations of the two nations. In doing so, the research highlights the role of initial aid priorities and practices and their persistence over time. Japan's ODA to the Philippines came in four waves which were shaped by critical historical juncture. The case of the Philippines demonstrates that the interests of the donor and Philippine leaders crucially shape the aid priorities and programs.

Keywords:

Japanese ODA, Philippines, Philippines-Japan Aid Relations

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1. Introduction

Japan's Official Development Assistance (ODA) to the Philippines demonstrates the quintessential Japanese aid that all recipient-countries are familiar with. It is growth-oriented which promotes trade and investment; It is predominantly in the form of loans which are earmarked for infrastructure projects; and in contrast with its counterparts in the west, the government of Japan has rarely attached explicit or implicit political conditions in its aid programs. A closer scrutiny, however, reveals some nuisances.

Firstly, there are manifestations that geostrategic goals have been one of the primary considerations why Japan has continued to aid the Philippines. Japan successfully sought to normalize its diplomatic ties with neighboring countries through the payment of war reparations. As pushback from its economic activities in many Southeast Asian nations loomed, the Fukuda cabinet adopted a heart-to-heart diplomacy and began the ODA doubling program. Japan replaced the United States as the largest aid provider to the Philippines during this period. Takahashi (1993) described Japan's increasing aid to the Philippines as *katagawari* or change of shoulders. As a major U.S. ally, Japan's increased assistance to the Southeast Asian region was its contribution to the cost of maintaining regional peace and stability.

Since the 1990s, the geostrategic goal of Japanese ODA to the Philippines has become more pronounced amid the rising economic, political, and military power of the People's Republic of China (hereinafter China). Immediately following the establishment of the Philippines-Japan strategic partnership, Prime Minister Abe pledged more ODA and agreed to strengthen Japan's security, defense and development cooperation with the Philippines.

Secondly, there is an inherent contradiction between Japan's official commitment to promoting universal values like human rights as stated in the ODA charters and its pursuit of commercial and strategic interests on the other.¹ The Japanese government has rarely imposed universal values as a condition in its dealings with authoritarian regimes such as that of Marcos and Indonesia's Suharto. Thus, even though the Japanese government has never adopted them officially Japanese ODA basically conforms with the non-interference and no-conditionality principles which are widely appreciated by political leaders across developing countries.

The inherent contradiction mentioned above grants political leaders of recipient countries the leeway to link ODA with their national policy agenda. Reinforced further by the system of request, this inevitably made ODA tied to domestic politics. Yoshikawa (2003, p. 378) notes that in the Philippines such domestic entanglement was already apparent as early as the reparations period arguing that reparations funds were 'intertwined with protectionism, foreign exchange allocation, and the Filipino First policy.' One reason for this is that ODA is an essential financial resource for Philippine presidents to pursue their development and political agenda. The State of the Nation Address (SONA), which is delivered during the opening session of the congress, is a venue for Philippine presidents to officially articulate their development agenda and recommend bills that are urgent. In theory, the SONA places the Philippine president at the center of agenda-setting process. The priorities that the president laid down in the SONA shape to a certain extent how resources including foreign aid is utilized. However, the actual influence of Philippine presidents on ODA-financed projects varies from one president to another. Presidents rarely pursue their pet-projects for ODA financing but when they do such projects are usually large ones (Medalla Interview, 2020). More importantly, the Philippine President assumes

¹ Very grateful to the anonymous reviewer who pointed this out.

accountability over all aid-funded projects.

Rivera (2003) shows that Japanese ODA in the Philippines supported the preferences of Presidents Corazon Aquino and Fidel Ramos and the national exigencies they urgently needed to address. Two of the priorities of then President Aquino was to address the Debt Crisis left behind by her predecessor and to seek financial support for recovery of the Philippine economy. In view of this, the Japanese government with strong U.S. backing assumed a leadership role in raising funds for the Multilateral Aid Initiative (MAI) which was also known as the Philippine Aid Program (PAP). During the Ramos presidency a huge amount of Japanese ODA funds was earmarked to rehabilitate the Philippine energy sector to address the debilitating energy crisis that caused nationwide rotational brownouts. Later, Japan accommodated President Benigno Aquino's aim of enhancing the country's maritime capacity amid Chinese incursions by setting aside loan assistance for the procurement of patrol boats. When the Xi Jinping government pledged to provide more aid to the Philippines, Abe Shinzo vowed to provide financial support to President Rodrigo Duterte's 'Build, Build, Build' and war on drugs programs.

Thirdly, it is interesting to note that although the Philippines has been a consistent major recipient of Japanese aid it has never been the top ODA recipient. The only instance in which it was the top recipient was during the payment of war reparations (that is, if we count war reparations as ODA) in which the Philippines successfully negotiated for a 550 million U.S. dollars as payments, the largest amount provided to a claimant-country. Among Southeast Asian countries, Indonesia had been the largest recipient of Japanese ODA until it was dislodged by Vietnam. The latter started to receive Japanese loan assistance only in the 1990s and since then has grown into one of the top recipients of Japanese ODA in 2000s (see table 1 below). Vietnam was the second overall largest recipient of Japan's aid in 2015 in terms of gross disbursement and was the top recipient in Southeast Asia.

Table 1: Japan's ODA to Southeast Asian (SEA) countries, 1985-2017 (in million U.S. dollars)

SEA countries	1985-1990		1991-1999		2000-2009		2010-2017	
	Grant+TA	Loan	Grant+TA	Loan	Grant+TA	Loan	Grant+TA	Loan
Brunei	17.09	0	24.05	0	1.63	0	0	0
Cambodia	2.98	0	552.36	7.53	1018.73	81.75	922.30	251.55
Indonesia	779.49	4585.32	2098.51	11184.06	1653.5	8793.3	889.36	5477.87
Laos	84.2	0	594.25	23.91	733.63	78.75	589.89	114.06
Malaysia	292.43	1073.72	648.54	1738.25	402.94	1664.05	156.12	783.67
Myanmar	353.87	695.12	637.6	169.21	414.09	4.71	4462.07	2502.76
Philippines	722.17	2304.77	1765.3	5654.28	1060.88	5224.39	864.13	2593.61
Singapore	99.47	1.09	94.24	0	11.29	0	0	0
Thailand	893.82	1599.52	1330.74	5175.94	732.49	2467.8	452.33	2355.09
Vietnam	14.22	0	742.49	1378.17	1191.5	6032.8	1028.82	11430.73
Timor Leste	0	0	0	0	159.94	0.07	184.24	10.42

Source: ODA Figures for Calendar Year (C.Y.) 1999-2017: Japan's ODA White Paper. Available in https://www.mofa.go.jp/policy/oda/page_000017.html; ODA for C.Y. 1985-1998: Japan's ODA Annual Report, Japan Information and Culture (JICC) Library, Embassy of Japan in Manila. TA is Technical Assistance. Annual values for loan are based on gross disbursement except for year 2000 where the value is net disbursement.

For the period 2010-2017 cumulative loan assistance to the Philippines was about a fifth of what Vietnam received as table 1 shows. Likewise, in the 1990s the Philippines was the second largest recipient of Japan's ODA behind Indonesia but the latter received nearly twice as much as the Philippines. What explains the relatively lower ODA disbursements to the Philippines? One perennial problem in the aid performance of the country is the historically low utilization rate of ODA. Every year development partners including the Japan International Cooperation Agency (JICA) pledge certain amount of assistance to the Philippines. However, for various reasons the Philippine government does not fully avail of the pledged amount. For instance, in calendar year 2016 the overall ODA loan availment rate² was 66.89 per cent (NEDA, 2016, p. 28). The low utilization rate is also true in grant aid. In 2016 the utilization rate of Japanese grant aid was 64.23 per cent (NEDA, 2016, p. 32).

One of the obvious reasons for the low utilization rate is the preexisting backlogs due to inefficient bureaucratic handling of paperwork for each project. Adding further to delays are legal proceedings filed by individuals or groups that are opposed to the project for various reasons such as social dislocation, questions of unjust compensation and right of way acquisition, and perceived hazards of the proposed project to the ecosystem. Moreover, in the Philippine case it is quite common for incumbent president to either discontinue or not to prioritize the development projects initiated by his/her predecessor. Aside from policy discontinuity, implementing agencies generally lack the capacity to develop proposals into financially and technically viable projects while politicians tend to prefer small-scale and short-term projects that benefit their constituents directly (Medalla Interview, 2020). These problems are not new and have in fact manifested since reparations period. Being the largest provider of ODA to the Philippines it is expected that the Japanese are the most upset about project delays but despite the persistent problems Japan continues to aid the country. As will be shown later, Japan even contributes to addressing some of these perennial issues and in several occasions has demonstrated its commitment to contribute to the growth of the Philippine economy.

Finally, as a source of development finance ODA in principle is expected to contribute to poverty reduction and addressing economic disparity within and between recipient-countries. Surprisingly in the Philippine case, several scholars have consistently pointed out that ODA distribution is often biased in favor of relatively wealthier regions (Potter, 1996; Rivera, 2003; Camacho & Cuevas, 2004). This is also true in the case of Japanese aid. As table 2 below shows, the regions in Mindanao and South Luzon where most of the poorest provinces in the Philippines are located had received relatively less Japanese ODA funded projects between 1969 and 1993. This geographical distribution of ODA in the Philippines has persisted. In the 2016 ODA Portfolio Report of the National Economic and Development Authority (NEDA), the share of Region V (or Bicol Region, South Luzon) to total ODA was only 0.68 per cent while that of the Autonomous Region of Muslim Mindanao (ARMM) was 2.41 per cent. In comparison, Region III (or Central Luzon) had a share of 17.4 per cent while the National Capital Region (NCR, or Metropolitan Manila) had received 16.02 per cent share of the total ODA. Apparently, the relatively more affluent regions have continued to be the main focus of ODA projects. Medalla (Interview, 2020) and Tungpalan (Interview, 2020) explain that from an economic and financial perspectives ODA naturally goes to densely populated and higher GDP per capita regions because

² Availment rate is defined as 'the cumulative actual disbursements as a percentage of cumulative scheduled disbursement, both reckoned from the start of implementation up to the reporting period.' (NEDA, 2016, p. 27).

the returns are higher. The primary consideration in the geographical distribution of aid should be based on how growth can be supported and how national competitiveness can be maintained (Tungpalan Interview, 2020). An alternative view is that ODA should be invested where it is most needed and where the poor is at. Whether ODA should be spent for physical infrastructure or invested in social welfare like education, health, etc. is another fundamental issue in development.

Table 2: Regional Distribution of Japanese ODA Projects in the Philippines, 1969-1993

Region	1969-75	1976-80	1981-85	1986-90	1991-93
North Luzon	0	3	3	3	0
Central Luzon	1	3	10	3	12
South Luzon	0	0	1	3	0
Visayas	1	0	8	4	6
Mindanao	0	0	2	0	1
Manila (NCR)	4	10	12	22	2
National	5	9	10	27	26

Source: Potter, 1996, p. 37.

From the foregoing discussion, five key features characterize the Philippines as a recipient of Japanese ODA: First is the salience of geostrategic factors in its aid relationship with Japan; Second, even though it closely follows the principle of non-interference, Japanese-financed projects will inevitably interfere with internal affairs even if it is unintended; Third, while it is true that the Philippines has received huge volume of assistance from Japan it has never been its largest recipient; Fourth, historical distribution of Japanese assistance shows that it has been consistently allotted to relatively wealthier instead of poorer regions of the Philippines; Finally, it is disproportionately focused on infrastructure development. From a historical perspective, this study attempts to examine the ODA allotment patterns in the Philippines, the geostrategic imperatives of Japanese aid, its geographical and sectoral distributions, and explore some perennial issues related to aid such as low utilization rate and project delays. Historical perspective analyzes "a subject in light of its earliest phases and subsequent evolution" to understand the present (Lawrence, 1984, p. 307). The paper contends, among others, that the causes of problems related to aid implementation are primarily domestic in nature although there are cases in which the aid donor is the cause of the delay. The study also traces the evolution of the country's ODA policy framework and management system. It argues that the pattern of allocation of Japanese ODA in the Philippines is explained by a confluence of internal and external factors and events. Japan's geostrategic and economic interests as expressed in its official ODA policy broadly explains the overall volume and sectoral priorities of its aid. The study traces the evolution of aid institutions and aid relations between Japan and the Philippines from the reparations period to the present using the historical institutionalist perspective. Institutionalism is generally interested in understanding the effects of formal and nonformal rules on individual choices and actions. Historical institutionalism assumes that policy choices are path dependent which means that when decisions are made, they create inertial tendency to persist over time and will have a continuing and/or largely determinate influence over the policy far into the future (Peters, 1999). This implies that government programs and policy choices, including ODA policy, are path dependent.

As such, historical institutionalism provides a compelling account of institutional stability and continuity (Zehavi, 2012). For a historical institutionalist, the sequence and timing of events as well as the nature of constraints or contexts under which actors operate are vital to the policy choices that they eventually make (Skocpol & Pierson, 2002).

However, this does not mean that change is not possible. Historical institutionalism argues that the path that the policy has taken can still be altered when critical juncture occurs. Critical junctures or turning points pertain to critical periods or ‘choice points when a particular option is adopted among the two or more alternatives’ (Capoccia & Kelemen, 2007, p. 347). Historical institutionalism highlights the crucial role of historical events that affect policymakers in their decision-making. In plural societies, policy choices are often seen as an outcome of contestation and tension between and among political and social groups and is often decided by power relations. Naturally, power asymmetry ascribes one participant in decision-making process more weight in the policy choice that will be subsequently made. Those who are in power are likely to determine the path that the nation would take. Ultimately, government authorities and bureaucrats make the actual policy choices. As Capoccia and Kelemen (2007, p. 354) mentions, ‘in actuality the decisions of political elites rather than the consequences of a host of microscopic decisions are often decisive.’ Due to a mix of internal and external factors and historical events, Japan’s ODA to the Philippines has significantly improved in both quality and quantity since the reparations period. Aid institutions gradually emerged and developed over time. Due to its long aid relationship with the Philippines, Japan is able to establish itself as a reliable and accommodating development partner. Philippine aid officials see their Japanese counterparts as long-term partners who value and nurture the relationship. They learned to adapt to each other’s preferences as well as familiarity. As in any other recipients of Japanese aid, infrastructure development has been the main focus of Japan’s aid to the Philippines since the early period although yen loan packages typically include social development projects as well (Herrera Interview, 2020). Data used in the study were gathered using a mix of documentary research and interview methods. JICA Philippines and the Japan Information and Culture Center (JICC) in Manila provided the author access to some important aid statistics and resources which were used throughout the study. JICA also provided the author a list of key informants in the Philippines to interview. Due to time constraints and unavailability of some key informants, interviews that were conducted were limited. Future similar studies should consider including more key informants in both the Philippines and Japan side. Field work on Japan-financed project sites should have been conducted as well but the COVID-19 pandemic had made this very difficult if not impossible.

Meanwhile, the geostrategic importance of the Philippines to Japan should be understood in the context of Japan’s overall geostrategic interests toward Southeast Asia. In the 3 to 4 decades that followed the end of the second World War, Japan’s geostrategic interests in Southeast Asia were mainly defined in terms of its narrow commercial and economic interests. After China became a communist state in 1949, it viewed the Southeast Asian region as a market for Japanese exports and a vital source of supplies for Japanese industries. The Reparations Agreements that Japan signed with Southeast Asian countries starting in 1954 was apparently aimed at restoring diplomatic relations and thus commercial ties. As Japanese commercial activities expanded so is the importance of maintaining peace and stability in the Southeast Asian region to Japan’s own prosperity. Thus, cooperation with Southeast Asian countries was generally aimed at maintaining the region’s overall stability. With the advent of China’s rise, North Korea’s development of ballistic missiles and nuclear ambition,

and incidence of Chinese incursions in the South and East China Seas, the Southeast Asian region is more than ever crucial not only to the prosperity but also to Japan's national security and defense. The importance that Japan attaches to its relations with Southeast Asia explains the consistently high volume of ODA that has been allotted to the region.

2. The Evolution of ODA Policy Framework and Aid Institutions in the Philippines

The Philippine aid institution gradually evolved after the Second World War. During the early postwar period, the United Nations and the United States were the biggest aid providers to the Philippines. Their assistance were important sources of emergency food relief and other essential supplies for the survival of the country. Later, a significant share of foreign aid was allotted for budgetary support and infrastructural projects. In 1945, the Commonwealth Government of the Philippines³ created the Philippine Relief and Rehabilitation Administration (PRRA) whose primary purpose was to administer relief assistance (more or less the equivalent of humanitarian assistance and grant aid nowadays) from the United Nations Relief and Rehabilitation Administration (UNRRA) and other relief agencies of the United States Government or abroad (Section 2, PRRA Act of 1945). Organizationally, the PRRA was under the Office of the Philippine President (Section 1 of PRRA Act of 1945). It was managed by a Board of Directors with a Director-General as Chair and the Secretary of Public Works and Communications, the Secretary of Finance, the Secretary of Agriculture and Commerce, the Secretary of Health and Public Welfare, the Secretary of Labor and the Commissioner of the Budget, as members (Section 4 of the said Act).

In April 1946, the U.S. Congress passed the Philippine Rehabilitation Act which created the Philippine War Damage Commission to expend the 400 million U.S. dollars war damages that the U.S. government awarded to the Philippines. The amount was intended for payment of private property damage claims. Another 120 million U.S. dollars was set aside to pay for public properties destroyed during the war. The Commission was composed of a Chairman who was an American and two commissioners (one Filipino and one American). The private sector-focused US war damages was replicated in Japan's war reparations payments to the Philippines ten years thereafter.

After the UNRRA discontinued its activities in 1947, President Manuel Roxas reorganized PRRA into Philippine Relief and Trade Rehabilitation Administration (PRTRA) by virtue of Executive Order No. 90 series of 1947. In 1950, the Quirino-Foster Memorandum of Agreement was signed which formally assured assistance under the US Economic Cooperation Administration (ECA) to the Philippines' economic reconstruction (Pante & Reyes, 1989). The Philippine Council for U.S. Aid (PHILCUSA) was created to provide oversight, advice, and guide to Philippine Government in the use of American funds from ECA (Pante & Reyes, 1989).

³ The Philippines was still a U.S. colony during this time and was governed by the Commonwealth Government composed of Filipino officials from 1935 to 1946.

A rudimentary system of ODA administration – from project identification to implementation – to handle and manage Japanese reparations payments and, later, loan assistance gradually emerged in 1956. Japan agreed to pay the Philippines war reparations in goods and services amounting to 550 million U.S. dollars for a period of twenty years. According to the Agreement, the average amount of goods and services that could be procured yearly by the Philippine government from Japan in the first ten years of implementation was 25 million U.S. dollars and an average of thirty million U.S. dollars each year for the remaining period. The reparations scheme was governed by Republic Act No. 1789 or the Philippine Reparations Law which created two new agencies to implement the Agreement, namely, (1) the Reparations Commission composed of a Chairman and two members, and (2) the Mission which was composed of a Chief of Mission and other senior officials. The Mission served as the sole and exclusive agent of the Philippine government in Japan in the negotiation and conclusion of procurement contracts directly with any Japanese nationals or Japanese entities. The reparations programming in the Philippines involved several players including the Philippine President, the National Economic Council (NEC), Reparations Commission, the Mission in Japan, the private sector and government agencies. With some modifications this set up would be the basis of future ODA programming in the Philippines.

To ensure that the reparations would be aligned with the Philippine government's National Economic Rehabilitation and Development Program, the Reparations Commission was tasked to regularly prepare and submit a five-year reparations program for approval of the Philippine President and upon recommendation of the NEC, to be revised yearly as needed. The NEC was established in 1936 upon the initiative of then President Manuel L. Quezon to advise the government on economic and financial matters, to promote industries and to formulate economic programs. The members of the NEC were mainly high-ranking government officials and some prominent representatives from the private sector instead of rank-and-file bureaucrats. The chairman of the NEC occupied a senior cabinet position in the government and served as economic adviser to the President (Sicat, 2013). Some of the capital goods that were prioritized for procurement under the Reparations Law were equipment and materials for electrification, firefighting, railway construction, telecommunications, base metal mining, steel refining, cement manufacturing, logging and shipping (Yoshikawa, 2003). The Law also provided that sixty per cent of the reparations must be allocated to the private sector. Just like the U.S. war damages, Japanese reparations payments were likewise paid mainly to the private sector.

The reparations activities had profoundly shaped the evolving Philippine aid management system that centers around the Philippine president. All government agencies involved in the planning and implementation of the reparations – the Reparations Commission, the Mission, the NEC and government agencies – functioned under the Executive Branch, particularly the Office of the President. The members of the Reparations Commission, Chief of Mission in Japan, and Chairman of the NEC (usually the Secretary of Finance) were all presidential appointees. Over time, the Philippine President's preponderant role was further strengthened and consolidated while the coordinating and supervisory roles of the NEC and its successor, the National Economic and Development Authority (NEDA), were improved further.

Since 1947, the Philippine President had served concurrently as head of the NEC. By 1960 the Secretary of Commerce and Industry and a representative of the minority party were added as members. To assist the government in the execution of economic development plans and programs (including those funded by foreign loans and grants) then President Marcos created the Presidential Economic Staff (PES) in 1966. The PES was

mandated, among others, to establish and maintain working relationship with the various international financial institutions and to assist government and private entities in tapping foreign resources for credit or other forms of assistance (Executive Order No. 8, s. 1966). Under the Integrated Reorganization Plan (IRP) of 1972,⁴ Marcos merged NEC and PES to establish the National Economic Development Authority as government's central socioeconomic planning body. The following year the old NEDA was dissolved to give way to a newly reconstituted NEDA (the National Economic *and* Development Authority) which became a constitutional body under the 1973 constitution and retained in the 1987 constitution.⁵

NEDA underwent another major reorganization in 1987 to enhance its ability to coordinate the development planning and its policy formulation process. Former President Cory Aquino issued Executive Order No. 230 which declared that NEDA would be composed of two separate and distinct entities, namely, the Board and the Secretariat. The NEDA Board is chaired by the President while the NEDA Secretariat is headed by a Director-General who also sits as a member (usually as Vice-chairman) of the NEDA Board. The President may change the membership of the NEDA Board when necessary. The Director-General of NEDA Secretariat, meanwhile, concurrently holds the position of Secretary of Socioeconomic Planning in the cabinet. This structural set up is retained more or less to this day.

Subsequently, the Philippines embraced the western (basically Organisation for Economic Co-operation and Development or OECD) definition of ODA.⁶ In 1996, the Philippine Congress passed into law Republic Act No. 8182 which is also known as Official Development Assistance (ODA) Act of 1996 for the purpose of ensuring that 'the proceeds of ODA shall be used to achieve equitable growth and development in all provinces through priority development projects for the improvement of economic and social services facilities...' (Section 4 of ODA Act of 1996). Under this law, ODA is defined as 'a loan or loan and grant which have all of the following criteria:

- (a) It must be administered with the objective of promoting sustainable social and economic development and welfare of the Philippines;
- (b) It must be contracted with governments of foreign countries with whom the Philippines has diplomatic, trade relations or bilateral agreements or which are members of the United Nations, their agencies and international or multilateral lending institutions;
- (c) There are no available comparable financial instruments in the capital market;
- (d) It must contain a grant element of at least twenty-five percent (25%).'

Other than the Executive Branch, the Congress shares power now with the President in appropriating counterpart fund which is included in the Annual Expenditure Program submitted by the President to Congress within 30 days from the opening of regular session (Section 5 of the ODA Act of 1996). The oversight function

⁴ Marcos launched the IRP through Presidential Decree No. 1, s. of 1972

⁵ As a constitutional body, NEDA could not be abolished by Congress through legislative act.

⁶ In the OECD (2018) website, ODA 'is defined as government aid designed to promote the economic development and welfare of developing countries. Loans and credits for military purposes are excluded. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations or the World Bank. Aid includes grants, 'soft' loans and the provision of technical assistance.' Soft loans are loans with grant element of at least 25%.

is performed by the Executive Department, particularly NEDA (which provides annual review of status of all ODA funded projects), the Commission on Audit (which audits on-going and completed projects) and Congress (which is mandated to create a Congressional Oversight Committee composed of members from each House) (Section 8 of ODA Act of 1996).

At present, the NEDA Board and the NEDA Secretariat perform complementary functions in ODA programming, in both planning and implementing stages. The primary role of NEDA and its committees in the ODA process is to ensure the viability of the project and to conduct follow ups to determine the causes of project delays and cost overruns (Medalla Interview, 2020). The administrative process for securing ODA loans is composed of several stages.⁷ The first is project identification stage. Tungpalan (interview, 2020) notes that project identification does not start from a vacuum. Projects are initially discussed in different levels before it is formally submitted. In the case of Japan, regular discussions and policy consultations are held in an inter-governmental high-level committee (Tungpalan, 2020). Generally, ideas for ODA projects may originate from: (1) the prospective recipient/implementing government agency; (2) the prospective lending agency; and (3) the survey result of a donor-initiated mission. Additionally, there are cases in which project ideas may be initiated by or may come from private businesses from donor countries.

Once a potential project has been identified, the next step is project preparation which includes feasibility study to determine the project's technical, financial, social, environmental, and operational viability. If the agency does not have the resources to finance the feasibility study and if NEDA finds the proposal worth pursuing it will help the agency secure an appropriate funding which may come from the prospective source of the ODA or from the National Priorities Support Fund of the Philippine National Budget. For instance, JICA provides project preparation technical assistance for this purpose. Llanes (Interview, 2020) mentions that proposed road projects requiring technology not found in the country are often introduced by JICA. In order to provide a good grasp of the new technology, JICA sends Philippine officials to Japan. Llanes (Interview, 2020) adds that JICA deploys road and flood control advisers or experts that help in the project preparation. Thereafter, official application for ODA is endorsed either by the Department of Foreign Affairs (DFA) or the Department of Finance (DOF) to the donor-country through its Embassy.

After the feasibility study, the proposed project undergoes an internal, preliminary review process by NEDA Secretariat to ensure that the project is attuned with national development priorities which are encapsulated in Medium-Term Philippine Development Plan (MTPDP) and Medium-Term Public Investment Program (MTPIP). The NEDA Secretariat prepares both documents usually within the first year of office of the newly elected Philippine President. The MTPDP and MTPIP typically embody the development priorities of the President which in some cases may be completely different from his/her predecessor's.

After this, NEDA's Investment Coordination Committee (ICC) and the prospective lending agency will conduct a comprehensive appraisal of the proposed project. The ICC was established as one of the committees attached to NEDA under Marcos' Integrated Reorganization Plan (IRP) of 1972. At present, the ICC 'evaluates the fiscal, monetary and balance of payments implications of major national projects, and recommends to the President the timetable of their implementation on a regular basis'; advises the President on matters related to the domestic and foreign borrowings program; and submits a status of the fiscal, monetary and balance of

⁷ The following discussion is mainly based on NEDA (1992).

payments implications of major national projects (NEDA, n.d.). All projects with cost of 1 billion U.S. dollars and above require an ICC review and approval before proceeding. In June 2017, the ceiling was raised to 2.5 billion U.S. dollars and up (Investment Coordination Committee, 2017).

If the proposed project receives a favorable appraisal from the ICC, the next step is to obtain clearances from the Central Bank (CB), Department of Budget and Management (DBM), DOF, and approval from the NEDA Board. Based on the financing plan it prepared, the DOF decides which projects will be financed by domestic and external sources (Herrera Interview, 2020). Once all the clearances have been secured the DOF takes the lead in forming a negotiating team and requests the President to grant it with full powers to negotiate. When the full power is granted the negotiation takes place. If successful, the loan agreement is signed by the lending agency and the Philippine negotiating team, after which the signed agreement will be forwarded to the Department of Justice (DOJ) which in turn will provide legal opinion to determine if the loan agreement constitutes a valid and legally binding obligation on the part of the Philippine government. The CB then registers the agreement officially as a loan (if it is a loan assistance). To allow the implementing agency to commence the project and charge related expenditures from the new loan, the DBM issues an advice of allotment (AA) and funding warrant (FW) to ensure that a corresponding account to cover the loan proceeds is provided for in the General Appropriations Act.

During project implementation, the DOF and CB monitor the loan drawdowns while the NEDA Secretariat monitors actual loan disbursements. In addition, the NEDA Secretariat ensures that ODA projects are on schedule; reports their status annually; and coordinates with implementing agency; and suggests measures to address substantial delays. After the last loan disbursement has been made, the DOF authorizes the CB to make the repayments as they fall due.

The rules on national procurement are essential in many ODA-funded projects especially if the services and materials for such projects are tied to the aid donor-country's products. In 2003, Philippine procurement rules were consolidated under the Government Procurement Reform Act (or Republic Act No. 9184). In this law, public competitive bidding became the general rule in the procurement of goods and services in all levels of Philippine government regardless of the project's financing source. However, this rule seems to be in conflict with ODA-funded projects, particularly grants, in which the supplies of goods or services are attached/tied to the donor country. The policy under the Government Procurement Act is that in case when procurement is foreign-funded the general rule on bidding may not apply when procurement is covered by a treaty or international or executive agreement (as provided in sections 4 & 43 of such Act). The revised 2016 implementing guidelines of the Government Procurement Act mention that the procurement of goods, infrastructure projects and consulting services funded from foreign grants are also not to be covered by the rules on competitive bidding.

The Government Procurement Act's implementing guidelines also tightened the eligibility requirements for prospective bidders. Generally, only Filipinos are qualified to bid but foreign bidders may be allowed to participate in procurement of goods in certain circumstances such as: (1) When it is provided for under any Treaty or International or Executive Agreement. This is also a requirement for foreign bidders for infrastructure projects including those ODA-funded; (2) When the foreign supplier is a citizen, corporation or association of a country, the laws or regulations of which grant reciprocal rights or privileges to citizens, corporations or associations of the Philippines; (3) When the goods sought to be procured are not available from local

suppliers; or (4) When there is a need to prevent situations that defeat competition or restrain trade (Section 23.4.1.2 of Government Procurement Act Implementing Guidelines). Concerning bids for infrastructure project, track record was also added as part of the eligibility requirement for foreign bidders.

3. Japanese ODA and Philippine Development: Perceptions and Challenges

Quite a number of studies have indicated that Japanese ODA to the Philippines contributed positively to the country's overall economic development (Camacho, 2004; Rivera, 2003; Potter, 1996; Takahashi, 1993; Pante & Reyes, 1991). Unlike western aid providers that advance their own priorities in aid allotments, Japanese aid has become more responsive to national priorities through the holding of high-level policy consultations regularly (Tungpalan Interview, 2020; Herrera Interview, 2020). Japanese loans are preferred not only because of its highly concessional nature and long period of maturity but also due to the relative ease of doing business with JICA (Llanes Interview, 2020). Unlike western aid donors, Japan does not impose political 'dogmas' (De Ocampo Interview, 2020). Japanese aid aims to contribute to the growth of the recipient's economy, reduce poverty, and build capacity and institutions (De Ocampo Interview, 2020) Indeed, in the 2018 Country Development Cooperation Policy for the Philippines, Japanese ODA priorities were aligned with the Philippines' pursuit of inclusive growth, a high-trust and resilient society, and a globally competitive knowledge economy that are stipulated in the Philippine Development Plan 2017-2022 (Embassy of Japan in the Philippines, 2018; NEDA, 2018). This new policy framework further states that Japan's development cooperation with the Philippines is aimed at strengthening the foundation for sustainable growth, ensuring human security for inclusive growth, and promoting peace and development in Mindanao.⁸ Additionally, the Philippines-Japan high-level policy consultation provides a mechanism to discuss the direction of the economic partnership between the two countries for the medium- to long-term (NEDA, 2018).

The absence of political conditions is perhaps one of the attractive features of Japanese aid for some political leaders like President Duterte. Aside from Japanese ODA, Duterte also accepted foreign aid from China, another aid provider that is well-known for not attaching political conditions in its aid although this is contested by some groups like the IBON Foundation which argues that 'China ODA has been known to stipulate the collateralization of resources and state assets should a country default on its loan payments' (IBON Media, 2018). On the contrary, in 2017 Duterte rejected a 250 million euro-worth of assistance from the European Union (EU) on the grounds that it is being used to intervene in the country's internal affairs (Chithra, 2017). In addition, he rejected loans and grants from other donors that were critical of his policy (Calonzo, 2019) while he thanked Japan for its aid and investments in the country (Aurelio, 2019).

Japan's development cooperation in the Philippines is classified into three types, namely, loans, grants and technical assistance. Japanese loans are very concessional in nature and have been used for a variety of purpose by the Philippine government such as but not limited to budgetary support, financing infrastructure projects,

⁸ A copy of the 2018 Country Development Cooperation policy for the Philippines is available in <https://www.ph.emb-japan.go.jp/files/000393849.pdf>

procurement of essential equipment, and purchase of patrol boats. The first yen credit was commenced in 1971 and has since become an important source of infrastructure finance for the country. Yen loans contributed to the construction of dams, irrigations, energy production, public school buildings, farm-to-market roads, bridges, highways, airports, wells, and railways. In the past, the Overseas Economic Cooperation Fund (OECF) handled Japan's loan assistance. In 1999, the Export-Import (Exim) Bank of Japan and the OECF were merged to form the Japan Bank for International Cooperation (JBIC) to manage Japanese loan assistance programs. The Japan International Cooperation Agency Law came into effect in 2003 which transformed JICA into an independent administrative institution. In 2008, JICA and the Overseas Economic Cooperation Operations of JBIC that handles Japan's ODA loans were merged. This had made JICA the sole aid agency of Japan that it is today.

Moreover, the Philippines has benefited from Japanese grant aid in the form of emergency relief goods in times of natural disasters, donation of medical, agricultural, educational, scientific, and other essential equipment, and grassroots assistance. While most western aid providers have criticized President Duterte's War on Drugs program, JICA extended grant assistance to strengthen the rehabilitation system and policies for illegal drug users to mitigate the problem of illegal drugs (JICA, 2017). This indicates that some Japanese aid programs are tailored-fit to the recipient's need and may be contrary to the political stance of some DAC/OECD aid donors. Technical cooperation is another component of Japanese ODA to the Philippines which contributed to the improvement of human capital by enabling students, researchers, bureaucrats, workers, and professionals to acquire technical skills through short- and long-term training programs of JICA. Technical assistance is also provided to improve bureaucratic capacity in terms of preparing detailed engineering and feasibility study of project proposals submitted for ODA financing.

There had been, of course, some criticisms against Japanese ODA. The earliest of these were related with its strong commercial orientation. An observer noted that Japan was earning 75 to 95 cents for every dollar of aid that Japan allotted and that JICA and its consultants specified the use of Japanese goods and equipment or recommended Japanese industrial standards which gave Japanese suppliers an advantage (Tadem, 1990). Some criticisms against Japanese aid was attributed to the government which is responsible for addressing the problem of social dislocation arising from ODA funded projects. For instance, local residents opposed the Batangas Port Development Project Phase I (1990-1999) not because of the project per se but because the resettlement site and the proposed compensation were not acceptable to them (Kato, Diaz, & Onga, 2010). Local residents will also naturally oppose ODA-funded projects that they think are hazardous to the environment. An example of this were the ODA-funded dam constructions in Pampanga, Cebu and Bohol (Potter, 1996). Additionally, Camacho and Cuevas (2004) point out that Japan's preponderant focus on infrastructure development has left other sectors like health and education with relatively smaller share in the overall ODA allocation. Finally, the incident that probably resonates strongly among critics of Japanese aid was the discovery of Marcos' papers in Hawaii which revealed that Marcos received kickbacks and commissions from Japanese ODA-funded projects. The Philippine external debt incurred by Marcos stimulated a nation-wide debate after he was ousted from office⁹ and led to investigations of so-called 'behest' loans of

⁹ For instance, there was a huge debate whether or not the Aquino government should just repudiate Marcos' debts, which was about 26 billion U.S. dollars by the end of 1985, due to their fraudulent nature.

Marcos' cronies and close executives. One of the prominent cases was the anti-graft and corrupt practices filed against several Directors of Philippine National Bank which was eventually dismissed by the Supreme Court in 2019 (Rappler, 2019).

Some of the issues mentioned above were gradually addressed through third-party evaluations of Japanese ODA and overall desire of JICA and the Philippine government to improve the aid programs. Japan as a donor country has become more cautious on the environmental and social impacts of its aid programs in the Philippines over time (Herrera Interview 2020; Tungpalan Interview, 2020). Safeguards like the JBIC Guidelines for the Confirmation of Environmental and Social Considerations was adopted and applied for loan aid in 2002. Later, JICA released the 2010 Guidelines for Environmental and Social Considerations.¹⁰ Subsequently, opposition to Japan-financed infrastructure projects has become less than before or almost nonexistent. De Ocampo (Interview, 2020) mentions that past issues related to aid negotiation like currency denomination of loan, contractors from Japan, and hiring of project supervising consultant from Japan are no longer as contentious as they were before. On the side of Philippines, the adoption of the 1987 constitution led to the review of all laws including those related to foreign borrowing and to the enactment of new regulations if they were not in accordance with the new constitution. These changes in the legal framework and Marcos' fraudulent loans paved the way to a more participatory and transparent process of ODA implementation and planning. The ODA Act of 1996¹¹ which specifies the goals, mechanisms for distribution and utilization of ODA funds, oversight, etc. and other pertinent laws such as the Procurement Reform Act of 2003 which requires competitive bidding including those related to ODA funded projects were passed. With regard to social dislocation and resettlement issues, the Philippine government further strengthened the institutional safeguards provided to local residents and families affected by priority development projects with the enactment of Urban Development and Housing Act (UDHA) of 1992 which ensures compensation, specifies processes for demolition, and secures resettlement for affected parties. Although the enactment of UDHA Act has resulted to better management of relocation and displacement issues arising from development projects such as those funded by ODA, it also caused delays (Tungpalan Interview, 2020).

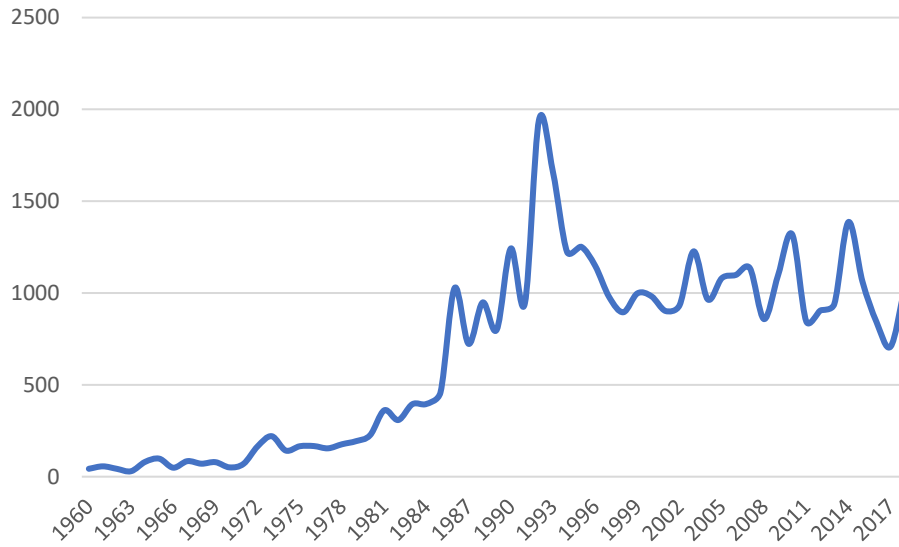
4. Historical Disbursement Patterns and Strategic Priorities of Japan's ODA to the Philippines

Japan has provided the Philippines a total of 39.4 billion U.S. dollars between 1960 and 2018 (OECD, 2020). The largest one-time ODA disbursement was made in 1992 in the amount of 1.9 billion U.S. dollars (see Figure 1 below) of which a significant share was spent to address the debilitating energy crisis that the Philippines faced in the 1990s. As figure 2 indicates, concessional loan, which is an essential source of infrastructure finance, constitutes the biggest chunk of Japan's ODA to the Philippines. During the 1965-2016 period, nearly half of Japanese concessional loans was earmarked for transportation-related projects (see figure 3).

¹⁰ Copy of the said guidelines is available in https://www.jica.go.jp/english/our_work/social_environmental/guideline/pdf/guideline100326.pdf

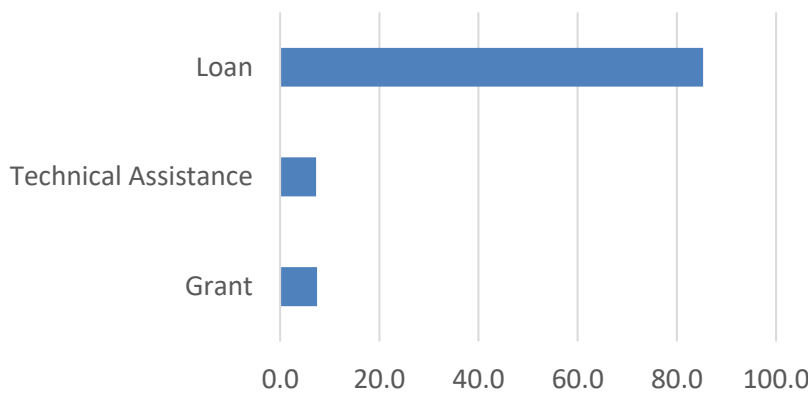
¹¹ Copy of this law is available in <http://www.neda.gov.ph/oda-act-1996/>

Figure 1: Japan's Gross ODA Disbursements to the Philippines, 1960-2018 in million U.S. Dollars current prices



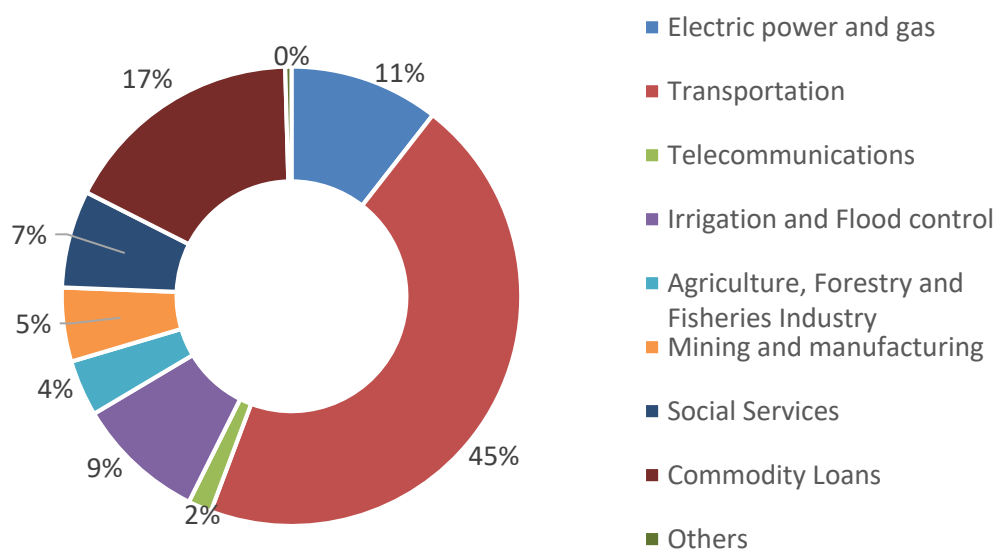
Source: OECD, 2020

Figure 2: Japan's Cumulative ODA to the Philippines, 1965-2016 in %



Source of basic data: JICA Website

<https://www.jica.go.jp/english/countries/c8h0vm000002dsro-att/distribution.pdf>

Figure 3: Japan's Cumulative ODA Loans to the Philippines by Sector, 1965-2016 in %

Source of basic data: JICA Website.

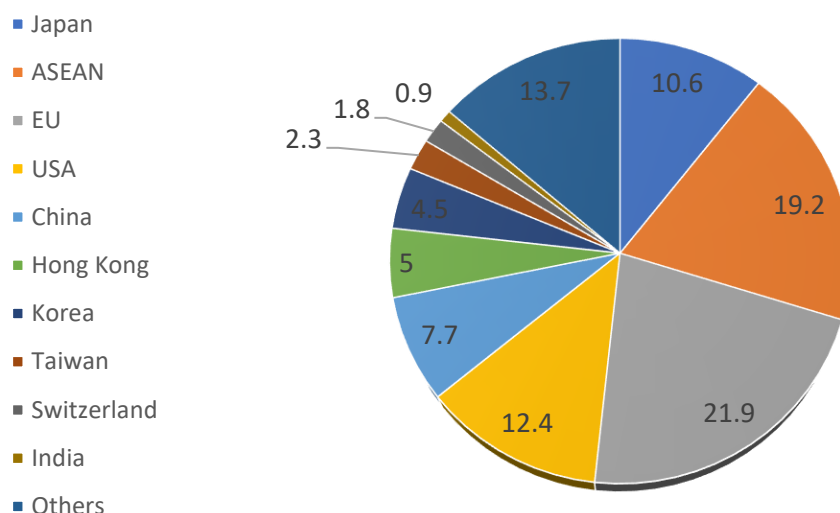
<https://www.jica.go.jp/english/countries/c8h0vm000002dsro-att/distribution.pdf>

Takahashi (1993) mentions two major goals of Japanese aid-giving in the Philippines during the periods from 1960s to 1990s. First, during the reparations period a mix of guilt that was inflicted by the Japanese imperial army during World War II and improvement of economic ties was evident. Second, in the 1980s Takahashi (1993, p. 74) notes that 'political considerations in international relations become more conspicuous.' He adds that 'political stability and economic recovery in the Philippines were practically indispensable features of regional political and economic strategies in the 1970s and 1980s' (Takahashi, 1993, p. 75). He describes Japan's increased aid activities in the Philippines as compensation for declining American financial assistance or *katagawari* (change of shoulders), a burden that Japan must assume to promote U.S.-Japan joint interests in maintaining peace and stability of the Southeast Asian region.

Moreover, the Philippines along with Indonesia, Malaysia, and Vietnam holds sovereign jurisdiction to certain areas of the South China Sea, which is part of Japan's sea lanes of communications (SLOCs). The geostrategic importance of the Philippines is emphasized in the Country Assistance Policy for the Philippines which straightforwardly mentions that 'the Philippines lies along vital sea lanes and is thus an important country in geographical and regional security terms. Therefore, sustainable growth of the Philippines will contribute to the stability and the development in the East Asian region.' Likewise, Indonesia and Malaysia have jurisdiction to a very important sea route, the Malacca Strait, for Japanese commercial shipping to and from Europe and the Middle East. Thus, it is in the interest of Japan to maintain freedom of navigation as well as to maintain the stability of littoral countries which have sovereign jurisdiction in these areas. As a toolkit of Japanese diplomacy, ODA is being utilized to achieve geostrategic goals such as in combatting piracy and in preventing potentially disruptive incident like occurrence of military conflict between countries with overlapping claims in the South China Sea.

The region too is an important market for Japanese products and industrial base for many Japanese multinational corporations (MNCs). Between 2015 and 2017, Japanese direct investments (FDI) to members of the Association of Southeast Asian Nations (ASEAN) constituted 10.6 per cent of ASEAN's total FDI (see figure 4 below). Japan was the second largest bilateral source of FDI for ASEAN after the United States during this period. Japan's Country Assistance Policy for the Philippines also stresses the close economic relations between the two nations to justify Japan's continued assistance to the Philippines. The Country Assistance Policy of 2012 mentions that the Philippines provides a solid base for Japan's economic activities and emphasizes the complementarity of the two nations' societies in terms of birthrate and aging population.¹² Japan and the Philippines agreed to grant national treatment and most-favored-nation treatment to investors of each Party under an Economic Partnership Agreement. Japan remains to be one of the biggest sources of FDI for the Philippines and was the third largest in 2018 (see Table 3).

Figure 4: FDI net Inflows to ASEAN, 2015-2017 in %



Source of basic data: ASEAN-Japan Center. Available in <https://www.asean.or.jp/en/asean/relation/>

Table 3: FDI inflow to the Philippines by partner country, 2017 and 2018 in million US dollars

By Economy	2017	2018
Equity other than reinvestment of earnings, net	3398	2267
Singapore	687.4	935.6
Hong Kong	107.6	270.2
Japan	72.1	218.9
China	28.8	198.7
USA	472.9	160.4
Taiwan	83.2	155.1

¹² A copy of this policy is available in <https://www.ph.emb-japan.go.jp/bilateral/image/oda%202010%20update/countryassistancepolicy.pdf>

Netherlands	1656.4	120.8
Luxembourg	41.6	94.9
Thailand	14.11	69.6
Germany	57.5	58.1
Others	176.3	-15.3
Reinvestment of earnings	863	859
Debt Instruments, Net	5996	6676
Net FDI	10256	9802

Source: Bureau of Trade and Industrial Policy Research, 2019

For purposes of discussion, Japanese ODA to the Philippines is divided into four (4) major waves. The first wave came in the form of reparations payments from 1956 to 1976. This period was the formative years of Japan as an aid donor and the Philippines as an aid recipient. Japan's aid principles, agencies, and practices evolved in this period as the Philippines gradually built its own aid institutions to manage the assistance that it was receiving at that time. The second wave came in as a result of Japan's ODA expansion/doubling policy (1977 to 1991) following the Fukuda doctrine. It also marked by Japan's successful transformation as a major aid donor and the Philippines' increasing financial dependence on Japan from the time of the Cory Aquino presidency and onwards.

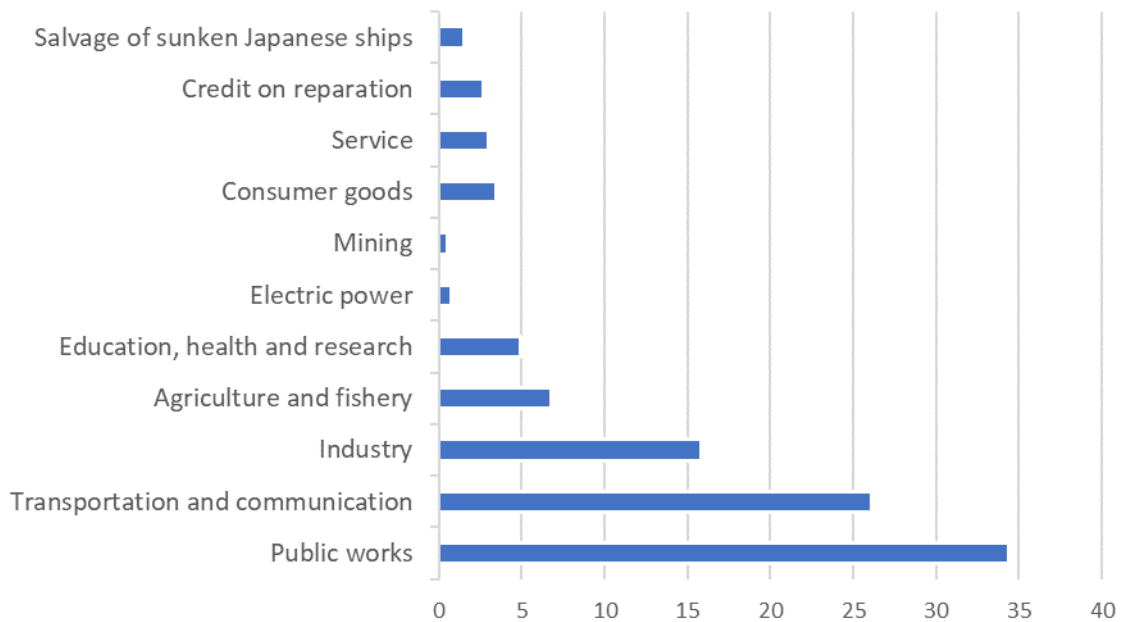
The third wave of Japanese aid to the Philippines (1992 to 2010) is characterized by diversification and reform of aid institutions. Japan's aid principles and philosophy were articulated in its ODA charters which became the basis of its ODA priorities to the Philippines. A new aid institution in the Philippines was established with the passage of the Official Development Act of 1996 and other related policies. And finally, the fourth wave is a result of deepening defense and security cooperation between the two nations and their mutual concern over China's increasing aggressiveness in the East and South China Seas. In this period, the two countries have signed new forms of assistance such as the aid to enhance maritime capacity and strengthened their strategic partnership further.

4.1 First Wave: Japan's Request-based Reparations Payment System and its Implications

As mentioned in the preceding section, the aid relations between Japan and the Philippines officially began with the signing and ratification of the Reparations Agreement in 1956. Under the said agreement, Japan made a commitment to pay the Philippines war reparations in the form of services and capital goods worth 550 million U.S. dollars, broken down as follows: 500 million in capital goods, 20 million in consumer goods and 30 million in services over a period of twenty years. In addition, Japanese private firms would also provide 250 million U.S. dollars in the form of commercial, non-governmental loans to the Philippine private sector. Article 3 paragraph 2 of the Agreement stipulated that the products and services to be provided through reparations were those 'requested' by the Philippine government. The Agreement also provided that the total value of goods and services that can be requested annually in the first ten years of implementation was up to 25 million U.S. dollars and up to 30 million U.S. dollars annually in the next ten years. It should be noted that out of the 13 claimant countries in Asia the Philippines received the largest amount of reparations fund from

Japan followed by (South) Vietnam with 390 million U.S. dollars. Vietnam received an additional 8.5 billion yen in reparations after its unification (roughly 28.33 million U.S. dollars at the rate of US\$1 = 300 yen). Figure 5 below shows the sectoral distribution of Japan's reparations payments to the Philippines from 1956 to 1976.

Figure 5: Sectoral Distribution of Japan's Reparations Payments to the Philippines in %



Source: Takahashi (1993, p. 66)

The reparations scheme overwhelmingly favored the private sector and limited government involvement (Yoshikawa, 2003). The Philippine reparations law initially mandated that 60 per cent of the reparations fund should be allocated to the private sector. The remaining 40 per cent was reserved for applications from government agencies with projects included in the National Economic Rehabilitation and Development Program. The Philippine reparations law prohibited government agencies from procuring or utilizing reparations goods for the purpose of entering into business that competed with private industries (Section 2 of the Agreement). As a result, the reparations payments did not directly contribute initially either to Philippine infrastructure development or to improvement of the production sector. The proceeds from the sale of reparations goods and utilization of services went to Special Economic Development Fund (SEDF). The Philippine Congress appropriated an amount from SEDF to a Special Trust Fund utilized by the Rehabilitation Finance Corporation (RFC) and the Philippine National Bank (PNB) for loans for economic and industrial development projects as well as for construction, reconstruction, repair and/or improvement of public-school buildings. The RFC was reorganized in 1958 and became the Development Bank of the Philippines (DBP).

Under the reparations scheme the private sector and government agencies were the main initiators of requests for procurement which are submitted to the Mission for approval. In the performance of their duty the members of the Mission had experienced tremendous political pressure to approve requests from certain

powerful individuals. In a study, Yoshikawa (2003) showed that wealthy and influential businessmen and politicians who had close connections with the members of the Mission or the President were more likely to have their applications approved than those whose application were formally processed. Interference by politicians and elites in the aid process to dispense patronage also started during this period. The Garcia Administration (1957-61) under pressure from the shipping industry designated maritime vessels as a priority for procurement (Yoshikawa, 2003). This scheme encouraged Japanese businesses to approach their Filipino counterparts to offer their products for reparations procurement.

Another problem that emerged from the implementation of reparations agreement was the risk of delay or suspension of reparations-backed public works every time a new Philippine president was elected. For political and personal reasons, newly elected presidents of the Philippines have the tendency to suspend or delay certain pending projects of the previous administration. This was the case when the newly inaugurated President Diosdado Macapagal (from the Liberal Party) delayed the procurement of railway materials which was secured by his predecessor who belonged to the Nacionalista Party. These materials were supposedly to be used for a railway extension project which was subsequently suspended and was never completed. The Macapagal administration also halted another initiative of its predecessor, the construction of the Marikina Dam, although loans supported by the reparations have been already secured to finance the project (Yoshikawa, 2003). Aside from issues caused by transition in the presidency, the Philippine Reparations Commission had spent a considerable amount of time to deal with court litigations filed by business elites whose requests were rejected or those who legally challenged certain provisions from their procurement contracts.¹³

Eventually, the Philippine Reparations law was revised to address the wide-ranging problems that arose from its implementation. Republic Act No. 3079 or the Amendment to the original Philippine Reparations Law was signed in June 1961. Among the new provisions were the adoption of a bidding system for the private sector to address direct contracting between Japanese suppliers and Filipino businesses, repeal of the repayment grace period, and more allocation for the government (Yoshikawa, 2003). Overall, the reparations funds were used primarily to finance private sector requests. Although the Reparations Commission prepared and submitted to the Philippine President the five-year reparations program upon the recommendation of the NEC, there was no single agency that was in-charge to plan, implement, and supervise a clear and cohesive economic development program. The NEC was weak because it was only mandated to prepare economic data and was not directly involved in project implementation and inter-ministerial coordination. In South Korea during the height of its industrialization, its Economic Planning Board (EPB) was not only mandated to design and implement the five-year economic development plans but was also charged of managing the government's budget and securing foreign loans. The EPB had an overall picture of what projects to be prioritized, how much funds were available or needed, and how and where to secure financing. When disputes arose between EPB

¹³ One of those cases was The Reparations Commission vs. The Visayan Packing Corporation in which a question was raised regarding the appropriate start of payment of first installment. The defendant, The Visayan Packing Corporation, requested and received reparations goods worth P1,242,424.67 in the form of one (1) Cannery Plant, two (2) 75 gross tonnage Fishing Boats, and one (1) 100 gross tonnage Fishing Boat. These goods were delivered on May 1960. However, there were two dates indicated in the contract regarding the first installment payment, one was May 1962 and the other was May 1963. This was the main dispute in the case. The decision was appealed and the Supreme Court rendered its decision with finality on February 1991.

and other agencies of the government, President Park Cheung Hee had consistently sided with the EPB (Rhyu & Lew, 2011).

The reparations transfers suffered from a temporary setback during the Presidency of Diosdado Macapagal (1961-1965). First, his fellow Liberal Party in the Senate had expressed its opposition to the ratification of the Treaty of Amity, Commerce and Navigation that was signed and concluded in 1960. In line with his party's stance, Macapagal did not take any step to have the treaty ratified by the Philippine Senate. As a result, 'reparations transfers were cut down to 14 million pesos between July 1961 and June 1962 and further reduced to 13 million pesos between July 1962 and June 1963' (Valdepenas, 1970, p. 728). Indeed, based on the DAC/OECD record, Japan's gross ODA disbursements to the Philippines went down to 103.11 million US dollars in 1961 from 361.87 million US dollars in 1960 and further dropped to 81.04 million US dollars in 1962. Arguably, this was the first instance in which Japan tried to use aid to achieve an important diplomatic goal in the Philippines.

The first wave of Japanese ODA to the Philippines in the form of reparations had been shaped by institutional factors including the prominent role vested by the 1935 constitution to the Philippine president in decision-making and agenda-setting, the overwhelming predominance of agrarian and business elites in the government during most of the post-war period, the embryonic Philippine court system that was utilized by elites in pursuit of their own interests, the prevailing nationalist/protectionist Philippine economic strategy of the post-war period, and political partisanship that initially created policy discontinuities between two succeeding administration that belong to different political parties.

Three historical events profoundly influenced Japan's ODA policy to Southeast Asia including the Philippines in the 1970s. First was the growing anti-Japanese sentiment across Southeast Asian capital cities as a result of increased Japanese economic activities within the region; Second was the growing importance in regional affairs of the Association of Southeast Asian Nations (ASEAN) which was founded in 1967 and was celebrating its tenth-year anniversary in 1977; Third was the declining U.S. economic power in the 1970s. Subsequently, Japan had to respond to U.S. calls for burden-sharing in Asia. Japan's response to these challenges was ODA expansion and Fukuda doctrine – the so-called heart-to-heart diplomacy in which Japan pledged not to become a regional military threat again, to seek mutual confidence and trust, and to recognize ASEAN member-countries as co-equal partners. These junctures had effectively shaped the direction of the second wave of Japan's ODA to the Philippines.

4.2 Second Wave: ODA Expansion and Increasing Financial Dependence on Japan, 1977-1991

By 1976, Japan's final reparations payment to the Philippines was completed. Four years earlier, then President Ferdinand Marcos placed the entire Philippines under martial law and a new Philippine constitution was adopted in 1973. The year 1977 was a milestone in the history of Japan-ASEAN relations which marked the beginning of a new relationship based on Prime Minister Fukuda's heart-to-heart diplomacy. The following year the Japanese government announced the first of the five medium-term ODA targets which aimed to expand the amount of its ODA. Japan's ODA expansion was primarily necessitated by the events of the 1970s

particularly the oil shock, which hit Japan hard, and the growing importance of ASEAN in regional affairs. Japan increased its aid to Arab countries from 1975. At the same time, the Basic Human Needs approach to development had gained traction in the 1970s. As a member of the DAC/OECD Japan too had to allot a portion of its assistance to Basic Human Needs which the World Bank adopted as a development strategy during this time. With limited resources at Japan's disposal, Yasutomo (1989) called for an aid strategy to harness further the political and diplomatic uses of ODA.

In the Philippines, the oil crisis had led to soaring prices of commodities and subsequently to civil unrest which became a major factor in the declaration of martial law in September 1972. The 1970s also witnessed Japan's ODA surpassing the volume of American aid to the Philippines for the first time. Table 4 shows that prior to 1970s, the U.S. was the largest source of financial assistance to the Philippines. Some of the major factors that contributed to this shift was the decline of U.S. economy in the 1970s, Japan's ODA expansion program, U.S. calls for burden-sharing, and the improvement of bilateral ties following the ratification of the Treaty of Amity, Commerce, and Navigation between Japan and the Philippines in 1973.

Table 4: Japanese and US Aid as % of total ODA to the Philippines

Period	US Aid (%)	Japanese Aid (%)
1952-1961	86.8	0.0 (nil)
1962-1970	40.2	6.3
1971-1979	13	15.3
1980-1986	14.1	22.8

Source: Pante & Reyes, 1991

Japanese ODA to the Philippines increased remarkably under the Marcos administration (both during the pre-martial law and martial law periods) and under the Cory Aquino presidency (see table 5 below). Marcos adopted an aggressive deficit spending strategy to support a massive infrastructure program designed to stimulate economic growth and to legitimize his martial rule (Rivera, 2003). As typically the case, loans constituted the bulk of Japanese assistance. Figure 6 indicates that both Marcos and Aquino utilized aid mainly for infrastructure development. The two leaders, however, diverged in their priorities. While Marcos spent more in the energy sector, Aquino prioritized the transportation sector. The limited investments made in the energy sector in the 1980s resulted to energy crisis at the onset of the 1990s. In terms of geographical distribution, Rivera (2003) notes that a number of provinces received a disproportionately large share of ODA-funded projects under the Marcos regime. These were the provinces of Leyte (the hometown of his wife, Imelda Marcos), Cagayan Valley (the province of Juan Ponce Enrile his Defense Minister at that time) and Marcos' home province, Ilocos Norte.

Table 5: Japanese ODA Allotments per Philippine Administration, 1961-2016

Philippine Presidents	Gross ODA disbursements in constant million US\$ during the tenure of each president
D. Macapagal (1961-1965)	872.94
Marcos (pre martial law, 1965-1971)	1802.39
Marcos (martial law, 1972-1985)	4962.52
C. Aquino (February 1986-1992)	4098.51
F. Ramos (1992-1998)	5659.43
J. Estrada (1998-2001)	2031.27
G. Macapagal-Arroyo (2001-2004)	2293.89
G. Macapagal-Arroyo (2004-2010)	3868.45
B. Aquino III (2010-2016)	2261.90

Source of basic data: OECD.Stat:

<https://stats.oecd.org/viewhtml.aspx?datasetcode=TABLE2A&lang=en#>

Very notably also as figure 6 below illustrates, the Aquino administration allotted a disproportionate share of Japanese ODA to commodity loan, which is basically a financial assistance to cover the cost of importation of goods and services. It indicates that the income from Philippine exports was not adequate to cover the cost of imports due to lack of competitiveness of the Philippine export industry sector. To improve the country's export industry JICA prepared, upon request from the Aquino government, the CALABARZON project. The letters in CALABARZON represent the provinces covered by the project, namely, Cavite, Laguna, Batangas, Rizal and Quezon. The JICA study titled 'The Master Plan Study on the Project CALABARZON Final Report' was published in October 1991.¹⁴ Project CALABARZON was a regional development project aimed at converting the five provinces into a hub of export-oriented foreign direct investments through massive investments in infrastructure using ODA funds. It was also intended to decongest Manila and to stimulate regional economic growth in the peripheral provinces. In terms of grant utilization, both Marcos and Aquino administrations prioritized public works, human resources and the health/healthcare sector as figure 7 reveals.

¹⁴ A copy of the report can be accessed online at http://open_jicareport.jica.go.jp/pdf/10938249_01.pdf

Figure 6: Sectoral distribution of Japanese ODA Loan, 1972-1992 in million yen

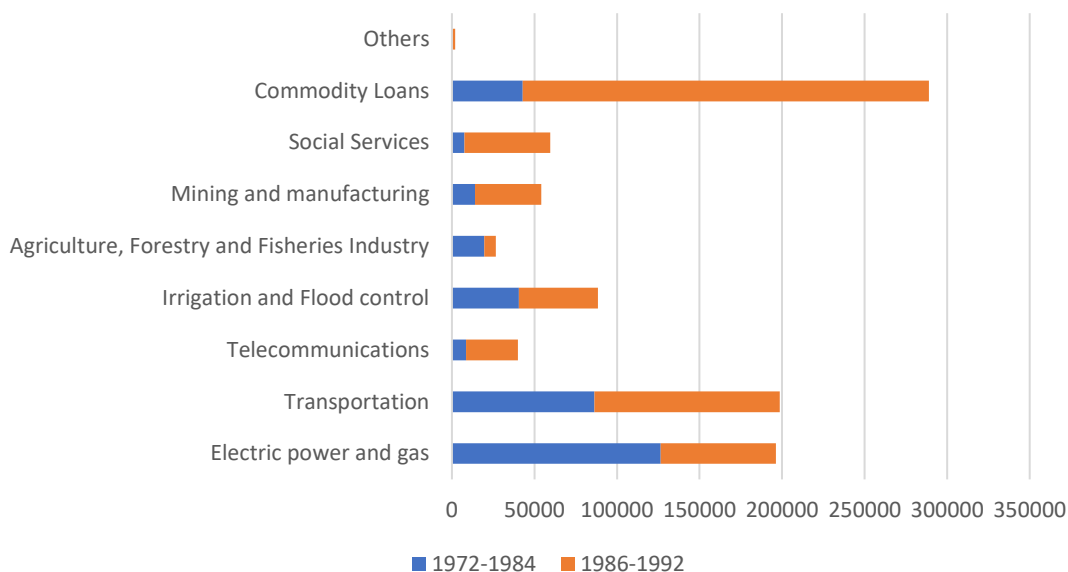
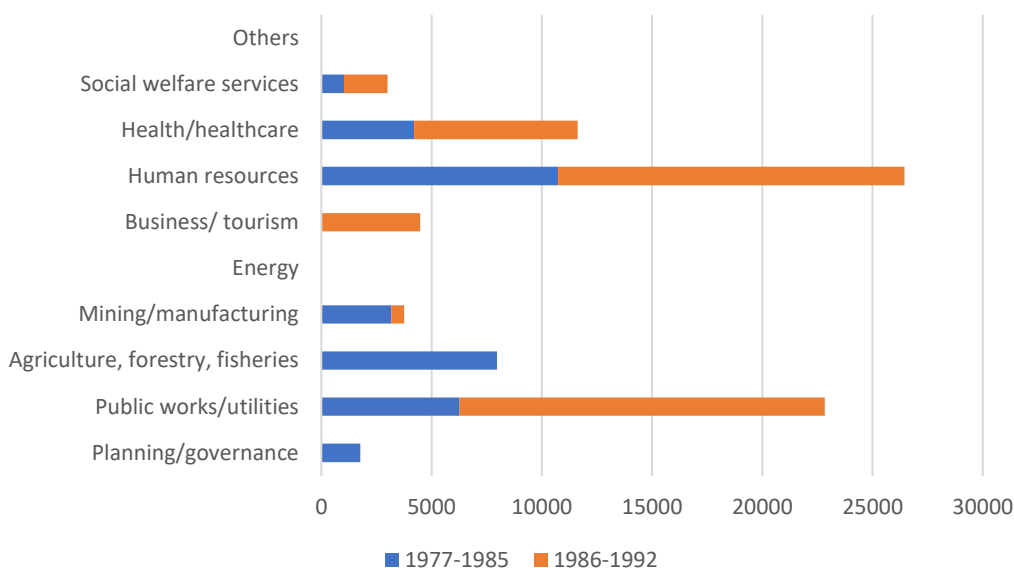


Figure 7: Sectoral Distribution of Japanese Grants to the Philippines, 1977-92 in million yen



Sources of basic data for Figures 6 and 7: JICA Website

<https://www.jica.go.jp/english/countries/c8h0vm000002dsro-att/distribution.pdf>

Marcos was the first Philippine president who heavily relied on foreign aid to finance nation-wide infrastructure development.¹⁵ However, his critics accused him of mismanaging the country’s foreign debt, of

¹⁵ For a very brief overview of Marcos’ infrastructure legacy, see Cecilio Arillo’s article, “Marcos’s unmatched legacy: Hospitals, schools and other infrastructures,” *BusinessMirror*, November 13, 2015. Available in

setting an automatic appropriation for debt service, and of guaranteeing the behest loans of his cronies and close business associates (Tadem, 2018). It was revealed that Marcos and his cronies received a total of 1.03 million US dollars in bribes from five Japanese corporations related to yen loans (Tadem, 2018). By providing loans during martial law, Japan was criticized for supporting the Marcos regime even though Japanese aid constituted a mere 6 per cent of the overall Philippine external debt incurred between 1973 and 1983 (Rivera, 2003). A large portion of Marcos' debts were borrowed from commercial banks while the combined debts from multilateral and bilateral sources accounted for 59 per cent of its total (Rivera, 2003). After the assassination of Benigno Aquino in 1983, the political and economic situations in the country further decelerated. This was the situation that the Cory Aquino administration found itself in after Marcos fled to Hawaii in 1986.

Due to the severity of the Philippine financial situation caused by massive foreign debt left behind by Marcos¹⁶ and due to the fact that many American banks were exposed to Philippine debt, the U.S. initiated a project in 1988 called the Multilateral Aid Initiative (MAI) or the Philippine Assistance Program (PAP) to coordinate multinational assistance to the Aquino administration (Rivera, 2003). The Philippine government in response prepared a Medium-Term Development Plan and created a Coordinating Committee to plan and implement development programs (one of which was the Project CALABARZON mentioned earlier) under the terms of the MAI. In 1989, Japan convened a donors' meeting in Tokyo to raise funds for the MAI/PAP. Based on one estimate Japan accounted for 1.6 billion US dollars out of the 3.5 billion dollars pledged in this meeting (Tadem, 1990). De Ocampo (Interview, 2020) points out that the MAI was Japan's commitment to revive the Philippine economy. When the extension of the U.S. bases in the Philippines was rejected, the U.S. and its western cohorts pulled their pledges out while Japan stayed put and remained to provide assistance over the years. Subsequently, Japan's aid to the Philippines grew. Between 1986 and 1989, the Philippines had increasingly become financially dependent on Japan as a source of ODA as table 6 below illustrates.

Table 6: ODA Commitments to the Philippines by Donor, 1986 to 1989 in million US dollars

Donor	1986	1987	1988	1989
Japan	331.1 (27.5%)	875.6 (36.7%)	809.5 (41.2%)	1050.4 (37%)
U.S.A.	243.0	378.3	292.6	337.4
Germany	9.8	114.1	39	-
Italy	-	270	-	-
France	-	-	43.5	310.1
Others	82.7	28.7	129.5	-
UNDP	5.0	8.7	6.8	9.7
ADB	351.7	205.7	287.2	500.00
World Bank	179.0	505.0	355.0	630.0
Total	1202.3	2386.1	1963.1	2837.6

Source: Tadem, 1990. Percentage inside the parenthesis refers to share of Japan's ODA to total aid

<https://businessmirror.com.ph/2015/11/13/marcoss-unmatched-legacy-hospitals-schools-and-other-infrastructures/>

¹⁶ Philippine external debt rose from US\$599 million in 1966 to US\$26.7 billion by the end of 1985.

4.3 Third Wave: ODA Diversification and Reforms, 1992-2010

Japanese assistance in principle is supposed to contribute to the achievement of self-reliance among recipient-countries. Nonetheless, at the onset of the 1990s an aid exit program in the Philippines was still nowhere in sight. Instead, the amount of ODA it received from Japan grew further and the scope of distribution became much wider. While ODA had retained its focus on infrastructure development, new modes of assistance were implemented throughout the 1990s and 2000s which were funded mainly through grant assistance. Such new programs include the Grant Assistance for Grassroots Projects which was aimed to support small scale projects proposed by non-governmental organizations (NGOs) and local government authorities in developing countries (Ministry of Foreign Affairs (MOFA), 2018). The program started in 1989 as a Small-scale Grant Assistance Scheme. In these decades, the share of grant assistance and technical assistance to overall Japanese ODA had increased remarkably. Moreover, public participation through volunteer program and NGO engagement were encouraged to enhance Japanese public awareness and support toward Japan's ODA activities.

By late-1980s, environmental issues had gradually made its way into the Japanese government's diplomatic agenda. In 1988, former Prime Minister Takeshita Noboru placed climate change high on his political agenda (Okano-Heijmans, 2012, p. 342) and since then Japan has strived to be at the forefront of climate change issues. In 1997 it hosted the meeting of the Third Conference of the Parties in Kyoto which led to the adoption of the Kyoto Protocol. Subsequently, a green aid plan was incorporated in the ODA policy to provide technological and financial support to developing countries for the purpose of promoting environmental sustainability and protection (Evans, 1999; Okano-Heijmans 2012). As a result of this policy, loan assistance earmarked for environment-related projects in the Philippines and elsewhere increased notably.

One example of major environment-related project in the Philippines was the Sustainable Environmental Management Project in Northern Palawan (SEMP-NP) which was featured at the 2002 World Summit on Sustainable Development by the Koizumi government. With ODA funding of 2.034 billion yen, the project consisted of drawing up Environmentally Critical Areas Network (ECAN) maps, prevention of soil erosion and promotion of eco-tourism in northern Palawan, Philippines (Ministry of Foreign Affairs of Japan, 2014a). Kim (2012, p. 113) notes that a large share of the funding (58 per cent) allotted for this project was for civil works for physical infrastructure development and for procurement of expensive ECAN zoning equipment (27 per cent).¹⁷

It took several years to see the actual impact of the Marcos scandal on the ODA policy of the Philippines. The goal of the ensuing ODA reform in the 1990s was to clarify the line of authority and procedures in the aid management system. In 1996, the Philippine Congress enacted Republic Act No. 8182 also known as the ODA Act of 1996. This law was further revised in 1998. Among the key features of the ODA Act as amended include: (1) Achieving equitable growth and development as ODA's primary goal; and (2) Granting of oversight functions to NEDA, The Commission on Audit (COA) and Congressional Oversight Committee of the Philippine Congress (section 8, paragraphs a, b and c of ODA Act of 1996); And, (3) Giving priority to Filipinos (corporate and individuals) in the procurement of goods and services but the President may 'agree to

¹⁷ A copy of the ex-post evaluation report is available in https://www2.jica.go.jp/en/evaluation/pdf/2011_PH-P225_4_f.pdf.

waive or modify the application of any provision of law granting preferences in connection with, or imposing restrictions on, the procurement of goods or services.' As will be elaborated later, the priority accorded to Filipino suppliers has caused inefficiencies in procuring especially materials and equipment that are not available in the country.

The volume of Japanese ODA to the Philippines increased further under the Ramos administration (1992-1998) (see table 5 above for comparison with other administrations). Rivera (2003) observes that the Ramos administration utilized OECF loans to build new or upgrade existing power plants to address the debilitating power shortage in Luzon. The Japanese government also increased its assistance to environment-related projects such as air quality improvement, reforestation, rehabilitation of watersheds and other similar undertakings and allotted funds for agrarian reform-related project, namely, the Agrarian Reform Infrastructure Support Project and the Rural Farmers and Agrarian Reform Support Credit Program in the amount of 17 billion yen (Rivera, 2003). Not all project proposals, however, were approved. The Aquino government, for instance, failed to secure loan assistance from Japan to finance the Comprehensive Agrarian Reform Program (CARP). The Japanese government's refusal was due to the difficulty of justifying it to the public (Takahashi, 1993). During the Ramos presidency, there were strategic initiatives that were proposed to the Japanese government but did not materialize such as proposals to convert Clark as a major airport and to connect Clark and Manila by railway (De Ocampo Interview, 2020). The North Rail Project was also first offered to Japan for funding before the Philippine government entered into a financing agreement with the Chinese government (Herrera Interview, 2020).

The Ramos presidency successfully deregulated several sectors of the Philippine economy including telecommunications, energy, and banking which were nationalized under the Marcos regime. Prior to privatization, energy sector development was the sole responsibility of the state. Both the Marcos and later Ramos administrations utilized OECF funds to build or rehabilitate power plants. Under the Aquino and Ramos administrations, the energy sector was deregulated gradually. The Ramos government introduced the Build, Operate, Transfer (BOT) scheme to encourage private sector participation in addressing infrastructural bottlenecks in the country and to reduce dependence on foreign financing. According to De Ocampo (Interview, 2020), the BOT scheme was introduced because the government then did not have adequate funds and access to cheaper financing at that time. After the electric power generation sector was fully deregulated in 2001, energy rehabilitation and development were effectively transferred to the private sector. The BOT scheme and the privatization of some sectors have since affected the sectoral distribution of Japanese loan assistance to the country. In particular, aid allotments for the construction and rehabilitation of power plants have decreased notably in the new millennium (see figure 8 below). The last Japanese loan commitment to the Philippines earmarked for power plants was made in 2001 in the amount of 5.857 billion yen.

Figure 8: Sectoral Distribution of Japanese ODA loans to the Philippines 2001-2016 in million yen

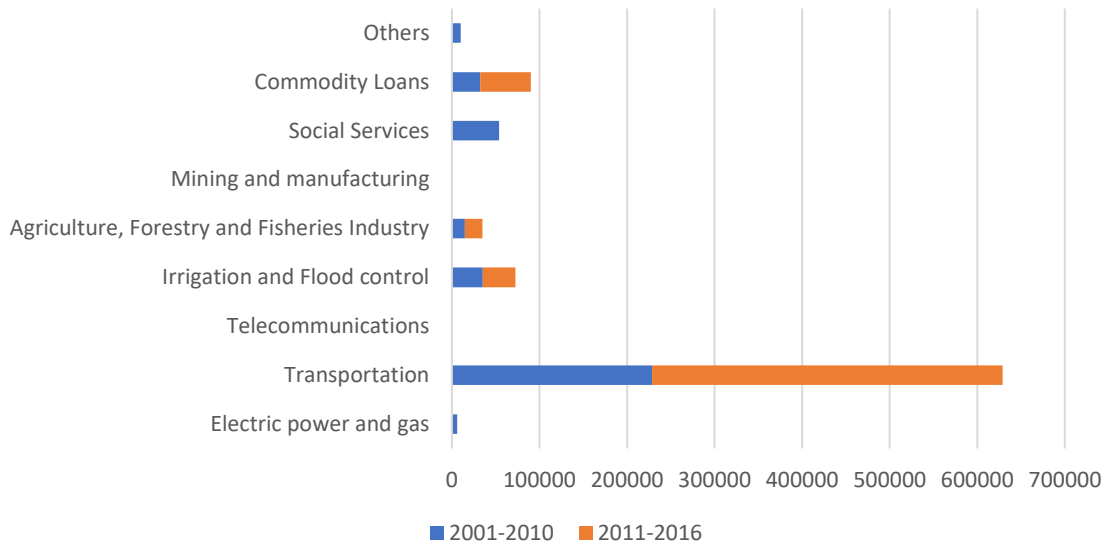
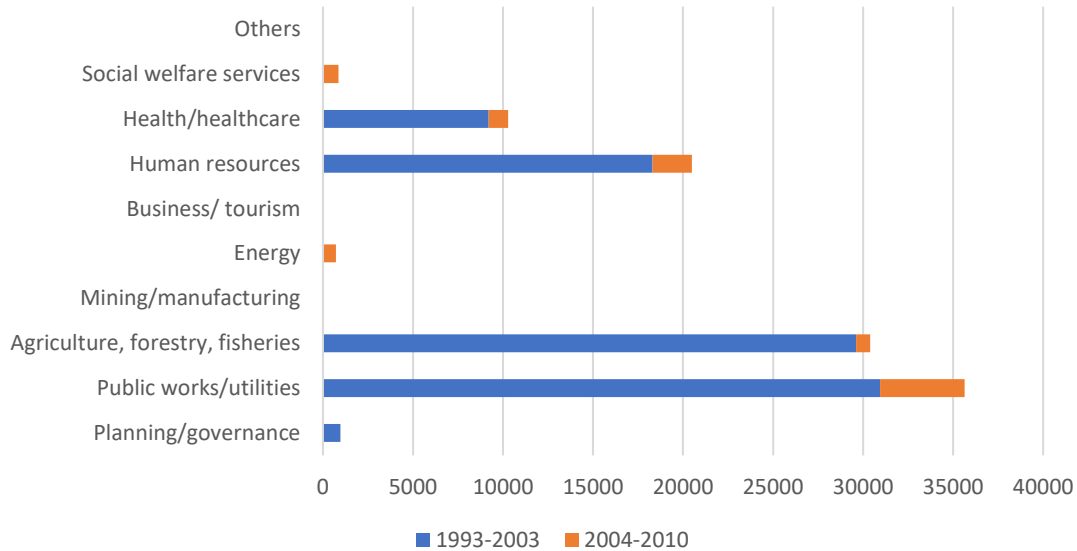


Figure 9: Sectoral Distribution of Japanese Grants to the Philippines, 1993-2010 in million yen



Sources of basic data for both figures: JICA Website

<https://www.jica.go.jp/english/countries/c8h0vm000002dsro-att/distribution.pdf>

The 2000s was a turning point in Japan’s international contribution efforts and the beginning of its international peacebuilding diplomacy. In accordance with the Millennium Development Goals, the Japanese government incorporated human security as a basic policy of its aid giving and introduced a new aid program called aid for the reconstruction and rehabilitation of post-conflict/conflict-affected societies. In 2006, the

Japanese government launched the Japan-Bangsamoro Initiatives for Reconstruction and Development (J-BIRD) in Mindanao, Philippines which is designed to contribute to the peace process and development in the Conflict-Affected Areas in Mindanao (CAAM) and the surrounding areas in the Autonomous Region in Muslim Mindanao (ARMM) to enable the people and the communities to enjoy the dividends of peace based on human security principles (Embassy of Japan in the Philippines, 2012).

Meanwhile, project delays and massive backlogs have persisted despite the efforts of various Philippine administrations to address it. An observer mentions that much of the aid pipeline is the result of excessively slow paperwork by the Philippine bureaucracy (Guyot, 1989). To illustrate, of the 15 loan projects that were signed in 1988 only 1 construction contract was signed by the Philippine government after 11 months (Guyot, 1989). De Ocampo (Interview, 2020) adds that project delays are also due to the strenuous environmental clearance process. Due to backlogs, the government could not absorb the allotted aid provided by its donors as table 7 below indicates. The country's average utilization of Japanese loans for 2001-2012 period was 66.8 per cent or for every three projects one remains in the pipeline. This is slightly lower than the average overall ODA loan utilization which is 70.7 per cent. Llanto (2004) mentions that the main causes of low ODA utilization rate for infrastructure projects are right-of-way problems, procurement delays, poor contractor performance, weak project and financial management and lack of adequate budget cover/counterpart funds, changes in project design, cost overruns, and weak local government capacity for project preparation, procurement, and management. As far as road construction projects are concerned, Llanes (Interview, 2020) adds that delays are common in the preparation stage. In this stage, all issues arising from the proposed project are discussed including right of way acquisition and resettlement of affected communities.

Table 7: ODA Loans Utilization Rates in % 2001-2012

Year	Utilization of Japan's ODA Loans (%)	Utilization Rate of Overall Loans (%)
2001	55	62
2002	52	59
2003	54.7	60.8
2004	49.4	57.5
2005	53.8	60.3
2006	61.82	70.9
2007	76.81	81.6
2008	82.8	81.43
2009	85.96	84.7
2010	88.03	80.64
2011	73.75	77.71
2012	67.99	72.45

Source of basic data: Various issue of ODA Portfolio Review, NEDA.

<https://www.neda.gov.ph/publications-2/>

Local and national politicians who try to use their influence to realign projects or contracts to favored contractors is another major issue. Filipino politicians generally have an incentive to intervene in ODA-funded

public works for a chance to dispense patronage and to get credit from them. A recent study shows that this practice is rampant particularly on national road development regardless of the source of financing (Batalla, Torneo, & Magno, 2018). The study further notes that political interference in national road projects occurs in all stages of infrastructure development and annual budget cycles (Batalla, Torneo, & Magno, 2018). Tungpalan (Interview, 2020), however, believes that in most cases support from local politicians may be helpful in getting the endorsement for the project that is required by law. In projects like road construction consultation with various stakeholders including LGUs is part of the process (Llanes Interview, 2020). Local politicians generally have myopic attitude towards development. Medalla (Interview, 2020) mentions that they prefer small-scale and short-term infrastructure projects in their constituencies in the hopes of controlling the bidding process. By financing large and usually long-term projects, the Japanese system of ODA helps prevent infrastructure funds from being diverted to small projects that are vulnerable to local political influence. ODA also helps insulate the project from political intervention and enables the government agency to implement it (Herrera Interview, 2020).

In several past cases, project delays were caused mainly by legal proceedings particularly court orders and injunctions that sought to temporarily suspend or permanently stop a project from proceeding. Court injunctions are filed for a variety of reasons ranging from procurement issues, accusations of bid rigging, environmental compliance issues, compensation issues, and resettlement-related issues. Project delays due to court injunctions and court suspension orders have existed since foreign aid started in the Philippines. In order to address this, then President Marcos issued Presidential Decree No. 1818 in 1981 to prohibit courts from issuing restraining orders or preliminary injunctions in cases involving infrastructure and natural resource development projects of, and public utilities operated by, the government. To further ensure the efficient implementation of government projects other than infrastructure and natural resource development, Republic Act No. 8975 also known as Act to Ensure the Expedious Implementation and Completion of Government Infrastructure Projects, was passed in 2000 to prohibit lower courts from issuing temporary restraining orders and preliminary injunctions on cases related, among other things, to (1) acquisition, clearance and development of the right-of-way and/or site or location of any national government project and (2) bidding or awarding of contract/ project of the national government. The prohibition for courts to issue temporary restraining orders on government projects under these laws does not apply when the question raised is related to violation of the constitution.

Furthermore, some delays are caused by lack of qualified local bidders and suppliers. It should be noted that the ODA Act of 1996 prioritizes Filipino over foreign suppliers in the procurement of services and goods. The involvement of foreign suppliers or contractors in a government project regardless of financing source is often challenged in court by losing local suppliers and/or contractors. This was the predicament that befell the Chinese-funded Northrail project of the Macapagal-Arroyo administration when the supply of materials for the project was awarded to a Chinese contractor (Trinidad, 2016). A group of lawyers filed a case questioning the constitutionality of such award. The Supreme Court eventually decided in favor of the petitioners which led to the suspension and eventually, cancellation of the project. Under President Macapagal-Arroyo, the Philippines sought to diversify its sources of official financing and accepted unusually large financial assistance from China in 2008 as table 8 shows. Chinese aid peaked in 2011 then declined significantly after

2011 or during the presidency of Noynoy Aquino. Japan provided nearly half of the overall loan commitments to the Philippines during the 2001-2015 period.

Table 8: ODA Loans by Funding Source as % of Overall Loans, 2001-2015

Source	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ADB	22	19.4	14.2	14.7	11.9	18.58	20.31	17.95	18.01	9.72	10.7	15.54	18.06	19.96	25.02
China	-	-	-	-	-	-	-	11.06	10.89	11.34	13.3	4.38	2.26	1.03	-
Japan	61	57.4	62.3	49.9	60.3	49.3	37.41	41.58	35.95	34.86	31.8	36.97	35.52	28.25	42.57
Others	5	10.2	10.5	22.8	16.2	16.3	23.42	14.32	18.82	24.01	15.4	22.26	18.44	10.93	5.68
WB	12	13	12.9	12.6	11.6	15.99	18.86	15.08	16.34	20.06	28.8	20.84	25.72	39.83	26.73

Source of basic data: Various issue of ODA Portfolio Review, NEDA.

Despite the ODA policy reforms discussed above, project delays have continued for many ODA-funded projects in the Philippines. In the 2016 ODA portfolio, NEDA reported the following causes of delays in ODA-financed projects (see table 9 below). Delays related to site conditions include right-of-way issues and resettlement of affected residents. Procurement is still a persistent issue in the ODA implementation due to lack of qualified local bidders. The latter could have been addressed by simply liberalizing the bidding process to allow qualified foreign suppliers to participate directly in the bidding but proclivities of Filipinos toward protectionism makes this option impossible at the moment.

Table 9: Key ODA Project Implementation Issues, Calendar Year 2016

Type of Issue	No. of Projects Affected	Implementing Agencies
Site condition/availability	10	DOTr, DOST, DPWH, LBP, LWUA
Procurement	9	DOE, DSWD, DTI, DOTr, LBP, LWUA, NIA
Government/funding institution approvals	8	DA, DOE, DENR, DOTr, DSWD
Budget and funds flow	6	DOTr, DOE, DENR, DAR, LWUA
Design, scope, technical	4	DOTr, DOE, DENR
Performance of contractor/consultant	3	DOTr, NIA
PMO manpower/capacity	5	DAR, DSWD, LBP
Institutional support	2	DENR

Issues on Demand and Processing/ Approval of Subprojects	2	LBP, LWUA
Sustainability and O&M	2	DOE
Inputs and cost	1	DOTr
Others	1	DepEd

Source: NEDA, 2016, 44.

4.4 Fourth Wave: Peacebuilding Diplomacy and Securitization of Japanese Foreign Aid

The fourth wave of Japan's ODA to the Philippines reflects the changing regional security configuration in East Asia. In an official statement the government of Japan expressed its concern on China's continued non-transparent enhancement of its military capacity and its activities in the sea and air space and North Korea's nuclear weapon development and ballistic missile programs (Ministry of Foreign Affairs of Japan, 2016). In view of the increasingly perceived hostile global and regional environment the Abe cabinet adopted a new security strategy in which Japan seeks to contribute more 'proactively in securing peace, stability and prosperity of the international community while achieving its own security as well as peace and stability in the region' (Ministry of Foreign Affairs of Japan, 2016). Introduced in 2013, the new National Security Strategy, 'presents guidelines for policies in areas related to national security, including sea, outer space, cyberspace, official development assistance (ODA) and energy' (Cabinet Secretariat, 2013).¹⁸ With this pronouncement, the goals of Japanese ODA and National Security Strategy are now intertwined. As a result, new ODA programs were introduced to achieve the goals of national security or what this paper will refer to as securitization of Japanese ODA. A new development cooperation charter was also adopted.

Brown & Grävingsholt (2016, p. 3) offered three ways to observe aid securitization, namely, (1) 'when donors increasingly justify aid in terms of national or international security, when they provide the highest levels of assistance to specific countries and sectors based on security imperatives, (2) when security actors (such as military forces) deliver significant amounts of aid, and (3) when donor governments create new institutional units within their aid agencies or new interdepartmental coordination mechanisms based on security-related motives.' The fourth wave of Japan's ODA to the Philippines illustrates the extent of its securitization. In particular, Japan is responding to China's increasing influence and economic activities in the country under the Duterte administration. Japan has provided aid to enhance maritime capacity and has deepened its commitment in the Mindanao peace process under its broad peacebuilding and human security diplomacy.

At the onset of 2010s, Japan and the Philippines have increasingly become anxious of China's aggressiveness in the East and South China Seas. Chinese Coast Guard vessels have repeatedly violated Japanese territorial waters since 2012. Chinese incursions into Philippine-claimed maritime territory had started almost immediately after the U.S.-Philippines Military Bases Agreement did not pass ratification by the Senate of the Philippines in 1991. One after another, Philippine-claimed shoals in the Spratlys had been occupied by China starting off from the Mischief Reef. To strengthen its claims, China built several structures in all of the Chinese-occupied reefs claimed by the Philippines in the West Philippine Sea. The presidency of Gloria Macapagal-Arroyo adopted a non-confrontational approach and economic cooperation with China. The

¹⁸ I would like to express my gratitude to the anonymous reviewer for pointing this out.

Arroyo administration accepted Chinese financial assistance, signed several bilateral agreements with China and promoted exchanges of official visits. Under her term, the volume of Chinese aid to the Philippines increased remarkably.

The presidency of Benigno 'Noynoy' Aquino III (2010-2016) adopted a combination of legal and balancing approaches in managing its maritime dispute with China. The government of then President Aquino pursued the modernization of the Philippine Navy; filed an arbitral proceeding against China in the Permanent Court of Arbitration (PCA) in The Hague under the terms of Article 287 and Annex VII of the United Nations Convention on the Law of the Sea (UNCLOS); sought to strengthen the alliance with the United States by signing the Enhanced Defense Cooperation Agreement (EDCA) in April 2014 which allowed American troops into the Philippines for extended stays and to build and operate facilities for use by both American and Philippine forces; and entered into defense cooperation agreement with Japan. In 2011, DPJ's Noda and Aquino elevated the bilateral relations of the two nations into a strategic partnership. In 2015, Aquino and Abe signed a joint declaration on strengthened strategic partnership between the Philippines and Japan. The modernization of the Philippine Navy is a continuing effort of the Philippine government which began in 1995 to modernize its Armed Forces after the passage of Republic Act No. 7898 or the Armed Forces of the Philippines (AFP) Modernization Act. During the presidency of Noynoy Aquino, the Philippine government increasingly looked at Japan as a potential source of funding for its Navy's modernization program. Nonetheless, due to various institutional and legal constraints the Japanese government instead provided funds for the procurement of patrol vessels for the Philippine Coast Guard.

By the time the PCA awarded its decision which favored the Philippines in July 2016, a new President of the Philippine Republic had been proclaimed. The newly elected President Rodrigo Roa Duterte chose not to pursue the arbitral award that effectively debunked China's nine-dash line claim in the South China Sea. Instead, he pursued a policy of rapprochement with China which baffled leaders from partner countries including Japan. To assuage anxieties of the Japanese government about the true intent of the Duterte administration's China pivot policy, Duterte made an official visit to Tokyo in October 2016 and affirmed with Abe a revitalized strategic partnership agreement between the two nations. In January 2017, Philippines-Japan Strategic Partnership was further confirmed during the official Manila visit of Abe.

The above narrative clearly indicates the crucial role that China's aggressive stance in both East and South China Seas have played in the strengthening of Philippines-Japan Strategic Partnership. More importantly, the agreement contained straightforward cooperation in the realm of security with provisions on maintaining stability and peace in the Asia-Pacific, transfer of defense equipment and technology, and expansion of joint naval exercises for maritime capacity building. Japan's revitalized strategic partnership agreement with the Philippines also called for close coordination in the international arena that explicitly refers to the South China Sea issue (Department of Foreign Affairs, Philippines, 2015). As a major tool of diplomacy, new aid programs were initiated to fulfill Japan's commitments to security and defense cooperation under its strategic partnership with the Philippines. One such program was the introduction of so-called aid to enhance maritime capacity. The table below shows the extent of assistance provided to the Philippines under this program between 2013 and 2017.

Table 10: Japanese Aid to Enhance Maritime Capacity of the Philippines, 2013-2017

Assistance provided	Year pledge/deal was made	Type of financing/ Pledged amount (if available)
Maritime Safety Capability Improvement Project for the Philippine Coast Guard (PCG) ¹ Includes the 10 Multi-Role Response Vessels ²	December 2013	Loan/ 18.732 billion yen
The Project for Enhancement of Coastal Communications Systems ³	March 2014	Grant/ 1.152 billion yen
Five Beechcraft King Air TC-90 surveillance aircraft ⁴ Part of the Agreement Concerning the Transfer of Defense Equipment and Technology	February 2016	Grant
Four coastal surveillance radar facilities ⁵	2017	103.5 million US dollars
Comprehensive Practical Capability Improvement for Maritime Law Enforcement Project ⁶	March 2013-March 2016/ April 2016-April 2019)	Technical cooperation
Maritime Safety Capability Improvement Project for the Philippine Coast Guard (Phase II) ⁷	October 2016	Loan/ 16.455 billion yen
Three 7-meter class fast boats (Rigid Hull Inflated Boats) and Three 44-meter class patrol vessels (Multi-Role Response Vessels or MRRVs) ⁸	January 2017	Grant

Sources: ¹JICA, 2013; ²Sekiguchi, 2015; ³MOFA, 2014b; ⁴Yeo, 2017; ⁵Kelly and Kubo, 2017; ⁶JICA, 2019; ⁷JICA, 2016; ⁸Embassy of Japan in the Philippines, 2017.

More importantly, the election of Rodrigo Roa Duterte as Philippine president in 2016 has profoundly changed the geographical distribution of ODA to the Philippines. Hailing from southern Philippines in the island of Mindanao, President Duterte made sure that the island also benefits from the inflow of investment finance under his massive infrastructure program. After assuming office, Duterte launched his ‘Build, Build Build’, an ambitious 180 billion U.S. dollar-infrastructure program designed to transform the Philippine economy (Heydarian, 2018). Most of the financing needed for this program is expected to come from development partners including Japan, China, the World Bank and the Asian Development Bank (ADB).

Several big projects under Build, Build, Build are intended specifically for the island of Mindanao including those in table 11 below.

Table 11: Major Infrastructure Projects for Mindanao under Duterte's Build, Build, Build Program

Projects	Estimate cost (in Philippine pesos)
Malitubog-Maridagao Irrigation Project Phase 2 (North Cotabato and Maguindanao)	5.4 billion
Mindanao Logistics Infrastructure Network (Davao City, Northern Mindanao, Soccskargen, Caraga)	98 billion
Growth Corridors in Mindanao	21 billion
Mindanao Railway Project	31.54 billion
754 projects in Zamboanga Peninsula	23 billion

Source: Padin, 2018

Japan is a key partner in the realization of the Build, Build, Build. In 2017, Prime Minister Shinzo Abe pledged 1 trillion yen to infrastructure and social development for the Philippines over the next five years (Kikuchi & Yoshida, 2017). To coordinate the implementation of projects under this fund the Japan-Philippines Joint Committee on Infrastructure and Development and Economic Cooperation was announced. Japan's then Chief Cabinet Secretary, Yoshihide Suga; Special Advisor to the Cabinet, Shigeru Kiyama; and Special Advisor to the Prime Minister, Dr. Hiroto Izumi were among the Japanese officials that represented the Japanese side during its previous meetings. The Philippine side is represented by the Secretary of Finance Carlos G. Dominguez III and the former Secretary of Socioeconomic Planning and NEDA head Ernesto M. Pernia. The former JICA chief representative to the Philippines, Ito Susumu, mentioned that the joint committee was the first of its kind in the history of Japan as an aid donor. To date, the joint committee has held a total of ten (10) meetings since March 2017 (Ministry of Foreign Affairs of Japan, 2020). The inclusion of Philippine finance secretary and socioeconomic planning secretary is strategic because these officials are key members of the NEDA Board which reviews and approves project proposals to be financed by ODA. This ensures that Japan-funded infrastructure projects are approved and implemented quickly.

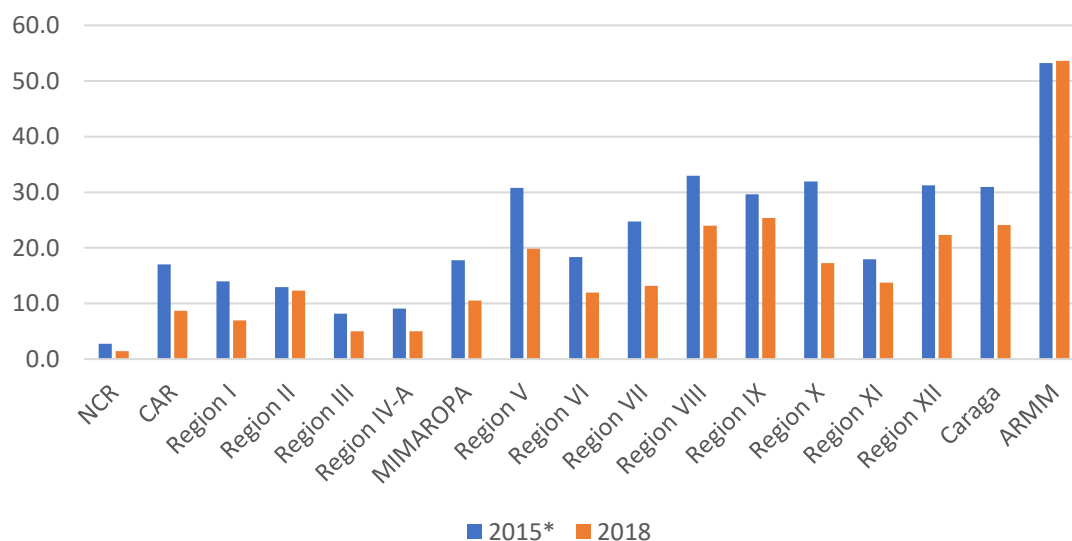
Aside from infrastructure development, the government of Japan through JICA provided grant assistance of up to 1.85 billion yen to establish treatment and rehabilitation facilities, improve rehabilitation programs and other initiatives for illegal drug users under the Programme for Consolidated Rehabilitation of Illegal Drug Users (CARE) (JICA, 2017). A major project under this grant was the drug users' treatment and rehabilitation center in the province of Cavite which began construction in July 2018 (JICA, 2018).

The president's hometown, Davao City, is a major recipient of the Build, Build, Build program. Among the projects that are either currently being implemented or in the pipeline to be funded by various development partners include: the Davao City Coastal Road Project which is targeted to be completed in 2021; the Davao Public Transport Modernization Project; The first phase of the Mindanao Railway Project, consisting of the Tagum-Davao-Digos Segment which is expected to be operational by 2021; Upgrading of the general cargo berth and construction of the back-up area of Davao Sasa Port; The Davao Expressway Project, a 60-kilometer

expressway from Bukidnon-Davao National Highway in Davao City to Digos-Sultan Kudarat Road; The Asbang Small Reservoir Irrigation Project, which involves the construction of a reservoir dam and irrigation systems in Matanao, Davao del Sur; The Davao City Bypass Road, which is expected to be completed by 2022 and the Davao-Samal Bridge, which will link the city with the Island Garden City of Samal (Philippine Information Agency (PIA), 2018a).

President Duterte is the first Mindanaon to be elected Philippine president. Most presidents hailed from Luzon (including Presidents Manuel L. Quezon, Elpidio Quirino, Ramon Magsaysay, Diosdado Macapagal, Ferdinand Marcos, Corazon Aquino, Benigno Aquino III, Fidel V. Ramos, Joseph Estrada, and Gloria Macapagal-Arroyo) while a few came from the Visayas (including former Presidents Manuel Roxas (Capiz), Sergio Osmeña (Cebu), and Carlos P. Garcia (Bohol)). In the Philippines, the home province or region of the president-elect is a source of political support during elections and since presidential elections are costly the president is beholden to local politicians for their support to his candidacy. Interestingly, major development projects that were implemented in the past were concentrated in the president’s hometown and neighboring provinces and Metro Manila. For decades, the Mindanao island has been neglected partly because none of the past presidents came from that island. Mindanao has also suffered from secessionism particularly by the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF) and various terrorist attacks from groups like the Abu Sayyaf, the Maute and ISIL-affiliated fighters that besieged Marawi City in 2017. A reflection of this neglect and instability is the relatively higher level of poverty incidence there. Figure 10 below shows that the Autonomous Region of Muslim Mindanao (ARMM) has the highest level of poverty incidence in the Philippines in 2015 and 2018. The poorest provinces in the Philippines can still be found in Mindanao including Lanao del Sur, Maguindanao, Sarangani, Sulu, Bukidnon, and Zamboanga del Norte (Vera Files, 2018).

Figure 10: Estimates of Poverty Incidence among Filipino Families per Region in %



Source: Philippine Statistics Authority (PSA), 2019

Human security emerged as a key feature of Japanese ODA policy in 2000s. Under this broad concept, the Japanese government launched several programs which are intended to alleviate poverty and consolidate peace in Mindanao. In December 2002, former Prime Minister Koizumi launched the 'support package for peace and stability in Mindanao' program (Embassy of Japan in the Philippines, 2010). In order to contribute further to the peace process and development in the Conflict-Affected Areas in Mindanao (CAAM) and the surrounding areas in the ARMM the Japanese government launched the Japan-Bangsamoro Initiative for Reconstruction and Development (J-BIRD) in December 2006. Five sectors are targeted under the J-BIRD program including water supply, agriculture, education, capacity building and emergency relief (Embassy of Japan in the Philippines, 2010). More importantly, Japan's 2012 Country Assistance Policy and the latest 2018 Country Development Cooperation Policy mention the promotion of peace and development in Mindanao as one of the priorities of Japanese ODA to the country.

Japan actively participated as a third-party observer in the Mindanao peace process negotiation between the Aquino government and the Moro Islamic Liberation Front (MILF). Peng-Er (2008) argued that it was a litmus test of its peacebuilding diplomacy which became a key pillar of Japanese foreign policy. In 2011, Tokyo hosted an informal meeting between then President Benigno Aquino III and MILF Chairman Al Haj Murad Ibrahim. A Comprehensive Agreement on the Bangsamoro was signed three years later and on July 2018 the Bangsamoro Organic Law was finally signed by President Duterte. Prior to this, the City of Marawi was besieged by a terrorist group that was linked to ISIS. In May 2018, Manila and Tokyo signed a 2 billion yen grant to support the rehabilitation and reconstruction of Marawi City from devastation of terrorism (Philippine Information Agency, 2018b). To date, Japan has provided an estimated 36 million US dollars to assist in Marawi's relief and rehabilitation.

5. Conclusion

This paper shows that initial choices with regard to geographical and sectoral priorities of Japanese aid have far-reaching effects into the future of aid institutions in the Philippines and Japan. It is clear that such initial and future choices are explained by a confluence of external and internal factors. Externally, the early-postwar regional environment was hostile. Japan's payment of war reparations was necessary to mend ties with its war-torn neighboring countries particularly the Philippines. Internally, the condition of Philippine domestic economy influenced the initial sectoral focus of aid from Japan. As Japan administered its reparations payment, rudimentary aid institutions and sectoral focus of Japanese aid to the Philippines began to emerge. The private sector focus of reparations agreement with the Philippines had incentivized private businesses from both sides to be engaged in the process. This explains why Japanese businesses at the onset were unofficially involved in project identification. Also, since the large portion of reparations was earmarked for the private sector, the Philippine government negotiated for reparations-backed loans with the Japanese government for the purpose of rehabilitating and building new infrastructure. While still paying war damages, the Japanese government introduced its yen loan. Because it is financed primarily from postal savings, it was imperative that yen loans were earmarked for commercially viable projects like infrastructure construction. As a result, infrastructure development became the main focus of Japan's ODA and loans rather than grants became the primary modality

of choice. This commercially driven ODA policy explained the large percentage of Japanese assistance that was tied during this period.

Over the course of time, however, Japan's strategic interests in the Philippines have evolved. By the end of the 1970s through the 1980s, Japan's ODA was viewed increasingly in the context of burden-sharing. Japan surpassed the United States to become the largest provider of ODA to the Philippines during these periods. Likewise, the Philippines became increasingly dependent on Japan for financial assistance. It can also be argued that Japan became more responsive to the priorities of the Philippine government and the President. The study notes, for instance, that legitimizing martial rule was a key aim of Ferdinand Marcos. Thus, Japanese loans were utilized mainly for infrastructure development during the martial law regime. On the other hand, a huge portion of Japanese ODA during the Aquino administration was in the form of commodity loans because a key priority of the Aquino government was to repay the external debts left behind by Marcos and to help rehabilitate the economy. Tokyo played a big role in raising funds for the Philippine Assistance Program and in the reconstruction of the Philippine export industry during this time. Huge projects such as the CALABARZON was part of Japan's continuing effort to lead in the East Asian regional development under the framework of the flying geese.

The third wave (1992-2010) of Japanese ODA to the Philippines led to improvement of aid institutions and quality of assistance. During this period, Japan adopted an ODA charter to set the guiding principles and basic policies of its ODA programs. The Philippines' ODA Act of 1996 was passed into law in order to make ODA implementation more efficient and to minimize corruption. However, the law has its contradictions. For instance, the priority accorded to Filipino suppliers in the procurement of goods and services for government projects including those funded by ODA under this Act has become a reason for project delays especially when there are no qualified Filipino bidders or when materials or services are not locally available. Moreover, the Philippine government passed several legislations to address issues related to ODA implementation such as resettlement and environmental concerns. Also, the study points out that bureaucratic inefficiency and legal proceedings continue to undermine the Philippines' absorptive capacity and thus loan utilization rate.

Finally, Japan's security concerns particularly China's rapid improvement of military capability and North Korea's development of nuclear weapons and ballistic missiles strongly influenced the fourth wave of its ODA to the Philippines. In response to these concerns, the Japanese government most especially under the Abe cabinet adopted new security policies and sought to establish strategic partnership with ASEAN member-countries including the Philippines. This led to the emergence of a securitized aid like the new aid program that seeks to enhance maritime capacity of recipient countries. By providing patrol vessels to the Philippines under this program Japan benefits because its SLOCs are secured and protected from an aggressive country like China which claims nearly all of the South China Sea. As a responsive ODA provider, Japan declared its support to former President Noynoy Aquino's overtures of strengthening the Philippines' maritime capacity and to President Duterte's Build, Build, Build program. More importantly, a joint committee to coordinate Prime Minister Abe's 1 trillion-yen pledge was established. This was the first time that Japan initiated the creation of such committee for the purpose of implementing ODA projects in a recipient country. In doing so, the role of the Japanese prime minister to oversee ODA programs is enhanced. Also, Japan strengthened its peacebuilding diplomacy in the Philippines. As the study has shown, Japan deepened its participation in the Mindanao peace process and allotted its ODA for this specific purpose.

Overall, Japan's ODA strategy in Southeast Asia across four periods is consistent with U.S. strategic interests. Due to constitutional and other legal constraints, ODA became the main source of Japan's non-military contribution to U.S.-Japan alliance. However, this has not precluded Japan from pursuing its own interests that are not contrary to U.S. interests. There were certain cases in which Japan pursued a policy for the region that is not consistent with the U.S. policy. An example of this would be the inherent contradiction between Japan's official commitment to promoting universal values like human rights and its ODA policy toward certain countries that do not conform to these values. For instance, Japan was the first to resume aid to China after the Tiananmen Massacre. Likewise, Japan provided assistance to Duterte's War on Drugs program when western nations are critical of it. Moreover, while western aid providers determine their aid priorities Japan's use of mechanisms like high-level consultation and the system of request in the past have accorded recipients a greater leeway to determine their development priorities for Japanese ODA funding. Indeed, there is mutual accommodation of interests that are reflected in the aid programs. Japan's increasing receptiveness to priorities of its recipients, though well-appreciated, has reinforced the perennial problem of policy inconsistencies in the Philippines where development priorities change every time a new president is elected.

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