



Japan's Basic Position for the PHILIPPINES DEVELOPMENT FORUM 2006

A. Japan's Bilateral Ties with the Philippines

Philippines-Japan Friendship Year

This year marks the 50th Anniversary of the Normalization of Diplomatic Relations between the Philippines and Japan and is the Philippines-Japan Friendship Year to commemorate the Anniversary.

The Philippines as Priority of Japan's ODA

The Philippines has been one of the major destinations of Japan's ODA as the Government of Japan (GOJ), in addition to strong bilateral relations, recognizes the significance of the development of the Philippines in the overall prosperity of Asia. The GOJ has continuously expressed its full support for President Arroyo's 10-point agenda and will continue to assist the nation-building undertaken by the Government of the Philippines (GOP) through various ODA schemes such as Yen Loan, grant aid and technical cooperation.

Further Strengthening Economic Relations with the Philippines

The GOJ is determined to further align its ODA programs with the development policies of the GOP and thus, will conduct close consultation with the GOP in the on-going process of revising the current Country Assistance Program (CAP). Moreover, the GOJ will continue its efforts to strengthen economic relations with the Philippines through the prompt conclusion of the Japan-Philippines Economic Partnership Agreement (JPEPA) and the review of Japan-Philippines Tax Treaty.

B. Fiscal Reform

Importance of Continued Fiscal Reform

The GOJ highly appreciates the commitment of the GOP to the fiscal reform that has been exemplified by the implementation of the VAT Reform Law and VAT rate increase. It is now important to continue this effort in order to (1) realize the actual revenue increase of the legislative measures, including the VAT Reform; and (2) improve revenue efficiency thereby reducing the fiscal deficit and outstanding public debt. In addition, the GOP should be ready to take further legislative actions if necessary in view of attaining the fiscal balance target by 2008.

International Financial Markets Expectation

International financial markets are still carefully watching the progress of the fiscal reform in the Philippines and disappointing their expectation will translate to high cost, consequently impairing the fiscal management of the Philippines. The GOJ is of the view that the relatively stable movement of financial markets after the declaration of State of National Emergency is attributable to the firm commitment of the economic managers toward fiscal reform.

C. Sustainable Economic Growth and Poverty Reduction

Development Experience of East Asia

The developmental experience of East Asia clearly illustrates economic growth is one of the major requirements for poverty reduction. It must be noted that the 7% annual economic growth target of the MTPDP is not easy to accomplish, considering the historical growth trend of the Philippine economy. The GOJ would like to encourage the GOP to immediately take decisive actions, in partnership with Congress, the international development partners and the business community, for attaining poverty reduction through sustained economic growth.

Role of Private Sector Investment

It is vital to promote investments vigorously in a wide range of areas given that the (1) private flows into the Philippines exceed ODAs; and (2) facilitation of private flows is critical in achieving the 7% GDP growth target set by MTPDP. In this light, the GOJ would like to request further efforts by the GOP to

improve investment climate. The Japanese Chamber of Commerce and Industry of the Philippines (JCCI Philippines) recently published the report, “**Comparative Study of Investment Climate between the Philippines and Thailand**”, which underscores a range of issues such as (1) Infrastructure, (2) Investment incentives, (3) Foreign investment regulations, and (4) Labor relations. In the area of investment climate, the agenda-setting is already finished and focus should now be in implementation.

Power Sector

Regarding infrastructure, a constant and stable supply of power is the foremost concern of the business sector for the potential investors as well as already established foreign businesses, especially in the manufacturing industry. The Philippine Government should seriously heed the outcry of the business sector that fears the sudden disruption of their factory operations due to power shortage. Thus, it is urgently required to set up a framework for facilitating new investments in power generation plants and transmission facilities, specifically by improving regulatory environment, business climate and PPP (Public-Private Partnership) arrangement. Also, it is imperative for the GOP to hold a close consultation with private sector partners as well as development partners in order to achieve a delicate balance between recovering financial health of the power sector and encouraging new investments in power generation plants and transmission facilities.

Millennium Development Goals

The GOJ would like to reiterate its commitment to assist the attainment of Millennium Development Goals by the Philippines. Given that maternity health and survival rate in primary education are alert areas, the GOJ will further strengthen the assistance to these areas in view of human security. The GOJ held the “High-Level Forum on Health MDGs in Asia and the Pacific” in Tokyo last June, co-hosted by the World Bank, ADB and WHO. Through the forum, the “Health and Development Initiative (HDI)” was announced by the GOJ. Along this initiative, the GOJ will support the maternity health project in the region of the Philippines where MMR and IMR are high. Also, the GOJ will extend assistance to improvement of the regional health system prioritized by DOH.

Mindanao

The GOJ has committed to the development of Mindanao through the Support Package for Peace and Stability in Mindanao. In this connection, the GOJ will focus on improving the ARMM government’s policy-making capacity and actual policy implementation and for the Mindanao region as a whole, will focus on improvement of socio-economic needs including infrastructure and further peace-building measures, in accordance with the Support Package. In

view of the progress of the peace talks with MILF, the GOJ would like to seek cooperation with BDA for the development of conflict-affected areas with a view to further strengthening the efforts to reduce poverty in Mindanao. A 140 million yen food aid program for Mindanao was approved on March 17, 2006 by the GOJ in response to the Philippine Government and the World Food Program (WFP). This aid reaffirms Japan's continuous efforts to contribute to Mindanao's food security and poverty reduction, as well as stabilizing its political and economic situation.

D. Way Forward

The GOJ would like to emphasize the benefit of sticking to bold structural reforms in order to attain substantial gains in the medium-to-long term, although this might entail pain and sacrifice in the short-term.

As all the stakeholders, including representatives from Congress, are present today this forum represents a great opportunity to collectively make a significant difference. In this regard, the GOJ sincerely hopes that the high-level review mechanism which has been very useful will continue to assess the progress of the commitments and consensus made in this Philippines Development Forum (PDF), for the purpose of continuing joint efforts between the donor community and the GOP in a meaningful manner.