

Notes on the 50<sup>th</sup> year of the Normalization of  
Japan-Philippine Diplomatic Relations  
and the Postwar Reparations Agreement (1956–1986)

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## 要 約

### 日比国交回復50周年と戦後賠償協定（1956-1986）についての一考察

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1956年7月23日、「サンフランシスコ講和条約」（1951年）を踏まえ、日本とフィリピンの間に「賠償協定」が発効した。この国交回復50周年を迎えて、2006年は「比日友好年」を祝う行事が行われている。

本稿は2部からなる。前半は戦後の比日関係における賠償協定の意義とインパクトについて、後半は比日友好通商航海条約の重要性についてである。実は、「太平洋戦争」は両国間では、1972年まで続いていた、と言える。フィリピン上院は同条約を12年間も批准しないままであったからである。このことは、歴史書でも語られることがほとんどなく、人々の忘却のかなたに埋もれている。

本稿は、賠償協定が日本の東南アジアにおける影響力の再建にいかに重要であったかの理由を論じる。大規模被害を与えた日本版ホロコーストの存在にもかかわらず、日本は賠償により、旧敵国で味方を獲得することに成功したのだ。すなわち同協定は、1) 戦後のアジア地域における日本の国際関係及び経済的・政治的環境整備の基盤を形成し、2) 戦前の人脈を利用し外交関係を再構築し、3) 総額10億ドルを超える資本財と役務の賠償支払いは地域における通商活動を継続させ、日本経済に利益をもたらし、4) 賠償支払いは日本の援助をアジアに集中させることとなり、発展途上国への日本のODAの原型となり、5) 賠償受入国における土地所有と製造業を基礎とする伝統的なエリート層存続を助け、同時に賠償へのアクセスを得ることによって新興資産家を形成した。彼らが後の経済的・政治的エリートとなったのである。

## rep·a·ra·tion

**1 a** : a repairing or keeping in repair

**2 a** : the act of making amends, offering expiation, or giving satisfaction for a wrong or injury

**b** : something done or given as amends or satisfaction

**3** : the payment of damages: INDEMNIFICATION; specifically: compensation in money or materials payable by a defeated nation for damages to or expenditures sustained by another nation as a result of hostilities with the defeated nation

**Oxford Dictionary (2006)**

On July 23, 1956, Japan and the Philippines ratified both the San Francisco Peace Treaty and the ensuing Reparations Agreement. It should be noted, however, that a *de facto* state of war continued to exist for sixteen years because the Philippine Senate refused to ratify another treaty, the Philippine-Japan Treaty of Amity, Commerce and Navigation until 1972. This fact is hardly mentioned in history books and buried in the windmills of the minds of people as events are being held in Tokyo, Osaka, Kobe and Manila to commemorate the “50<sup>th</sup> year of Philippines-Japan Friendship.” This celebratory mood was capped by the visit to the Philippines of Japan’s Minister for Foreign Affairs Aso Taro on July 23, 2006. Reportedly a devout Christian himself with the baptismal name of Francisco, his gift on his auspicious visit to Asia’s largest Christian country was a promise to help quell Asia’s longest running Muslim insurgency, which is being waged under the aegis of the Moro Islamic Liberation Front based in the southern Philippine island of Mindanao. This region also happens to be, among other things, one of the major sources of Japan’s favorite *maguro*.

### **Overview of the Issues Surrounding the Reparations Agreement**

Instead of looking at the general provisions of the San Francisco Peace Treaty which have been studied inexhaustively by area specialists in Asia and the United States, this paper looks at the significance and impact of the Reparations Agreement and posits that it was pivotal in the reestablishment of Japan’s influence in Southeast Asia in the postwar period. There is an abundance of studies pointing to the Korean War as the *kamikaze* that set the spiral motion to the country’s industrial production in the 1950s (Kaplan and Mushakoji 1976, Johnson 1982, Koppel and Orr 1993, Gordon 1993). Hardly discussed, however, is how Japan was able to sustain its productivity as it faced the daunting task of finding new markets and sources of raw materials in the period of economic growth prior to, during, and after the 1950s–1960s era. Very few scholars have investigated the one crucial factor that right within Japan’s doorsteps is Southeast Asia and its geographical proximity to the region provided it with a comparative advantage as transportation costs are lower compared to former colonial masters and economic suppliers and markets, for example, the United States, Great Britain, Netherlands and France. On the other hand, the Southeast Asian countries were in dire need of help—not only did they suffer massively during the war but they were also in the throes of difficulties brought about by postcolonial adjustments exacerbated by the strengthening of communist party-led nationalist

movements and the dawning of the Cold War. As rising from the ashes of the war proved to be very difficult, any help was welcomed—whether or not it came from a wartime aggressor. Therefore, the Reparations Agreements that Japan entered into with other countries in Southeast Asia fit perfectly to each other's needs.

This paper also argues that despite wreaking massive havoc with its own version of the Holocaust in Southeast Asia, Japan was able to quickly transform itself from foe to friend because the Reparations Agreement successfully laid the groundwork for postwar economic and political atmosphere that: a) reestablished diplomatic contacts utilizing pre-war connections; b) the reparations payments totaling more than \$550 million in the form of goods and services facilitated the resumption of Japanese trading activities in the region that benefited primarily the Japanese economy; c) the Reparations payments established the “geographic concentration in Asia of Japanese aid” (Yanagihara 38) and became the prototype for Japan's overseas development aid (ODA) to developing countries; and d) the Reparations payments in the form of goods and services revived the operations of Japanese trading companies and the accompanying *keiretsu* ties between government, business and the economic and political elite. These in turn helped maintain the traditional elite based on land ownership and manufacturing and at the same time became a crucial factor in forming a *nouveau riche*—traceable to its access to Reparations funds—that later branched out to form a new economic and political elite.

This paper also looks at the impact of the Reparations Agreement to the RP-Japan Treaty of Amity, Commerce and Navigation (henceforth referred to as RP-Japan Treaty) as springboard to analyze the issue of continuity of the connections and interconnections formed during and after the war. On the Reparations negotiations and its outcome, this paper will build upon the early research done by Yanaga and Olson (1970) and also on the reports published by the Philippine Reparations Commission (1986). On the repercussions of the RP-Japan Treaty on which virtually no research has been done, the documents released by the U.S. House of Representatives Sub-committee on East Asia and Pacific Affairs (1986) will be utilized.

### **Continuity and Change**

The seminal relationship between Japan and the Philippines was already evident in the pre-war period with the presence of a thriving Japanese community and trading companies that accumulated expertise and connections which were utilized handily in the post-war period. Benda (171) succinctly pointed out that “...it would seem that most of our political analysis had tended to ignore the significance of continuity, and in doing so, misjudged political developments.” Bearing this on mind the continuing relationship between Japan and the Philippines should be first considered when discussing bilateral relations because it offers a unique yet common characteristic that could be found among most Southeast Asian countries: that they were colonies of western powers. In the case of the Philippines, it was a colony of the United States. Therefore, Japan had to take into consideration the American economic and political interests in the region especially when it also became a recipient of the privileges and disadvantages of being under the umbrella of protection of the United States in the postwar era.

## **Push to Southeast Asia**

The early 20<sup>th</sup> century of Japanese history is a history of migration of its people—officially encouraged and sanctioned—due to the prolonged recession of the Japanese economy. Different economic organizations embarked on massive research that pinpointed favorable areas for resettlement, including Hawaii and parts of mainland United States, South America, Australia and Southeast Asia. In the latter, it was pinpointed that the growth areas would be in rubber and hemp (Lebra xiii)—products which Indonesia and the Philippines respectively had a global monopoly at that time. At the eve of the war, 75% of the entire Japanese population in Asia was concentrated in the Philippines, numbering to 30,000 (Shimizu 1985). In the 1930s when the hemp prices were at its highest, hemp plantations in the Philippines were already in the hands of Japanese migrants and so were the domestic retail, oil and textile industries (Saya and Shiraishi 4-7).

The too-visible Japanese presence was exacerbated with the Chinese control of trading in the rural areas and created widespread pre-war anti-Japanese feelings that protectionist policies began to be discussed in the Philippine national and local legislatures. The Japanese government acted vigorously to protect its citizens and interests that against protectionist policies to bolster its image, it started several programs that included the intake of *tokubetsu ryugakusei* (special foreign exchange students) of children from prominent Asian families sent as full scholars to study in Japanese universities, an undertaking that provided a pool of top wartime and postwar political economic allies for Japan (Goodman 41). An example of these scholars was Jose Laurel who graduated from the Imperial Naval Academy and later became the president of the Philippines during the Japanese wartime occupation. In the post-war period, Laurel was elected senator and became the senior member of the negotiating panel of the reparations negotiations and the succeeding two generations of his family became the earliest local joint venture partners of Japanese corporations.

## **Regaining Foothold through the Reparations**

After World War II, the Allied occupation of Japan laid down the plans for the destruction of the *zaibatsu*. At the same time, the exaction of war reparations was formalized in the Potsdam Declaration and clarified further in the 1945 United States Initial Post-Surrender Policy:

Reparation for Japanese aggression shall be made through the transfer of goods or capital equipment not necessary for a peaceful Japanese economy or the supplying of Occupation sources... No form of Reparations shall be exacted which will interfere with or prejudice the program for Japan's demilitarization."

The reparations payment was meant as an economic punitive action against Japan to prevent it from rising once more as a militaristic state. However, the concrete decision regarding what form the reparations would take dragged on due to conflicting recommendations made by the US State Department and the Policy Planning Staff of the Occupation Forces. As tension between the United States and Russia became more serious, coupled with the threat of communism in China and pro-communist parties that mushroomed throughout Asia, reparations and security issues became inextricably linked to each other. It

was only after bitter negotiations between John F. Dulles and representatives of Southeast Asian Nations that the concrete form of the Reparations was finally defined in Article 14 (a) of the San Francisco Peace Treaty of 1951.

It is recognized that Japan should pay reparations for the damage and suffering caused by it during the War. Nevertheless it is also recognized that the resources of Japan are not presently sufficient, if it is to maintain a viable economy, to make complete reparations for all such damage and suffering and at the same time to meet its other obligations.

Therefore, Japan will promptly enter into negotiations with Allied Powers so desiring, whose present territories were occupied by Japanese forces and damaged by Japan, with a view of assisting to compensate those countries for the cost of repairing the damage done, by making available the services so the Japanese people in production, salvaging and other work for the Allied Powers in question. Such arrangements shall avoid the imposition of additional liabilities on other Allied Powers, and, where the manufacturing of raw materials is called for, they shall be supplied by the Allied Powers in question, so as not to throw any foreign exchange burden upon Japan.

### **Case Study: The Reparations Business in the Philippines**

The San Francisco Peace Treaty resolved issues between allied countries with regard to reparations, material restitution and the right to claim for war damage and over the next eight years, Japan negotiated major reparations agreements, for example, with Burma, the Philippines and Indonesia. In 1965, Japan and South Korea agreed to establish diplomatic relations that included Japan's promise to provide \$300 million in grants and \$200 million in 25-year, low-interest loans. On the other hand, the Nationalist government of Taiwan declined reparations, and so did the People's Republic of China when it reestablished diplomatic relations with Japan in 1972.

The largest recipient of reparations funds was the Philippines, totaling \$550 million in payments that stretched over twenty years. This was only half the originally requested amount based on the calculations of the physical destruction that the country sustained during the war. During the Reparations negotiations that started in 1954, Japanese businessmen were directly involved in the negotiations together with Japan's top bureaucrats, because of the "need to base the provisions on realistic business arrangements" (Yanaga 204). The Japanese government sent its first Reparations mission to the Philippines composed of top bureaucrats from the Ministries of Foreign Affairs, Finance and Transportation and Communication (Ohno 93). The non-bureaucrats included Mizuto Mikio (a ruling party member active in Philippine issues), Fujiyama Aiichiro (president of the Japan Chamber and Industry), Murata Shozo (Japan's wartime ambassador to the Philippines and former head of the OSK Shipping Lines which was active in the Philippines in the pre-war period) and Nagano Mamoru (member of the ruling party). On the Philippine side, the negotiating panel included top bureaucrats and politicians like Jose Laurel (former president during the Japanese Occupation) and top businessmen in the extractive and steel mills industries like Gil Puyat and Manual Elizalde

(Philippine Reparations Mission 1958). One of the earliest projects that materialized after the signing of the Reparations agreement was the investment of Fuji Iron and Steel and other members of the iron and steel federation into the Philippine iron mining industry. Fuji Iron and Steel was headed by the brother of Japan's top reparations negotiator, Nagano Mamoru, while the Philippine iron mining industry was subsequently headed by Manuel Elizalde, also in the Philippine panel.

The Philippine government set up its Reparations Commission composed primarily of leading industrialists and politicians whose main aim is to draw up a wish list of projects and requests from among requests of people who had personal links to the Commission. This list was drawn in close consultation with Japanese trading companies who became the matchmaker with the Japanese government's own list of corporations earlier drawn up in Japan with the help of Japanese politicians who needed projects to satisfy their constituencies. For example, the Philippine Reparations Mission Report shows that 6.8% of the entire Reparations payments in 1957 were for fishing boats manufactured by fishermen's cooperatives in Fukuoka, reflecting the successful lobbying efforts of politicians in Fukuoka. The Reports show also Japan's list of services it could offer to the Philippines drawn in close coordination with Japanese trading companies who have done business since the pre-war period. As the rush for inclusion in the Reparations list became more competitive and lucrative that Japanese corporations, businessmen and politicians arranged free on-site tours in Japan while trading companies arranged financing for costs not covered in its reparations payments through its banks, and to wrap it up, promised a percentage of the entire budget of the project as *orei kin* to all people involved if the projects push through (Lanuza 1995). In the 1952 elections in Japan prior to the signing of the Reparations Agreement, the largest fund donors to the ruling political party were business organizations in the construction, shipbuilding and iron and steel industries. It is therefore not surprising that industry-related corporations in turn also formed the bulk of the main recipients of Reparations projects.

The other provisions of Reparations Agreement that need to be looked at are those that covered banking, insurance and transportation. The Japanese government, represented by members of the Ministry of Foreign Affairs, approved final contracts and released payments through 11 Japanese banks, all of which were linked to trading companies that had established operations in the Philippines since the pre-war period. Transportation were also tied only to the use of Japanese vessels, which drew protests from the Philippine shipping industry (Manila Times, June 2, 1958), but to no avail as Japan's Ministry of Transportation refused to even accept their letter of protest. Insurance, testing and inspection of goods were likewise handled exclusively by Japanese corporations, the fees for which were counted as part of the cost of the goods. The Reparations Commission (1958) reported that of the eight officially designated inspection and testing companies, seven were Japanese companies, and one was an American company with offices in Tokyo (34).

### **Impact of the Reparations: Formation of a New Economic Elite and the Rise of Trading Companies**

When private companies were allowed to apply for inclusion as reparations beneficiaries

in 1956, two economists calculated that 60% of the entire Reparations funds were distributed to elite groups (Valdepenas and Bautista 389). Under the provisions of the Reparations Agreement, the request list was primarily drawn by the Philippine government and procurements were based on the end-user's choice of manufacturer, producer or supplier (Republic of the Philippines 5). This led to a collusion between elite groups particularly in the extractive industries, their counterparts in Japan, trading companies and local politicians with direct contact with the Reparations Commission. In addition the disbursement of Reparations goods and services systematized political corruption in the Philippines and encouraged the growth of an entirely new class of economic elite, a *nouveau riche* whose only capital was access to Reparations funds, an example of which was Ferdinand Marcos, the president of the Philippines from 1966–1989, and those who were close to him, as will be discussed in a later section. When the reparations payments were completed in 1976, the entire \$550 million funds went to public works and construction (34.4%), communication and transportation primarily second-hand ocean-going vessels (26%), second-hand cement plants, steel machinery and equipment (15.8%), fishery, mainly fishing boats (6.8%) and the rest to mining, refinery, generators and medical equipment. In the period 1976–1985, public works contracts were funneled through an implementing officer identified as a close adviser of the then Philippine president Marcos, who systematically remitted kickbacks to Hong Kong or Switzerland (Tsuda and Yokoyama 39).

The revival of trading companies is another noteworthy development that occurred during the implementation of the Reparations agreement. Projects were handled by seven trading companies: Marubeni, Mitsui, C. Itoh, Toyo Menka, Mitsubishi, Sumitomo and Nissho Iwai—the very same companies that figured in the 1989 Japanese Diet investigations of multi-million dollar pay-offs to President Marcos, who was ousted from office in 1986. Trading companies became the unrivalled matchmakers between private corporations in the Philippines and the Japanese suppliers, contributing to cut-throat competition that eventually led to charges of kickbacks, overpricing and ultimately, political corruption.

In the Annual Reparations Reports that were released from 1958 throughout the 20-year disbursement of Reparations funds, there appeared a pattern in awarding projects according to industries. Steel industry materials awards were rotated between Mitsui Bussan, C. Itoh, Sumitomo, Marubeni, Nissho Iwai and Mitsubishi. For cement, it was between Mitsubishi, Fuji and Daiichi. For cement plants, it was Toyo Menka, Sumitomo and Kobe Steel. For trucks, it was between Isuzu, Hino and Mitsubishi Fuso. In the construction industry, projects were cornered primarily by Marubeni, Mitsui, Mitsubishi and C. Itoh. The same pattern could be seen in virtually all goods and services.

### **Setting the Pattern for Japanese Aid**

Following the heels of Reparations was the expansion of Japan's aid to Southeast Asia which began in 1958 after Prime Minister Kishi announced a shift to a diplomacy centered in the region (Langdon xiii). The succeeding prime ministers like Sato Eisaku and Miki Takeo encouraged the growth of aid and low interest rate and the expansion of Japan's international role. This shift was, in part, due to pressures from the United States and other industrialized

countries for Japan to assume a more active role in Asia.

The characteristics of Japanese aid to the region from the 1960s to the late 1980s exhibit the patterns established during the allocation for Reparations funds. First, aid retained the geographical specificity with Indonesia and the Philippines as the top aid recipients. Second, that the Reparations benefited Japanese corporations to the point that “it was difficult to separate aid and investment (Ginsburg and Osborne 247). Third, the trading companies retained, or even strengthened their roles as matchmakers between Japanese and recipient governments, bureaucrats and politicians due to their wide experience that could be traced to the pre-war era. Fourth, Japanese government agencies relied on the use of consultants usually people who were involved in private industries, creating a privileged circle of were insiders. Fifth, reflective of the “no post-project audits” undertaken after Reparations payments were completed, Japanese aid and loans until the 1990s did not undergo evaluation—a situation that has been pinpointed as one of the reasons why corruption became commonplace in the Philippines (Kang 2).

As a summary, the Reparations Agreement was the single, most important diplomatic event that enabled Japan and Japanese corporations to regain their foothold in Southeast Asia in the postwar period. Through the Reparations, the prewar and postwar ties formed with the old political and economic elite were strengthened, while it contributed also to the rise of postwar economic elite. In addition, while it was in effect only for twenty years, its impact was so pronounced that it also influenced the early nature of Japan’s system of disbursing aid and loans to developing countries.

In thinking about the term “reparations,” which is compensation in terms of money or goods to a party that is wronged, one is left confused as to who benefited in the end: the party that suffered damages during the war and whose economy has remained that of a mendicant addicted to aids and loans and the earnings of its migrant workers, or actually the party that caused the damages in the war and whose economic rehabilitation was in part, built on creating a system of corruption and needs to its goods and services? After a lapse of fifty years, Japan has gone on to become one of the most economically advanced countries in the world, while the Philippines has dropped to the lower rungs in Southeast Asia. From here, the patterns, problems and issues that could be gleaned during the two decades of disbursing funds under the Reparations Agreement have not basically changed, and are still relevant to our understanding of the relationship between the Philippines and Japan and to a great extent, its relationship with other ODA recipient countries.

One rather new phenomenon that has cropped up and was not foreseen by scholars and historians alike is that while it was the Japanese immigrating to the Philippines before the war, it is now the Filipinos—mostly women who are immigrating to Japan, creating a new underclass in the country, and layers of problems that include discrimination, trafficking, domestic violence, high divorce rate and educational problems of bicultural children. But in discussing the 50<sup>th</sup> year of the normalization of Japan-Philippine bilateral relations, it seems that on both sides, the realities are swept under the carpet, hidden from history books and lost in the celebratory mood.

As a final note, outgoing Prime Minister Koizumi Junichiro, in one of his major moves

before ending his term, met with President Gloria Macapagal Arroyo in September 2006 in the Asia-Europe Meeting (ASEM) in Helsinki, Finland. It was there that the two heads of state formally signed the Economic Partnership Agreement (EPA) which among other things, stipulates to Japan's acceptance of Filipino nurses and caregivers, virtually opening the Japanese healthcare industry to foreign workers for the first time in its history. This new development is predicted to form another layer of problem, on top of the other unresolved and/or hardly discussed issues.

Taking into consideration the past and the present, how then should this 50<sup>th</sup> year of the normalization of the diplomatic ties between Japan and the Philippines be properly observed?

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