Assessing the Japan Philippines Economic Partnership Agreement
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I. JPEPA is market opening together with cooperation
The JPEPA represents a “new age free trade area (FTA)” like the ones negotiated by Japan with our ASEAN neighbors Singapore, Malaysia, and Thailand. New age FTAs have been developed in response to the pressures arising from the growing trend in regionalism along with increasing globalization and technological progress. They entail efforts that go beyond traditional FTAs’ liberalization of trade in goods and services. They include measures towards the smooth movement of people, capital, and information and areas like investment and trade facilitation, as well as cooperation in science and technology (S&T), human resource development (HRD), small and medium enterprises (SMEs), and the environment.

II. Potential gains and opportunities
Japan and the Philippines share strong economic ties. Japan is the country’s second largest trading partner. In 2000, Japan accounted for 14.73% of our total exports and 19.1% of total imports. The Philippines remains an important potential market and a potential export base for Japanese companies planning to operate in the Asian market. In 2000, the Philippines accounted for 2.14% of Japan’s total exports and 1.9% of its total imports. Our top exports to Japan consist of agricultural products such as fresh bananas, pineapples, and asparagus and industrial goods like semiconductor and electronic products.

Japan is currently the largest source of foreign direct investment in the Philippines. In 2003, its cumulative flows amounted to US$22.13 billion. Japan is also the country’s largest source of official development assistance receiving 41.76 billion yen in 2002.

Building on these current trade and investment ties, JPEPA will further bolster the existing close links and deepen the cooperation between the two countries. The JPEPA rests on three key pillars: (i) liberalization, (ii) facilitation, and (iii) cooperation.

Market Openings in Goods
Japan will immediately remove tariffs on shrimps & prawns, asparagus, leguminous vegetables, dried bananas, guavas, mangoes, mangosteens, fresh papayas, coconut (copra) refined or unrefined, dried durians, jackfruit, rambutan as well as in manufactured goods like knitted and crocheted fabrics. Gradual tariff elimination towards zero tariff will be implemented in products like frozen yellowfin tunas, prepared or preserved tunas, fresh bananas, dried pineapples, fruits containing added sugar, and articles of apparel & clothing accessories. The agriculture and fishery sector remains a sensitive issue for Japan with certain products such as rice, wheat, milk, herrings, sardines, mackerel and other fish being excluded from the JPEPA. Japan is in the process of adjusting its own domestic policy in these sectors.

To take advantage of these opportunities, Filipino exporters must always take into account the emphasis that the Japanese put on food quality and safety. To gain access to Japanese markets, we need to supply hormone free, even-sized, properly
packed, and hygienic products. The JPEPA has provisions for mutual recognition and conformity assessment procedures which aim to help our exporters meet Japan’s standards and requirements like sanitary and phytosanitary measures.

As part of the Philippines’ concessions, immediate tariff elimination will be implemented on products like fresh apples, pears & quinces. Note that most of our industrial products have low tariffs already with rates ranging from zero to 3%. However, for sensitive sectors such as the automotive industry, gradual tariff reduction will be pursued and for certain products that are manufactured in the country, no tariff reductions will be implemented and will be subject to negotiations in 2009. For vehicles of cylinder capacity exceeding 3,000 cc, the tariff rate remains at 30%. For second hand vehicles, the Philippines is allowed to impose import duties. For buses with gross vehicle weight of 6 to 18 tonnes, tariffs will be reduced gradually from 14% to free in 2010. For vehicles of cylinder capacity not exceeding 3000 cc, tariffs will be eliminated from 29% to 20% in 2009, subject to negotiations. For components, parts &/or accessories under the motor vehicle development program, the most favored nation (MFN) rate will apply and tariff elimination will be subject to negotiations in 2009. It is important to note that the Philippines is committed under the ASEAN Free Trade Area (AFTA) to eliminate all tariffs on the automotive sector by 2010. This is consistent with the global nature of the industry characterized by international production networks and vertical specialization.

For washing machines with current rate of 10%, tariffs will be eliminated in 11 equal annual instalments from base rate to free. For flat-rolled products of iron or non-alloy steel with current rate of 7%, tariff will be eliminated in 6 equal annual instalments from base rate to free. For portland cement, the MFN rate will apply and will only be eliminated on the sixth year of the Agreement. For machinery for crushing or kneading earth whose current rates range from 1 to 5%, there will be immediate tariff elimination.

**Market access in Services**

In terms of movement of natural persons, Japan will allow Filipino nurses and careworkers to work in Japan on the condition that they pass Japan’s examination requirements along with IT workers and other professionals. This is important not only because of the expected increase in remittances of OCWs but also because it provides a venue for technology transfer and cooperation which could facilitate improvements in the competitiveness of our workers. To realize these, the JPEPA has set HRD cooperation programs covering language proficiency trainings, technical assistance in skills upgrading, mutual personnel exchange and fellowship programs, and research and development in S&T.

**Facilitation Measures**

Economic facilitation measures are important to ensure the efficient movement of goods, services, people, and capital. These cut across a wide range of areas such as government regulations and controls, business efficiency, transportation, ICT and the financial sector. These involve simplification and harmonization of customs procedures, use of ICT and paperless trading along with measures to improve the business environment and competition policy framework to address anti-competitive business practices.
**Cooperation Areas**

Through economic liberalization, facilitation, and cooperation; JPEPA represents great potentials. It can create new market opportunities and larger economies of scale that can bring significant benefits to both countries. But beyond market access, JPEPA emphasizes cooperation initiatives on HRD, financial services, ICT (next generation internet, broadband & ubiquitous networks), energy and environment (management of hazardous and solid wastes), S&T, trade and investment promotion, SMEs, tourism, transportation, and road development. Given our current level of development, we can benefit significantly from Japan’s capital, technology and expertise to strengthen our capacity to meet the challenges posed by the “new age”.

**Provisions for improving the agreement and the Dispute Settlement Mechanism**

An important element of the agreement is the creation of the various subcommittees to refine the various provisions, cooperation mechanisms, and elements. The role of the Dispute Settlement Mechanism cannot be overemphasized because even by itself, it makes a partnership valuable.

**III. Addressing the Environmental issues**

**JPEPA is based on sustainable development & environmental cooperation**

The JPEPA binds the two countries to the general principles of efficient utilization of energy, proper management of environment and sustainable development and the need to cooperate in the field of energy and environment (Article 34, Chapter 8 Implementing Agreement). The Joint Statement signed by the two Heads of States explicitly indicated cooperation in the management of hazardous and solid wastes in the list of possible areas for cooperation. Under Article 102, the two countries mutually agree not to relax environmental measures to encourage investments by the other party.

**JPEPA provides special exceptions for environmental protection**

Trade liberalization under JPEPA allows special exceptions for environmental protection. These exceptions are provided for under trade in goods (Article 23), mutual recognition (Article 66), trade in services (Article 83), investment (Chapter 8), and movement of natural persons (Article 114). These articles state that: “Nothing in this Chapter shall be construed to limit the authority of a Party to take measures it considers appropriate, for protecting health, safety or the environment or prevention of deceptive practices”. Articles XX and XXI of the GATT 1994 also applies in the JPEPA. GATT Article XX contains provisions designed to allow WTO Members to determine their own policies on state interests including the environment (and its relationship with trade), their environmental objectives and the environmental legislation they enact and implement.

Thus, the JPEPA has sufficient provisions to protect the environment and prevent any illegal trade that may arise from the zero tariffs imposed on hazardous and toxic wastes. Trade liberalization under the JPEPA does not mean, or imply, that the ability of any of the two countries to take measures to control trade in hazardous and toxic wastes or, more generally, to protect the environment, is at issue. It is important to note that in the economic partnership agreements signed by Japan with Singapore and Malaysia, tariffs on ash, residues, waste pharmaceuticals, municipal waste, sewage sludge, clinical wastes and other waste products have also been eliminated.
**JPEPA did not create new tariff classifications and tariff lines on wastes & scraps**

The tariff lines on wastes and scraps under contention are not new. They have been in the tariff and customs codes from the start. These were created mainly for customs classification. Though the tariff rates on these goods were eliminated, this does not imply free trade since countries have trade regulations or non-tariff measures that are applied to restrict trade in these goods.

**Need for cooperation to improve technical and regulatory capacity**

The Philippines and Japan are both signatories to the Basel Convention on the Transboundary Movement of Hazardous Wastes. In the Philippines, hazardous wastes are regulated by the Department of Environment and Natural Resources under Republic Act 6969 or Toxic Substances and Hazardous and Nuclear Wastes Control Act. Since there are already existing import controls and regulations on trade in hazardous wastes, tariffs are already redundant. As such, one can reduce them without expanding market access or increasing imports because the more binding protection measures are import controls.

With or without the redundant tariffs, the more important issue is how to strengthen our technical and regulatory capacity to manage hazardous wastes and effectively implement import controls. Due to the absence of reliable recyclers in the country, Japanese firms export hazardous wastes like copper sludge and printed circuit boards for recycling in Japan. Through JPEPA’s environment cooperation initiatives, we can respond to these issues by designing technology transfer programs to manage hazardous wastes along with capability-building programs to improve the capacity of our regulators to implement environmental laws. With JPEPA, closer coordination among the customs and environment people between the two countries in order to effectively regulate and prevent illegal wastes trade could also be pursued.

**IV. Overall impact on growth & poverty**

Unlike traditional trade agreements, the JPEPA will go beyond tariff reductions or eliminations and focuses on cooperation areas such as technology transfer, training, and SME development that will allow Filipino manufacturers to become more competitive. Research studies show that the proposed JPEPA would result in a small but positive impact on our gross domestic product (GDP) of around 0.09%, and a positive poverty alleviation effect particularly in Metro Manila where most industries are located. The benefits, however, could be much higher ranging from 1.7% to 3.3% if potential foreign investment inflows and productivity gains arising from the JPEPA would materialize.

The economies of the Philippines and Japan are complementary with Japan specializing in high-technology industrial products. On the whole, the costs associated with the implementation of JPEPA are perceived to be low. Based on trade weighted tariffs using 2001 imports from Japan, rough estimate of foregone tariff revenues amounted to around P3-5 billion. It should be noted, however, this is expected to be more than offset by tax revenue gain from increased economic activity resulting from the partnership.

Given our relatively low level of industrial tariffs, trade diversion effects may also be small. Trade regimes on the country’s sensitive sectors such as automotive, steel, and cement have not yet been modified to provide time for these sectors to
adjust. On the other hand, the costs of non-participation may be great in light of the changing international economic and political landscape. To illustrate, simulation results show that the Philippines would lose around 0.04% of GDP if we do not forge an FTA with Japan while Thailand does. In addition, there is an emerging trend towards the integration of East Asian economies (ASEAN + China, Japan, and South Korea). Hence, forging a bilateral agreement with Japan at this time is a very strategic move.