Can the Japan-Philippines economic partnership agreement (JPEPA) benefit Philippine consumer goods exporters?

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Through the years, Philippine-Japan trade relations have been limited in two respects. One is the continuing lag of Philippine exports to Japan vis-à-vis the Philippine imports from Japan, resulting in huge trade deficits for the Philippines. And two is the weaker Japan-Philippines trade links as compared with Japan’s trade links with other ASEAN countries and with China. In 2001, for instance, Japan’s imports from the Philippines accounted only for 1.8 percent of Japan’s total imports, a level much lower than that for Indonesia at 4.3 percent, Malaysia at 3.7 percent, Thailand at 3.0 percent and China at 16.6 percent.

Why is this so? What factors prevent the Philippines from getting a larger slice of the Japanese market? Can the ongoing talks for a Japan-Philippines Economic Partnership Agreement (JPEPA) address these concerns?

The Philippines’ position in Japan’s markets
Before assessing how Philippine products fare in the Japanese market, it is best to see first what the country exports to Japan.

Of the total Philippine exports to Japan in 1998-2002, about a third (33%) were generated by semiconductors. This was followed by electronic data processing which made up for more
than a fifth (22%). As such, all electronic products combined accounted for 60 percent. Machinerys and transport equipment parts comprised 8 percent, the bulk of which were automotive parts (6%). Food and food preparations, meanwhile, contributed only 8 percent, half (4%) of which came from exports of fresh fruits (bananas, pineapples, mangoes, papayas) and vegetables (asparagus, okra, taro). Marine products, mainly shrimps and prawn, accounted for 3 percent. Nonfood consumer products, e.g., house products, footwear, fashion goods, decorative goods, garments, etc., and resource-based products, e.g., mineral, coconut, etc., each contributed 6 percent.

Based on employment data, industry leaders have estimated the electronics value-added to be roughly equivalent to 15 percent of export earnings. This puts the net foreign exchange contribution of electronics in 2002 to be about US$500 million, a figure not so much higher than the US$381 million contribution of food products and US$268 million contribution of nonfood consumer products.

How well do Philippine exports perform in Japan’s markets? Looking at the shares of Philippine products in Japan’s imports and checking if they are growing over time (World Bank Market Position Matrix 1999), we can say that the Philippines has an optimal market position if our share in Japan’s dynamic import good is increasing. A “lost market opportunity,” on the other hand, is when the Philippines loses market share in Japan’s dynamic imports.

Majority (almost three-fourths) of the products for which the Philippines has optimal market position in Japan are electronics, automotive, and other industrial manufactures (circuits, resistors, capacitors, switches, radio receivers, input-output units, etc.). There are only a few agricultural products (namely, fresh and dried bananas, dried and salted fish), and consumer manufactures (e.g., curtains and other furnishings, babies’ garments and clothes, knitted garments, wood furniture, trousers, t-shirts and vests) in the optimal list.

There is a preponderance, on the other hand, of agricultural and food products as well as consumer manufactures in which the Philippines has lost market opportunity in Japan. Why are the Philippine agricultural, food and consumer product exports unable to successfully compete in these growing import markets of Japan? Are there opportunities to be tapped? How about the constraints? What hurdles must the country overcome in order to penetrate the Japanese market?

The opportunities...

Agricultural and food products

The Philippines grows the principal fruit items that Japan imports: bananas (58% of Japan’s total fruit imports), pineapple (7%), mango (1%), avocado (1%), and papaya (1%). Indeed, the Philippines is Japan’s major source of tropical

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fruits, supplying the market 79 percent of its bananas, 98 percent of its pineapples, 61 percent of its mangoes, and 48 percent of its papayas (JETRO 2002b). Pineapple accounts for 12 percent of Japan’s import of fruit juices, of which the Philippines is the dominant supplier with a 36 percent market share (JETRO 2002b).

In the meantime, the Philippines’ current share in Japan’s vegetable imports is only 1 percent,² leaving much room for expansion. Its two major fresh vegetable exports to Japan are okra and asparagus. Okra fetches a price advantage because demand comes from hotels and restaurants and is thus price inelastic. Also another vegetable export to Japan is frozen taros but its market is only 0.2 percent, a far second to China’s 99.8 percent (JETRO 2002b). Philippine pumpkin, in frozen form, is also a potentially exportable vegetable to Japan.

As the Japanese become increasingly health conscious, the traditional requirements for appearance and size of vegetables are replaced by safety considerations (meaning, organic or chemical-free vegetables). The present miniscule share (2%) of the organic market in Japan is expected to expand rapidly in the next few years. JETRO consultants see a niche for Philippine growers in the organic market, particularly, onions (28% of vegetable imports of Japan) and carrots. According to Japanese experts, these two vegetables can be cultivated cheaply and easily without the use of chemicals in the Philippines.³

The upward trend in Japan’s fruit and vegetable imports brought about by the vigorous market liberalization efforts in the 1990s is expected to continue for the following reasons: (1) the persistent decline in domestic production with the shrinking farming population since aging Japanese farmers are not replaced by younger ones, (2) the sourcing of out-of-season supply from countries with growing seasons different from Japan (e.g., pumpkin), (3) diversification of vegetable imports due to changing culinary tastes, and (4) the growing use of reefer containers in marine transport which makes the importation of large volumes of fresh vegetables possible (JETRO 2002b).

In addition, the Philippines is nearer to the source of Japan’s marine product imports such as tuna and exotic seafood items as compared to its Southeast Asian competitors. Japan is the world’s largest market of raw tuna for sashimi. Since Japan’s domestic catch of tuna is sluggish, the share of imported tuna in the Japanese market is gradually increasing. In 2000, 58 percent of Japan’s tuna supply was imported. Shrimps, lobsters and crabs are the other leading imported seafood products in Japan, with farmed black tiger prawns accounting for an overwhelming 96 percent share of the shrimp and lobster market. For medium and large-size shrimp, imports have a market volume share of more than 98 percent while for crabs, it is about 75 percent (JETRO 2002b).

Nonfood consumer products (apparel and fashion goods, household goods, furniture)

As an offshoot of Japan’s economic slowdown in the 1990s, demand for luxury-class branded products from Europe and the United States flattened and lower-priced imports from China and Southeast Asian countries are becoming increasingly popular. Asian-made consumer products fall under the mass market and medium-quality categories in Japan’s market. Mass market items usually involve consignment processing and are manufactured with the abun-

² Notes from JETRO Workshop Series on Vegetable Production/Marketing for Japan held in Makati in July 2003.
³ The Philippines used to export onions to Japan in the 1990s. Philippine onions satisfied the quality requirement (juicy and soft) but failed to meet the size requirement (Takusan, JETRO Manila Workshop Secretariat May 2003).
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dant materials available in China and South-east Asia. Medium-quality items are imported in small-sized lots with a large variety of designs. They require shorter delivery times (JETRO 2002b). Philippine exporters can focus on the medium-quality items because the Philippine advantage lies in product design, craftsmanship and the unique indigenous materials found in the country.

Apart from favorable demand conditions in Japan’s consumer goods markets, other market premiums likewise exist.

One is a price premium. Relative to other foreign buyers, the Japanese market is less price-conscious. They are willing to pay more for as long as they get quality goods. Two is the assistance extended by the Japanese buyers to enable exporters to meet the requirements of their market. This includes the regular inspection of plants, development of tools and equipment to increase productivity, and provision of equipment and machineries on credit. And three is the loyalty of Japanese buyers. The Japanese buyer will not seek nor accept offers from other suppliers for as long as their present suppliers satisfy all their requirements.

**And the hurdles...**

*Protection and selectivity of the Japanese market*

Though the opportunities are many, there are hurdles in tapping them.

For one, despite recent trade liberalization programs, Japan continues to use the food self-sufficiency argument to justify the continuing protection and regulation of its agricultural and food sectors. Tariff peaks still exist for agricultural products. Even with the generalized system of preference (GSP), Japan’s tariff rates on agricultural products are still high: 10 percent for fresh bananas, 17 percent for fresh pineapples, 5.5 percent for banana chips, and 15-21.2 percent for nata de coco.4 Japan also continues to impose quantitative restrictions on fisheries products justified on the basis of sustainable resource use.

In addition to tariff and import quota barriers, foreign firms’ access to the Japanese market remains difficult and costly as the distribution system stays complex, multilayered, nontransparent and dominated by exclusive relations among producers, wholesalers and retailers. Hence, the successful Philippine exporters of agricultural goods to Japan are limited to the big farming conglomerates such as Dole Philippines and some Japanese-managed farms.

Penetrating Japan’s nonfood consumer goods market, on the other hand, is capital-intensive. It requires regular attendance in trade fairs and exhibits and frequent visits to shops and markets inside and outside of Japan, a highly expensive marketing approach that is not affordable to small-scale Philippine consumer goods exporters.

There are also nontariff barriers like the sanitary and phytosanitary (SPS) conditions and quarantine regulations of the Japanese market, said to be the most complex and stringent in

4 These tariff rates were cited by the Japanese importer/customer of a major Philippine food exporter to Japan. These figures were doublechecked against those in the various tariff tables in the JETRO Marketing Guidebook for Imported Products.
the world and the biggest impediment for agricultural and foodstuff exporters to Japan. Particularly cited by exporters are: (1) Japan’s metabisulfide standard of 50 ppm (parts per million), (2) required vapor heat treatment (VHT) for fresh fruits, and (3) numerous qualitative standards for food and other consumer products that are mostly not defined by the WTO SPS agreement anymore as health and safety risks.

**Competition**

Although the Philippines has the dominant market share for the fruit items that it exports to Japan, it cannot and should not be complacent of the competition posed by Ecuador and Taiwan for bananas, Mexico for mangoes, and Hawaii for papayas. In trying to increase its vegetable exports to Japan, meanwhile, it has to contend with China which has already dominated several of the long-time major Japanese suppliers such as the United States. For fresh and frozen seafood exports such as shrimp, prawns and tuna, our closest competitors are Thailand, Indonesia and Vietnam.

In the case of nonfood consumer goods, the main pressure again comes from China. Its abundant supplies of raw materials, low wages and competitive prices, helped further by considerable technical assistance from Japan, have made it the leading supplier (accounting for more than half of imports) of the Japanese consumer goods market in almost all product categories. Also fast becoming a major player to trail China and overtake the Southeast Asian countries is Vietnam. It is now next to China and ahead of Thailand and Indonesia as source of apparel exports to Japan.

The Philippine advantage in design and craftsmanship in nonfood consumer products easily fades out as some importers practise certain disagreeable but nevertheless common business strategies such as taking samples and photographs of Philippine-made products during trade fairs and exhibits, and then having them copied by factories in China. The Philippine advantage in goods made from materials that are available only here is likewise easily lost with the exportation of the unprocessed raw materials. This is the case for bangcuang and

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5 Metabisulfide is a chemical preservative to prevent the growth of microorganisms and subsequent spoilage. It is also an antibrowning agent.

6 This is too low compared to Europe’s 1000 ppm and US’ 200 ppm.

7 The Philippines is not included in the list of top five apparel exporters to Japan. Completing the list is India. This, despite the fact that Thailand, Indonesia and the Philippines were the Southeast Asian countries that first stepped in to take the place of Korea and Taiwan in the late 1980s as apparel exporters to Japan.
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raftia, materials which we are now exporting to China.

Philippine competitiveness
Because many of our consumer goods exporters are small and medium enterprises (SMEs), there are numerous sources of cost disadvantage.

One is the deficiency in technological know-how. For example, simple heat insulation technology to conserve energy, surprisingly, is still unknown or not applied in many of our SMEs. A major contributory factor to this problem is the absence of linkages and cooperation among the private sector and the academic and research institutions. SMEs do not have the capacity to engage in their own “research and development” programs. They have to rely on outside pools of technical expertise and facilities for information on efficiency-enhancing technologies and for product and raw materials development experimentations.

Two is the absence of economies of scale, particularly for major cost items in export production such as packaging, storage and shipping/transportation.

Three is the insufficiency of credit facilities for collateral-constrained SMEs. Most exporters still avail of the short-term Packing Credit Line for both short-term and long-term capital needs.

The problem of short-term credit used to finance long-term requirements for fixed capital acquisition is well-known. When the supply of funds dry up, loans are not rolled over and SMEs run out of money to finance their daily operations. Some exporters resort to informal financial markets where cost of capital can be as high as 20 percent per month.10

Furthermore, certain government policies like the minimum wage policy, indiscriminate trade liberalization, inadequate infrastructure programs (communication and transportation), and regulation of sugar imports (a major ingredient in food exports) tend to raise the costs for exporters. Apart from these competitiveness-impairing policies, the Philippine government does not provide sufficient leadership and support for industry and export organizations in the field of food and consumer manufactures. This is in sharp contrast with other Southeast Asian countries where government leadership and initiative in export promotion are clearly evident in international trade fairs and exhibits,11 international business meetings and gatherings,12 and in the commercial and marketing “intelligence” activities of the trade sections of their overseas diplomatic missions.

Tuna canning (and marine product exports, in general) provides us with a classic example of Philippine exporters’ noncompetitiveness. De-
spite the greater proximity of the Philippines, compared to its Southeast Asian competitors, to both supply (tuna) and demand (Japan), the Philippines is losing the race to Thailand, Indonesia and recently to Vietnam. Philippine tuna canners admit they lag behind their Thai counterparts\(^{13}\) in terms of technological know-how. Philippine tuna canners suffer from cost disadvantages in shipping, storage and packaging because of their smaller size.\(^ {14}\) The industry also does not get the government support enjoyed by its Thai, Indonesian and Vietnamese\(^ {15}\) counterparts.

Making the JPEPA Philippine exporters-friendly

Can an economic partnership agreement between Japan and the Philippines bear fruit for Philippine consumer good exporters? If yes, then how?

Below are three major recommendations on how the JPEPA can help Philippine exporters.

First is the inclusion of agricultural and processed food sectors in the trade agreement. Only with this can talks of further trade liberalization between Japan and the Philippines bear any significance for our consumer goods exporters. It will be difficult to overestimate this impact as Japan is the single biggest buyer of Philippine shrimps and prawns (71%) and fresh fruits and vegetables (60%). As major Philippine agricultural exports are not cultivated in Japan, there is no reason why the Japanese agricultural sector needs to be protected vis-à-vis Philippine exporters.

Second is a commitment from Japan to undertake import promotion programs particularly for Philippine-made products. These would include (1) seminars and workshops on the Japanese market, (2) buying missions to the Philippines, (3) sales promotion missions in Japan, (4) creation and accreditation of export testing centers in the Philippines, and (5) establishment of procedures and systems for claim verification. The need for testing centers and claim verification systems must be addressed immediately if both parties are interested in facilitating the flow of consumer goods from the Philippines. JETRO’s information campaign activities on the Japanese market in the Philippines for the past couple of years have been impressive and we can only hope for its continuation. In terms of buying and sales promotion missions, however, the Philippines still appears to be least prioritized in comparison with our Southeast Asian competitors. More improvements in these areas are therefore desired.

Finally, Japan’s assistance in strengthening the Philippine SME sector must be sought. Said assistance must be focused toward the creation of viable cooperatives, industry organizations and institutional set-ups that will enable SMEs to realize economies of scale in raw materials sourcing, production, storage and transportation; to gain access to long-term sources of capital; and to seek technical assistance from academic and research laboratories.

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\(^{13}\) Who can nicely fill up a tuna can with less raw material (tuna) use.

\(^{14}\) Thailand’s biggest tuna canner is bigger than all tuna canners in the Philippines combined.

\(^{15}\) For instance, Vietnamese firms, in partnership with their government, have even developed a boatbuilding industry in support of the growing fishing industry in Vietnam.
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PIDS has new president

The government think tank, the Philippine Institute for
Development Studies (PIDS), has named Josef T. Yap as
the new president of the Institute effective April 1, 2005. He replaces Mario B. Lamberle whose term as president ended on March 31.

Prior to his appointment, Dr. Yap was senior research fellow at PIDS, specializing in econometric modeling and macroeconomic policy. He prepares the annual outlook on the Philippine economy for the Institute and maintains the PIDS annual macro econometric model, among others. He is also the research manager of the soon-to-be-released first Southeast Asia Human Development Report.

Dr. Yap has a bachelor of science in industrial engineering
degree (cum laude) from the University of the Philippines-
Diliman. He also earned his master's and doctorate
degrees in economics from the same university. He did his post-graduate studies at the University of Pennsylvania in the US.

In November of last year, President Gloria Macapagal-
Arroyo appointed Dr. Yap as acting member of the Committee on Social and Human Sciences to the UNESCO National Commission of the Philippines.