Philippine Institute
for Development Studies
*Surian sa mga Pag-aaral
Pangkaunlaran ng Pilipinas*

Policy Notes

ISSN 1656-5266 No. 2006-10 (December 2006)

Assessing the Japan-Philippines Economic Partnership Agreement (JPEPA)

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Signed on September 9, 2006, the Japan-Philippines Economic Partnership Agreement (JPEPA) represents a "new age free trade area (FTA)" similar to the ones negotiated by Japan with other ASEAN countries like 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 toward 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.

Potential gains and opportunities

Japan and the Philippines share strong economic ties, with Japan being the country's second largest trading partner. In 2000, Japan accounted for 14.7 percent of our total exports and 19.1 percent 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.

Japan is currently also 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, with 41.76 billion yen received 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.

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On liberalization

Market openings in goods

Japan will immediately remove tariffs on products like shrimps and prawns, asparagus, leguminous vegetables, dried bananas, mangoes, mangosteens, and fresh papayas as well as manufactured goods like knitted and crocheted fabrics. Gradual tariff elimination toward zero tariff will be implemented in products like frozen yellow fin tunas, prepared or preserved tunas, fresh bananas, dried pineapples, and articles of apparel and 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, there is a 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 Philippine 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, and quinces. For Philippine industrial products, most of them already have low tariffs with rates ranging from zero to 3 percent. 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 components, parts and/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.

Tariffs, meanwhile, will be eliminated in annual installments from base rate to free for items like washing machines and flat-rolled products of iron or nonalloy steel.

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 overseas contract workers (OCWs) but also because it provides a venue for technology transfer and cooperation which could facilitate improvements in the competitiveness of Filipino 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.

On 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 anticompetitive business practices.

On cooperation areas

Beyond market access, JPEPA emphasizes cooperation initiatives on HRD, financial services, ICT (next generation internet, broadband, and ubiquitous networks), energy and environment (management of hazardous and solid wastes), S&T,

trade and investment promotion, SMEs, tourism, transportation, and road development. Given the Philippines' current level of development, it can benefit significantly from Japan's capital, technology, and expertise to strengthen its 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 and cooperation mechanisms. The role of the Dispute Settlement Mechanism cannot be overemphasized because even by itself, it makes a partnership valuable.

Addressing the environmental issues

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.

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 apply 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.

At the same time, the JPEPA did not create new tariff classifications and tariff lines on wastes and scraps. Thus, 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 nontariff measures that are applied to restrict trade in these goods.

Need for cooperation to improve technical and regulatory capacity

The Philippines and Japan are also 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 the Philippines' technical and regulatory capacity to manage hazardous wastes and effectively implement import controls. At the same time, there is a need for the Philippines to manage hazardous wastes. At present, in the absence of reliable recyclers in the Philippines, hazardous wastes like copper sludge and printed circuit boards that come from Philippine-based Japanese firms are exported for recycling in Japan. Through JPEPA's environment cooperation initiatives, this practice can be addressed by designing technology transfer programs to manage these wastes and by setting up 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.

Overall impact on growth and poverty

Unlike traditional trade agreements, the JPEPA will go beyond tariff reductions or eliminations and will focus 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 percent[1] due to better resource allocation 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 percent,[2] if foreign direct investment inflows leading to capital accumulation as well as productivity gains can 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, a rough estimate of foregone tariff revenues amounted to around P3-5 billion. It should be noted, however, that this is expected to be more than offset by tax revenue gain from increased economic activity resulting from the partnership.

Given the country's 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 nonparticipation 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 percent of GDP if it does not forge an FTA with Japan while Thailand does. In addition, there is an emerging trend toward 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.

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[1] C. Cororaton. 2003. Philippine-Japan bilateral agreement: analysis of possible effects on unemployment, distribution, and poverty in the Philippines using CGE microsimulation approach.

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