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## Japan-Philippines Economic Partnership Agreement (JPEPA): Toward a Framework for Regional Economic Integration

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

## Japan-Philippines Economic Partnership Agreement (JPEPA): Toward a Framework for Regional Economic Integration

*Erlinda M. Medalla et al.*

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**Japan – Philippines Economic Partnership Agreement (JPEPA):  
Towards a Framework for Regional Economic Integration**

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**Abstract**

With less than two years after its ratification, many of the economic gains expected under JPEPA have yet to be realized. But while critics may be quick to judge its failure due to this seeming lack of progress, neither have there been costs and dislocations that should have been more immediately evident. Moreover, the recent trends in trade and investments appear encouraging. Nonetheless, the implementation of JPEPA is wrought with challenges particularly those that involve undertaking internal reforms needed to realize its rich potential and achieve the vision upon which it was established. Being the first bilateral free trade agreement entered into by the Philippines, the performance of and experience with JPEPA are crucial in determining the prospects for negotiated trade agreements with the country. The Philippines cannot afford to slow down with the pace of reform and needs to march aggressively alongside its neighbors in East Asia, which is leading the move towards regional integration. This paper will revisit the seminal studies that examined the desirability of JPEPA with the aim of bringing to the fore the pending actions to generate the expected benefits from JPEPA.

**Key Words:** Free Trade Agreement, Economic Partnership Agreement, Bilateralism, Regionalism

## **Japan – Philippines Economic Partnership Agreement (JPEPA): Towards a Framework for Regional Economic Integration**

Erlinda M. Medalla, Catherine Vidar-Vale<sup>1</sup> and Jenny D. Balboa

### **A. Context for enhanced regionalism**

Regionalism has become the primary recourse in the quest for economic integration. The deadlock in some of the issues in World Trade Organization, along with the changing economic landscape particularly in the East Asian region, have led many of the global players to find alternative routes to advance economic cooperation and integration. The dynamism in the East Asian region, brought about by increasing interdependence among economies, the post-Asian crisis reforms, the emergence of China as a major economic player, and the continued economic robustness in the ASEAN provide bases for enhanced economic cooperation.

A major impetus for regionalism is the shift in the policy of economic diplomacy of Japan. In an attempt to reassert its economic leadership particularly in the region, Japan shifted its focus from multilateral to the bilateral and regional arrangements. In 2001, Japan announced abandoning its single track focus on WTO multilateralism and concentrated instead its efforts on FTAs. This announcement came two months after China revealed its plans to pursue the world's biggest trade area by 2010. In January 2002, Japan entered into its very first FTA, with Singapore as its bilateral partner. Japan further explored and established additional FTAs, with new partners such as Mexico, Malaysia, Chile and the ASEAN.

### **B. Forging JPEPA**

JPEPA was built on the long-standing relationship between Japan and the Philippines. Japan plays an important role in the economic development of the country. For several decades, Japan has been the second largest trading partner of the Philippines, even without the benefit of a trade or economic agreement between the two countries. Japan has also been the major source of Official Development Assistance (ODA), Foreign Direct Investments (FDI), and remittances from over 200,000 Filipino workers in Japan. The Philippines, on the other hand, remains an important potential market and partner for Japan. Hence, JPEPA was seen as the next best step towards further expanding and developing this economic partnership.

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In January 2002, former Japanese Prime Minister Junichiro Koizumi proposed the “Initiative for Japan-ASEAN Comprehensive Economic Partnership.” During the Japan-ASEAN Forum in April of the same year, it was decided that bilateral economic partnerships under such an initiative will be explored. Formal negotiations started in December 2003. Close to three years after this announcement, JPEPA was formally signed on 9 September 2006 in Helsinki during the Summit of the Asia-Europe Meeting. JPEPA was immediately ratified by the Japanese Diet in December 2006, but it took the Philippine Senate another two years to ratify the Agreement on 8 October 2008. JPEPA entered into force with the conclusion of the Agreement and the accompanying Exchange of Notes on 11 December 2008. Political approval for JPEPA was adversely affected by negative lobby and strong opposition from certain segments of the society.

Akin to other Economic Partnership Agreements (EPAs) entered into by Japan, JPEPA is anchored on three pillars: liberalization, facilitation and cooperation. It is a comprehensive economic partnership that includes not only the removal of tariff and non-tariff barriers, but also involves cooperation in a wide range of economic activities. JPEPA belongs to the breed of “New Age FTAs,” which have been developed to address pressures arising from the growing trend in regionalism, globalization, and technological progress. New Age FTAs include efforts towards the smooth transborder flow of people, capital, and information along with areas like investment, competition, government procurement, trade facilitation, cooperation in science and technology (S&T), human resource development (HRD), small and medium enterprises (SMEs) and the environment. (Yap, Medalla and Aldaba, 2006).

The approval of JPEPA was underpinned by the following principles:

- a) *Consistency with Philippine agenda and objectives of reforms.* Trading arrangements are mechanisms through which the Philippine government can advance its own reform objectives. JPEPA is seen to contribute in the promotion of global competitiveness, sustainable growth, efficiency allocation, and poverty allocation, which provided the Philippine government adequate motivation to set the Agreement in place.
- b) *Promotion of balance between multilateralism and bilateralism.* There are questions that pertain to the consistency between multilateral and bilateral trade arrangements that are being negotiated at the country level. There are perceptions that bilateral trade arrangements tend to divert trading, resources (*e.g.*, especially in form of government resources that can be utilized for multilateral negotiations), and political efforts (that could deplete political capital in undertaking domestic reforms).

It is indeed ideal to put in place multilateral framework where trading rules and practices are transparent, resulting in optimum welfare, competitiveness, and specialization. However, there are constraints in capacities, especially among developing countries that undermine their active and proactive participation in global trading negotiations. It is thus recognized that bilateral arrangements are

equally important in moving forward with the agenda of liberalization. Pursuing bilateral arrangements has become the more practical and feasible approach that allows member countries to:

- i) create a testing ground towards gradual liberalization, thereby enabling the vulnerable sectors to mitigate the possible adverse impacts;
- ii) take the initial step towards multilateralism. Bilateral arrangements provide small countries with bargaining tools in advancing their interests, which would not be readily available in a multilateral set-up. Bilateral arrangements create an enabling environment for regional integration that helps the region articulate its position in the multilateral WTO; and
- iii) provide defensive mechanism, that could shield the member country from the adverse impacts that could possibly arise from other preferential trade agreements (PTAs).

### **C. JPEPA and its Implications**

Eighteen studies were undertaken to determine the full range of impacts on the macroeconomy, identified critical sectors, and cross-cutting concerns. These studies were undertaken by reputable learning and research institutions and managed by the Philippine Institute for Development Studies. The results of these studies were meant to inform the policy and political process that eventually resulted in the ratification and establishment of JPEPA. Table 1 below enumerates the coverage of JPEPA that became the subjects of the 18 studies.

#### *Impacts on Macroeconomy*

Studies showed that JPEPA is mutually beneficial for both the Philippine and Japanese economies. The marginal impact on the Philippine economy is expected to range between 0.09% (Cororaton, 2003)<sup>2</sup> to 3.03% (Kawasaki, 2003)<sup>3</sup> change in real Gross Domestic Product (GDP). The low range is based on static model; it is assumed here that all forms of protection on Philippine goods are eliminated, gains to markets are not achieved, and investments and employment failed to materialize. The modest gains are primarily derived from better allocation of resources. In this scenario, JPEPA is projected to lift around 227,377 individuals out of poverty, especially those who are living in Metro Manila, where most of the industries are located.

On the other hand, the high case scenario of JPEPA benefits range from 1.7% to 3.03%, based on a more dynamic model depicting inter-country response. These benefits

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<sup>2</sup> This estimate was generated from Computable General Equilibrium (CGE) model prepared by Dr. Cesar Cororaton of PIDS. The CGE model is not meant to provide forecasts, but to simulate impacts arising from policy shock or changes that are introduced in a “benchmark economy.” The impact effects, measured in percentage changes represent the differences between the economy with trade liberalization and the benchmark economy captured at a certain static state.

may be achieved if all potential foreign investment inflows and productivity gains from JPEPA would materialize. Improvements are driven by the increase in incomes arising from: (i) trade liberalization and its corresponding effect on investment and capital stock; (ii) entry of foreign capital; and (iii) productivity improvements. The projected impact on the Japanese economy, on the other hand, is a modest increase of 0.03% in GDP; expected gains in trade are 0.19% increase in export and 0.33% in import volume.

**Table 1. Coverage of JPEPA**

<b>Trade in Goods</b> - elimination or reduction of tariffs of industrial and agricultural products
<b>Emergency Measures</b> - provides the rules for addressing serious injury or threat thereof caused by increased imports
<b>Rules of Origin</b> - determines originating goods for which preferential treatment will be accorded
<b>Customs Procedures</b> - provides information exchange and cooperation to facilitate trade through simplified and harmonized customs procedures, including maximizing the use of ICT
<b>Paperless trading</b> - to exchange information on best practices and encourage cooperation between private entities
<b>Mutual recognition</b> - to facilitate trade in electrical and other products such that both sides shall accept results of conformity assessment procedures as conducted by other party
<b>Trade in Services</b> - provides standstill obligation of services sector such as outsourcing, air transport, health related and social services, tourism and travel related services, maritime transport services, telecommunications and banking
<b>Investment</b> - includes provisions concerning National Treatment, MFN Treatment and Performance Requirements Prohibition for the liberalization of investment and enhance transparency by specifying all exceptions to these provisions
<b>Movement of Natural Persons</b> assures easier entry of qualified Filipino nurses and certified caregivers through language training, clear guidelines on exercise of profession/occupation
<b>Intellectual Property</b> - to enhance understanding of protecting intellectual property, given Japanese practices. This also includes cooperation and appropriate protection and enforcement elements
<b>Government Procurement</b> - to increase transparency of government procurement laws, regulations and procedures and possible liberalization of government procurement activities taking into account the development, financial and trade needs of both parties
<b>Competition</b> - to promote increased vigilance and increased attention to the protection of fair competition. It also includes measures to promote competition by addressing anti-competitive activities and cooperation in the field of competition
<b>Improvement of the Business Environment</b> - to encourage cooperation to improve the business environment of both countries. A framework of consultations will be set up to ensure more efficient and timely resolution of issues affecting Japanese and Filipino enterprises in both countries.
<b>Cooperation in ten fields within the ODA context</b>
<b>Dispute avoidance and settlement</b> - to provide a mechanism for addressing government disputes in the interpretation of implementation procedures while relying on the primacy of consultations

Source: Primer on the Japan-Philippines Economic Partnership Agreement (JPEPA)

It should be cautioned that these two simulations are meant to provide the possible extent of impacts of JPEPA on the economy. The 0.09% scenario is considered to be on the extremely low side because of its very limiting assumptions. However, 3% seems too high, considering that productivity gains are difficult to achieve. In the long run, it would not be unrealistic to expect benefits to be closer to the 1.7% estimate. By then, the

benefits from the ‘cooperation’ aspects of the agreement would be more apparent, especially due to its positive impact on investments. However, in the short run, possibly within two years after taking into effect, the impact of JPEPA on the economy would be closer to this low-scenario estimate.

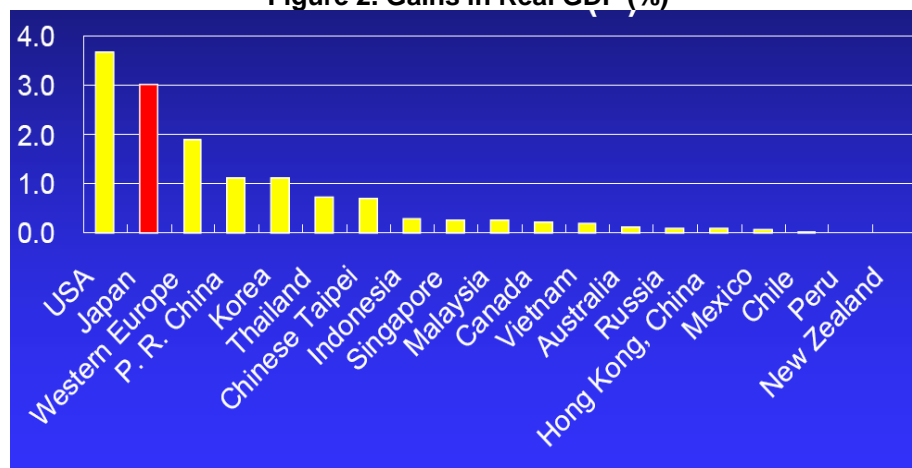
Related studies undertaken (Zhai, XXXX) showed that the Philippines would experience a -0.1% effect on real GDP with the possible creation of bilateral PTAs in Asia, with Japan as hub using a static CGE model. Inclusion of services liberalization and trade facilitation in the model would result in substantial impact on the economy estimated to be around 2% of real GDP.

The Department of Trade and Industry (DTI) estimated that the full cost of implementing the provisions in JPEPA to be around Php3 to 4 billion. While the figure seems huge, DTI projects that the costs are outweighed by the projected gains from tax revenue improvements arising from more robust economic activities.

**Figure 1. Results of CGE Analysis Conducted by Kawasaki**

		Japan		The Philippines	
		Capital	Productivity	Capital	Productivity
Real GDP	(%)	0.01	0.03	1.73	3.03
Export Volume	(%)	0.19	0.19	3.99	5.16
Import Volume	(%)	0.32	0.33	3.78	4.87
Trade Balance	(Mil. US Dollars)	22	41	-331	-504
Equivalent Variation	(Mil. US Dollars)	1,159	2,095	1,038	1,867
Capital Stock	(%)	0.01	0.03	3.31	4.71

**Figure 2. Gains in Real GDP (%)**



Source: RIETI



### *Impacts on specific sectors*

The more significant gains from JPEPA arise not from greater market access resulting from its FTA provisions on reduced tariffs, but from improvements in investment climate that ensue from the enhanced features of the Agreement. The Philippines is envisaged to benefit considerably from Japanese capital, technology and expertise that would help put the country in a better position to meet the challenges and opportunities posed by the “new age.” The economic cooperation with Japan is seen to contribute in hastening the country’s ability to develop at a pace comparable with its East Asian neighbors.

JPEPA emphasizes cooperation on a wide range of areas, including HRD, S&T, trade and investment promotion, SME, and the environment as previously mentioned and also covers financial services, energy and environment, and transportation, among others. It promotes the liberalization of tourism and travel related services, business outsourcing, banking and other financial services, recreational, cultural and sporting services, advertising, management consulting, audio visual services, environmental services, and value added services in telecommunications, among others.

Microlevel studies identify gainers to include electronics and ICT (Escolar, 2004), garments (Escolar, 2004), medical services, particularly nursing care (Tullao, 2004; Rodolfo, 2004), tourism and retirement industry (Rodolfo, 2004), and agriculture (Tan and Bello, 2004). On the other hand, based on initial studies and assumptions, sectors that are expected to lose are the cement and motor vehicle parts and components. However, the negative impacts from JPEPA could be reversed if the affected sectors enhance and link their technical capabilities with existing Japanese manufacturing networks and the ASEAN Industrial Cooperation Scheme.

#### *(1) Trade in Goods*

JPEPA aims to improve access to market for goods traded between the two countries, through the elimination or reduction in customs duties applied on these goods. JPEPA targets to remove these barriers in the next 10 years for both agricultural and non-agricultural products.

JPEPA can be considered as an extension of the overall tariff reduction program of the Philippine government, since it has initiated this reduction in the manufacturing sector which comprises the bulk of Philippine exports. JPEPA is expected to usher in a -8.88% change in the overall nominal tariff rate, resulting in a -0.12% (Cororation, 2004) reduction in production cost. This reduction in nominal tariff rate and production cost can be translated, in turn, into improvements in the Philippine export competitiveness.

JPEPA covers 5,968 tariff lines of Philippine imports; around 66% (3,947) of these imported Japanese goods were given “A” classification, implying an immediate removal of tariff. The rest would be subjected to gradual tariff reduction. Among the goods subjected to gradual tariff reduction are automotive, iron and steel, in line with the

Philippine commitment to the ASEAN Free Trade Area (AFTA) to eliminate tariffs by 2010 for the ASEAN-6.

**Table 2. Philippine Tariff Schedule under JPEPA**

Legend	Category	Number of Lines	% of Total Lines
A	Immediate tariff elimination	3,947	66.14%
B4	Equal annual tariff reduction starting 2006, final reduction on 2010	97	1.63
B4**	Tariff elimination on the 1st day of the 5th year (2011)	2	0.03
B5	5 years or six annual installments	230	3.85
B5*	5 years , 1 year grace period, 5 equal annual installments	220	3.69
B5**	One single installment at the beginning of the 6th year	14	0.23
B7	7 years or 8 equal annual installments	2	0.03
B10	10 year or 11 equal annual installments	1,077	18.05
B10*	10 years, 1 year grace period, 6 equal annual installments	154	2.58
B10**	10 years, 5 years grace period, 6 equal annual installments	103	1.73
R	Renegotiation	24	0.4
S	Special tariff treatment	92	1.54
X	Excluded from any commitment of preferential treatment or renegotiation	6	0.1
	Total	5,968	100

Source: Philippine Tariff Commission, as cited in the Senate Policy Brief

A total of 91.6% of the goods subject to immediate tariff elimination are industrial goods, while 8.4% are agriculture goods. Among the products included for immediate tariff elimination are machinery and equipment, clothing and textiles, organic chemicals and pharmaceutical products, and other miscellaneous manufactured products.

**Table 3. Analysis of “A” Classified Products by Sector**

Sector	Share to Total "A" Lines (%)	2005 RP Imports from Japan (in thousand US\$)
Agriculture	8.41	3,121.00
Industrial	91.59	2,271,702.00
<b>Total</b>	<b>100</b>	<b>2,274,823.00</b>

Source: Philippine Tariff Commission

Close to 95% (measured in value) of Philippine industrial and agricultural exports face zero duties immediately from the implementation date. Prior to JPEPA, most of the Philippine products already had free access to the Japanese market with almost 80% bearing 3% tariff or less, comparable to the average tariff on imports from Japan of around 2.5%.

JPEPA also covers 7,476 tariff lines of Philippine exports; 93% is composed of industrial goods, while the rest are agricultural products. Around 80% (5,994 product lines) of these goods are scheduled for immediate tariff elimination.

**Table 4. Japan's Tariff Schedule under JPEPA**

Legend	Category	Number of Lines	% of Total Lines
A	Immediate tariff elimination	5,994	80.17
B3	3 years or 4 equal annual installments	3	0.04
B5	5 years or 6 equal annual installments	148	1.98
B7	7 years or 8 equal annual installments	140	1.87
B10	10 years or 11 equal annual installments	368	4.92
B15	15 years or 16 equal annual installments	48	0.64
P	Special tariff treatment	26	0.35
Q	Tariff Rate Quota	11	0.15
R	Renegotiation	215	2.88
X	Excluded from any commitment of preferential treatment or renegotiation	522	6.98
	<b>Total</b>	<b>7,476</b>	<b>100</b>

Note: numbers do not add up due to rounding off

Source: Philippine Tariff Commission, as cited in Senate Policy Brief

**Table 5. Analysis of "A" Classified Products by Sector**

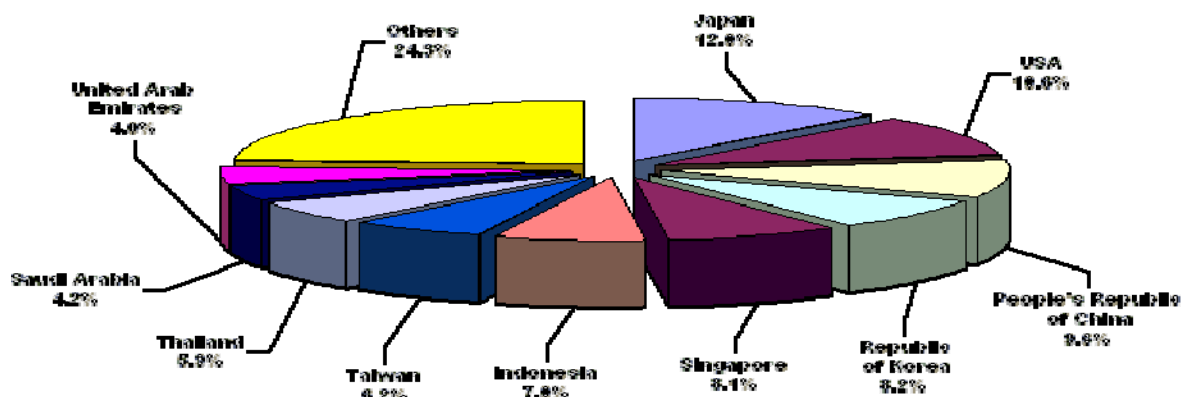
Sector	Share to Total "A" Lines (%)	2005 RP Exports from Japan (in thousand US\$)
Agriculture	6.68	144,539.00
Industrial	93.32	575,205.00
<b>Total</b>	<b>100</b>	<b>719,744.00</b>

Source: Philippine Tariff Commission

Over 90% of imported Japanese products are subject to immediate removal of tariffs; most of which are industrial in nature. The rest of the tariff lines are either excluded from any commitments or subject to renegotiations. Among the products excluded are: agricultural products such as boneless meat of bovine animals, fresh Pacific salmon, frozen red and Atlantic salmon, trout, herrings, cod, sardines, mackerel, frozen bluefin tuna fillets, scallops, milk and cream, whey, butter and dairy spreads, wheat and meslin, barley, rice, wheat starch, animal and vegetable oils and pineapples weighing more than 900 grams. Meanwhile, products subjected to renegotiations are: agricultural goods such as meat of bovine, meat of swine, bigeye tunas, bluefin tunas, longfinned tunas, tanner crabs, certain dairy products, maize flour and starch.

Government figures showed that Japan is the biggest source of imports for the Philippines, accounting for 12% of the total in FY2009. Recorded payments amounted to US\$465.34 million, compared with the US\$394 million in 2009. Despite increasing imports from Japan, revenue from the country's exports to Japan reached US\$507.58 million, generating a total trade value of \$973.01 million and US\$42.34 million trade surplus for the Philippines (Source: NSO)

Figure 3. Philippine Imports by Country of Origin, 2009



Source: NSO

However, in terms of trade share in Japan, the Philippines lagged behind other middle income countries in ASEAN in 2009. Japan's imports from the Philippines represent only 1.2% of its total import volume. This figure tails behind Japan's imports from Indonesia, Malaysia, Thailand and Vietnam.

Table 6. Japan's Trade with ASEAN (Million US\$, 2009)

Country/Area	2009			Share		Contribution rate	
	Exports	Imports	Balance	Exports	Imports	Exports	Imports
Singapore	20,696,420	6,112,782	14,583,638	3.6	1.1	-0.7	-0.2
Thailand	22,253,584	16,035,952	6,217,632	3.8	2.9	-0.9	-0.6
Malaysia	12,862,667	16,755,371	-3,892,705	2.2	3.0	-0.5	-0.8
Indonesia	9,333,775	21,824,757	-12,490,982	1.6	4.0	-0.4	-1.4
Philippines	8,232,546	6,402,286	1,830,259	1.4	1.2	-0.2	-0.3
Brunei	162,137	3,331,939	-3,169,802	0.0	0.6	0.0	-0.2
Viet Nam	6,517,769	6,962,390	-444,621	1.1	1.3	-0.2	-0.3
Laos	76,053	26,872	49,181	0.0	0.0	0.0	0.0
The Union of Myanmar	201,919	340,961	-139,042	0.0	0.1	0.0	0.0
Cambodia	112,604	142,866	-30,262	0.0	0.0	-0.0	0.0

Source: JETRO

### Box 1. Rules on Origin (ROO)

Rules of Origin or ROO refer to the manner by which origin or "nationality" of goods is determined to be eligible for preferential tariff treatment under JPEPA. This is to ensure that only the products originating from either the Philippines or Japan can enjoy the preferred tariff negotiated under JPEPA. The criteria for determining the origin and the equivalent procedures for establishing such are stipulated under Chapter XXX of JPEPA.

There are two means to determine eligibility of origin of goods.

The first refers to the application of the qualifying value content (QVC), which adopts the value-added method for determining the necessary value of a good to be considered as originating from Japan or the Philippines.

For purposes of quantifying QVC, JPEPA prescribes this formula:

$$\text{Q.V.C.} = \frac{\text{F.O.B.} - \text{V.N.M.}}{\text{F.O.B.}} \times 100$$

Where:

QVC = qualifying value content of a good, expressed herein as a percentage;

FOB = free-on-board value of a good that is payable by the buyer of the good to the seller of the good, regardless of the mode of shipment, excluding any internal excise taxes reduced, exempted, or repaid when the good is exported; and

VNM = value of the non-originating materials used in the production of a good.

Under JPEPA, ASEAN content can similarly be used in conferring origin on some products, such as those adopted for Textiles and Textile Articles (Chapters 50-63), Preparations of Vegetables, Fruit, Nuts or Other Parts of Plants (Chapter 20), and cocoa beans (in HS 1805).

The other method of determining origin is through accumulation. An originating good of the other Party used as a material in the production of the good in the former Party may be regarded as an originating material of the former Party. This method is similarly applied to chapters mentioned above.

Source: Details from JPEPA Briefer

### *(a) Agriculture*

Agriculture remains one of the most sensitive issues in trade negotiations, as they are equally sensitive in WTO discussions. Of the tariff lines that are either excluded from any commitments or subject to renegotiations, majority of the products belongs to the agriculture sector.

As Japan remains largely protective of its agriculture and fishery sectors, many of these products were excluded from tariff elimination under JPEPA. More than half of Japan's agricultural products are subject to deferred tariff elimination. Tariff rate quotas (TRQs) have been applied for a limited number of products, while many others are for renegotiation and reduction in a period ranging from three to 15 years.

The list of products excluded from tariff elimination includes: cigarettes containing tobacco, rice, and rice-related products (*e.g.* rice flour). On the other hand, Japan agreed on the tariff elimination for products such as yellowfin tuna and skipjack on the fifth year and for products such as small bananas only on the tenth year. Tariffs for products, such as coffee, beer, fertilizers, fresh or dried mangoes, and fermented beverages were to be immediately eliminated.

On the part of the Philippines, it committed to the elimination of tariffs for a number of products, such as lobsters, shrimps, crabs, cashew nuts, almonds, walnuts, hazel nuts, grapes, apples, and pears. It also agreed to tariff reduction over the next 10 years for the rest of agricultural products. For rice, all tariff lines have been excluded from any tariff elimination, reduction, or renegotiation. Further, the Philippines did not make any commitments related to TRQs, renegotiation, and tariff reduction schedule in a period less than or more than 10 years.

Notwithstanding the protectionist tendencies characteristic in the agriculture sector, the Philippine agriculture is not going to be negatively affected and can still be considered as a significant gainer. The high tariffs in Japan that prevail in Japan are mainly applied on agricultural products. Reduction in tariffs is therefore expected to contribute in improving the Philippines' market access and market share. Prior to JPEPA, Philippine products such as pineapples and bananas dominated the Japanese market, despite the high tariffs that prevailed at the time. In contrast, lowering tariffs applied on Japanese products is not expected to pose a serious threat to domestic producers because of the relatively expensive costs of Japanese agricultural products.

Other gainers for Philippine agriculture include shrimps, crabs, prawns, mangoes, cane molasses, chicken and tuna where the Philippines has established an advantage as a major exporter. Japan also agreed to grant a favorable treatment to Philippine sugar, chicken, pineapples, fishery products, and bananas.

To take advantage of the opportunities under JPEPA, it is necessary that Filipino exporters put serious attention on food quality and safety, which are sensitive considerations for the Japanese market. Attention should be devoted to the production of hormone free, even-sized, properly packed, and hygienic products. JPEPA promotes mutual recognition and conformity assessment procedures for products and processes component (including sanitary and phyto-sanitary measures or SPS), which aim to help Philippines exporters meet Japan's standards and requirements. Technical cooperation and investment cooperation could be explored to address the weaknesses in the agriculture sector. Improving capacities on SPS measures and exchange of information and training could be actively negotiated.

#### *(b) Industrial products*

Prior to JPEPA, most of the industrial products coming from the Philippines already had low tariffs that ranged from 0 to 3%. The Philippines committed to immediate tariff elimination for a number of industrial products. However, gradual tariff reduction will be applied to sensitive sectors, such as the automotive industry, enabling them to put in place adjustment measures to face the inevitability of competition. Tariff reduction is expected to take place on the tenth year. Moreover, the Philippines introduced TRQs for iron and steel products.

Japan, on the other hand, committed to the immediate tariff elimination on essentially all industrial goods and non imposition of TRQs. Products like tanned or dressed furskins, articles of fur skin, and certain types of footwear have been exempted from tariff elimination, reduction, or renegotiation. Only plywood, veneered panels, and similar laminated woods will be subject to re-negotiation. Tariff reduction for the remaining products will be eliminated mostly on the tenth year of JPEPA implementation.

The economies of Japan and the Philippines are characterized by a high degree of intra-industry linkage. Thus based on comparative advantage, it is expected that Japan would gain in capital and technology intensive products, while the Philippines would benefit from labor intensive sectors. (Siazon, 2007).

Industries, like electrical and electronic appliances and their parts, auto parts, and textiles and apparel which are characterized by global production networks and vertical specialization, are positively affected by JPEPA. Production processes in these industries are fragmented into many stages distributed in various developing countries, resulting in huge vertical intra-industry trade in parts and components. The international production and distribution networks in East Asia can be considered as among the most advanced in the world. JPEPA enables the Philippine industries to benefit from Japan's globalizing corporate activities and participate in their international production networks. SMEs, which supply inputs to large industries, can primarily benefit from technology transfer through subcontracting arrangements in this kind of segmented production process.

## *(2) Trade in Services*

Chapters 8 and 9 of JPEPA contain provisions related to the movement of natural persons from both countries. JPEPA removed the possible quantitative restrictions on the number of natural persons to be granted entry and temporary stay, except otherwise provided by immigration laws and natural regulations. The implementation of movement of natural persons will be reviewed every five years, after JPEPA has been put into force.

The period of time allowed for mobility under JPEPA varies on the classification of these individuals: Professionals and specialized/skilled workers are allowed an extendable period after one to three years; nurses for an extendable period after the first year; and caregivers up to an extendable period after three years.

Inclusion of services in JPEPA facilitates the liberalization of services related to the medical profession, tourism and travel, outsourcing, banking and other financial services, recreational, cultural and sporting services, advertising, management consulting, audio visual services, environmental services, and value added services on telecommunications (e.g., wired or wireless technology, voice telephone services, and satellite services, among others).

As a result, JPEPA has opened up various opportunities for the Filipino labor to tap into the Japanese market. The liberalization of Japanese health care industry and for the



Filipino caregiver and the creation of a new visa category for the Filipino caregivers are among the benefits derived from JPEPA. These workers are permitted to work for a limited time, while working on the acquisition of Japanese qualifications, which includes a level of proficiency in the Japanese language. Prior to JPEPA, Filipino nurses who acquired relevant Japanese qualifications were allowed to work for a maximum of seven-year stay in training but were not officially permitted to work.

Recognizing that language proficiency and Japanese licensure exams are difficult to meet, JPEPA included a package for language proficiency training that extends modest stipend, board, and lodging to qualified applicants for a period of six months. After six months, the candidates, whether or not they passed the examinations, will be offered an employment contract under the supervision of a Japanese nurse and will receive a salary. In addition, Japan agreed to fund a Japanese language institute in the Philippines so that training can be undertaken within the country. In 2009, close to 400 Filipino nurses and caregivers were deployed to Japan under the JPEPA scheme. The figure was smaller than the original target as a result of the global financial crisis that affected demand in Japan. For 2010, the Philippine Overseas Employment Administration has opened the recruitment for the second batch of 500 nurses and caregivers in line with JPEPA.

Apart from remittances that could be generated, employment in Japan makes technological transfer and exchange possible that could further improve the competitiveness of the Filipino human resource. Additional protection for the Filipino workers in Japan was also made possible under the Agreement.

### *(3) Investments*

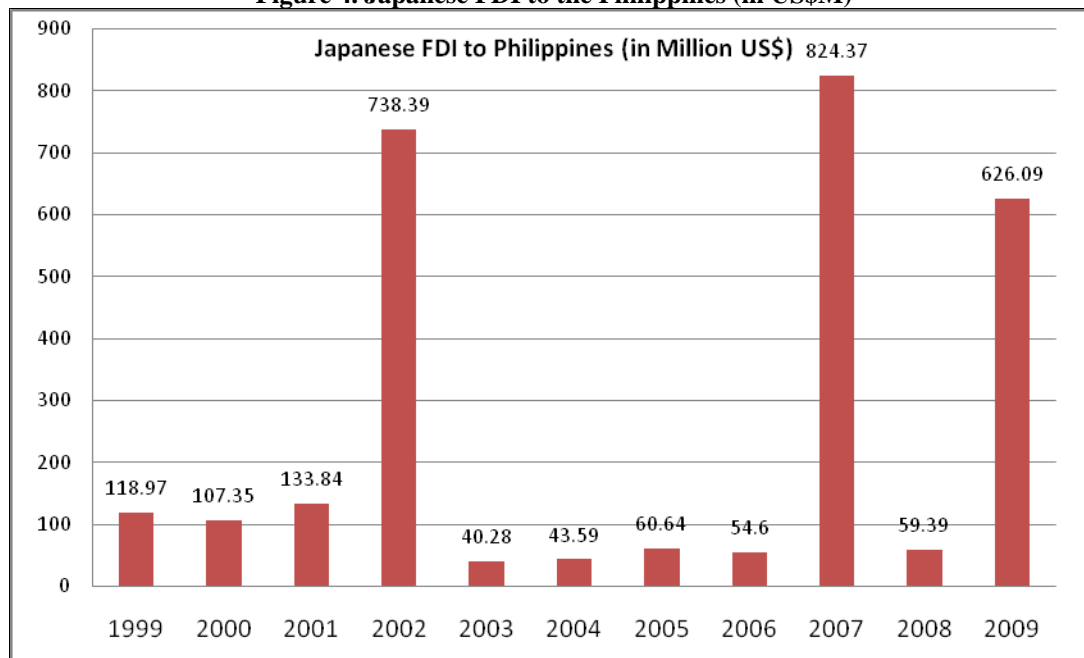
JPEPA grants both investors from Japan and the Philippines national treatment and most-favored-nation (MFN) status. National treatment (Article 89) enjoins the two countries to accord same treatment to domestic and foreign investors and their investments from the partner countries. MFN treatment (Article 90), on the other hand, means that each partner country shall accord the investors and their investments coming from the other partner country same treatment it accords to investors of a Third Party.

The Investment provisions in JPEPA further aim to protect investors from conflicts and provide for conditions that relate to expropriation, compensation, strife, and safeguard and prudential measures, among others. It also contains Performance Requirement Prohibitions which enumerates the exceptions or prohibitions to investment conditions which may arise from the mandate of the Philippine constitution or existing domestic laws as listed in the Foreign Investment Negative List (FINL). Annex I of JPEPA identifies these limitations or prohibitions. JPEPA likewise prohibits both parties to impose or enforce as a condition for investment activities requirements such as research and development requirement, technology transfer and hiring and appointment of nationals as executives, managers or board member.



Japan has been one of the major sources of FDI in the Philippines. The year 2007 posted the highest investment growth for the past 10 years. Investment figure dipped in 2008 as a result of the global economic slump, to pick up again in 2009 as more Japanese investments poured in following the signing of JPEPA.

**Figure 4. Japanese FDI to the Philippines (in US\$M)**



Source: Bangko Sentral ng Pilipinas

Note: 2009 figures from January to October only

### *Cross-cutting concerns*

#### *(1) Trade facilitation and cooperation*

Trade facilitation is another positive facet of JPEPA. It enumerates 10 key areas (Table 7) for cooperation, including training and education, conduct of joint studies to harmonize standards, infrastructure development, among others. These measures were identified as crucial in ensuring smooth transborder movement of goods, people, services and capital and in creating an environment conducive for growth and development of business. It should be emphasized though that JPEPA precludes the introduction or continuance of any non-tariff measure (NTM) which is not in line with WTO.

Moreover, JPEPA promotes the simplification and harmonization of procedures and standards to promote efficient transactions between the two parties. The use of ICT, simplified procedures, conformity to international standards in customs clearance procedures, the prohibition of performance requirements, the mutual recognition agreement, and paperless trading, among others are seen to reduce delays in cross-border transactions and facilitate trade between the two countries.

Under Article 139 of JPEPA or the Improvement of Business Environment, the two parties have agreed to establish a sub-committee that is tasked to supervise and facilitate actions that create a favorable environment for business and investment activities. The subcommittee was convened in June 2009 to prepare for the state visit of President Arroyo to Japan within that month where the implementation of JPEPA was to be discussed. Former Trade and Industry Secretary Peter Favila and former Japanese Ambassador Makoto Katsura chaired the meeting.

**Table 7. Ten Areas of Cooperation under JPEPA**

	Fields of Cooperation	Possible areas/Forms of Cooperation
1	Human Resource Development	Education and training Harmonization of competency standards
2	Financial Services	Promotion of regulatory cooperation in financial services Improvement of financial market infrastructure
3	Information and Communications	Human resource development in the ICT sector Development of ICT infrastructure, ICT related services and digital content
4	Energy and environment	Improvement of utilization of energy Protection and management of the environment
5	Science and Technology	Advance science and technology agriculture, forestry, fisheries and management of natural resources Human health and nutrition
6	Trade and Investment Promotion	Trade and investment activities, including those conducted by private enterprises
7	Small and Medium Enterprises (SMEs)	Strengthening of management and competitiveness of SMEs Human resource development
8	Tourism	Promotion and development of tourism Human resource development
9	Transportation	Improvement of the technology of transportation Human resource development
10	Road development	Improvement of the technology of road development  Human resource development

Source: Primer on JPEPA

*(a) Customs Procedures*

JPEPA promotes the simplification and harmonization of customs procedures and strict enforcement against illegal trafficking of goods, consistent with the practices under the World Customs Organization. Both parties are encouraged to engage in a transparent and regular sharing of information on customs procedures and enforcement policies against trafficking of prohibited goods and trading of goods that are suspected to infringe on intellectual property rights. At the same time, JPEPA solicits reforms to improve processes related to administrative and judicial review, use of ICT, and streamlining of export and export documentation requirements, among others. Improved framework for risk management and risk management techniques are endorsed not just in Japan and the Philippines, but also in relevant third countries or customs territories.

*(b) Paperless Trading*

In lieu of paper-based filing, JPEPA advances the paperless trading methods to facilitate exchange of trade-related information. More efficient trading is promoted through storage of trade documents, such as invoices, letters of credit, insurance certificates, *etc.*, in electronic version. JPEPA invites the two parties to exchange best practices, build awareness among private sector entities, and provide incentives towards the creation of facilities and technologies on paperless trading.

*(c) Mutual recognition*

Mutual recognition arrangements (MRAs) between Japan and the Philippines stipulate that both parties express mutual acceptance of the test results and certifications issued by conformity assessment bodies (CABs) from both countries. Duly designated CABs in the exporting country must be able to test and certify exports for compliance with the importing country's laws, regulations and other related administrative policies. JPEPA effectively requires that CABs from one country be registered by their counterparts in the other country to enable acceptance of assessment procedures based on domestic laws, regulations, and administrative provisions. Observance of this condition also pushes the two countries to adhere to universal quality standards, such as those designed by the International Organization for Standardization and International Electrotechnical Commission. JPEPA contains a Sectoral Annex on Electrical Products that prescribes limited standards between the two countries.

*(d) Intellectual property rights (IPR)*

Japan and the Philippines are obliged to ensure adequate and non-discriminatory protection of intellectual property and to undertake necessary measures for the effective enforcement of IPRs against any form of infringement, counterfeiting, and piracy. Each party is encouraged to strengthen their IPR systems and their implementation instruments.

*(e) Government procurement*

The two parties have agreed to enter into negotiations in a period of not more than five years after the establishment of JPEPA, on the issue of government procurement. The aim is to accord each party with national treatment and MFN status for goods, services and suppliers of the other party in the context of procurement. JPEPA also aims to enhance transparency of the national procurement systems and align them with international principles on government procurement, such as the Agreement on Government Procurement stipulated in WTO.

*(2) Dispute avoidance and settlement*

Chapter 15 of JPEPA creates a system to avoid and settle disputes arising from the implementation and interpretation of JPEPA. It also spells out the obligations of the two parties to ensure that the issues and/or concerns are brought to the fore to trigger

discussion, conciliation, and mediation. JPEPA encourages the establishment of an arbitral tribunal that will deliberate, investigate, and decide on the issues presented by the partners. The decision of the tribunal is final and executory.

Moreover, JPEPA contains provisions that seek to safeguard both parties from serious injury or threat arising from increased importation under JPEPA. Under such circumstance, the aggrieved party may choose to suspend or increase the customs duty and/or apply quota limits on the originating good, subject to prevailing MFN conditions and TRQ Schedules annexed to the Agreement. Articles 3 (Investigation) and 4 (Determination of Serious Injury or Threat) are reflected in the Agreement to provide clarity on these procedures.

### *(3) Issues against JPEPA*

Both the technical and political process for reviewing and deciding on the merits of JPEPA was severely prolonged by strong lobby and criticisms from various segments of the society. JPEPA is criticized to have hastily pushed the Philippines to commit to the contested Singapore issues (*i.e.*, investment, competition, government procurement), that could place the country in a disadvantageous position vis-à-vis Japan. It is likewise criticized for effectively legalizing the importation of toxic and hazardous wastes from Japan.

#### *(a) Inclusion of Singapore Issues*

The economic framework adopted for JPEPA followed suit from that of Japan-Singapore EPA (JSEPA), which was signed at the same time that JPEPA was planned. Japan utilized regional and bilateral EPAs to revitalize its relationship with the ASEAN and its economic partners, including the Philippines. When JPEPA was put in place, Japan promoted the expansion of the JPEPA coverage from mere trade liberalization and facilitation to other measures of enhancing economic partnership.

The Singapore issues, which include investment, competition, government procurement and trade facilitation, were first raised during the 1996 WTO negotiations. They were subsequently taken off the track during the 2003 Cancun Conference due to protests from developing countries. Inclusion of these issues was opposed by G77, a coalition of developing countries including the Philippines because of the potential negative implications on developing countries. In JPEPA, these Singapore issues are included in Chapter 8 (Investments), Chapter 11 (Government Procurement), Competition (Chapter 12), and Trade Cooperation and Facilitation (Chapter XX).

There were initial fears that inclusion of these provisions would eventually undermine the negotiating position of the Philippines in the realm of multilateral and regional trade agreements. However, the Philippines permitted the inclusion of the Singapore issues since they are linked with the overall necessity for improving the governance framework

crucial in strengthening the domestic market and in supporting legal structures. These reforms are equally necessary in developing the country's business environment.

*(b) Environmental concerns*

One of the reasons that resulted in the delay of JPEPA ratification was the allegation from the public on possible environmental violation entailed by JPEPA. Critics feared that JPEPA would lead to the free-flow entry of toxic and hazardous waste products to the Philippine shores, with the adoption of a zero-rating scheme for waste products.

Fears have been allayed by the fact that both Japan and the Philippines are signatories to the Basel Convention<sup>4</sup> on the Transboundary Movement of Hazardous Wastes. The convention requires signatory countries to make prior notice and consent before any act of exportation or importation of hazardous wastes. Existing environmental policies in the Philippines reinforce the prohibition of hazardous wastes and products in the country. For example, the Toxic Substances and Hazardous and Nuclear Wastes Control (Republic Act No. 6969) prohibits the entry, transit, storage, and disposal of hazardous and nuclear wastes into the country. Prevailing import controls and regulations that are more binding protection than tariffs also help deter transboundary environmental irregularities.

**Table 8. Waste Products that are specifically given 0% tariff in JPEPA**

<ul style="list-style-type: none"> <li>• Ash and residues (other than the manufacture of iron or steel), containing arsenic, mercury, thallium or their mixtures, of a kind used for the extraction of arsenic or those metals or for the manufacture of their chemical compounds</li> <li>• Waste and residues from the incineration of municipal waste</li> <li>• Waste pharmaceuticals</li> <li>• Municipal waste</li> <li>• Sewage sludge</li> <li>• Clinical waste – adhesive dressings and other articles having adhesive layer, wadding gauge bandages, surgical gloves</li> <li>• Other clinical waste</li> <li>• Waste organic solvents – halogenated and other</li> <li>• Other wastes from other chemical or allied industries – containing organic constituents</li> <li>• Waste of metal pickling liquors, hydraulic fluids, brake fluids and anti-freeze fluids</li> <li>• Worn clothing and other worn articles</li> <li>• Used or new rags, crap twine, cordage, rope and cables and worn out articles of twine, cordage, rope or cables, of textile materials</li> </ul>
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Source: PIDS

To further protect the environment, JPEPA has built-in measures and safeguards to prevent illegal activities that may arise out of the zero-rating of tariffs on waste products. These measures include:

- a) Issuance of a joint statement by the governments of Japan and the Philippines that expresses their shared commitment to protect the environment.

<sup>4</sup> Basel Convention is an international treaty that was designed to reduce the movement of hazardous waste between nations, especially the movement of hazardous waste from developed countries to LDCs. The convention was opened for signature on March 22, 1989 and entered into force on Ma 5, 1992.

- b) Article 102 (Environmental Measures) and Chapter 8 (Investment) provide that these two countries agreed not to mutually relax environmental measures just to encourage investments by the other party.
- c) Article 34, Chapter 8, (Cooperation in the field of energy and environment of the Implementing Agreement pursuant to Article 12 of the JPEPA) binds the two countries to adhere to efficient utilization of energy, proper management of environment and sustainable development.

To effectively implement the provisions of JPEPA regarding the environment, capacity building for building for enforcing, monitoring, and environmental regulations was suggested during the JPEPA deliberations. Cooperation could be forged along the areas of: (a) designing technology transfer programs to manage toxic and hazardous wastes; (b) improving capacity of our regulators to implement environmental laws, *e.g.*, in monitoring; (c) forging closer coordination among the customs and environment agencies in the two countries in order to effectively regulate and prevent illegal wastes trade; and (d) acquiring necessary equipment and the necessary skills to regulate and/or prevent entry of hazardous wastes. Technical and regulatory agencies, such as the Department of Environment and Natural Resources and the Bureau of Customs, need to be capacitated to perform their responsibilities under JPEPA.

#### **D. Recent Developments and Challenges to Moving Forward**

It is rather early to assess the impact of JPEPA since it was only ratified in 2008 . Clearly, JPEPA offers a lot of opportunities for the Philippines. However, to take full advantage of these opportunities, it is necessary to address the identified weaknesses both on the institutional and physical fronts. These actions are well within the mandate and authority of domestic policy makers and implementers.

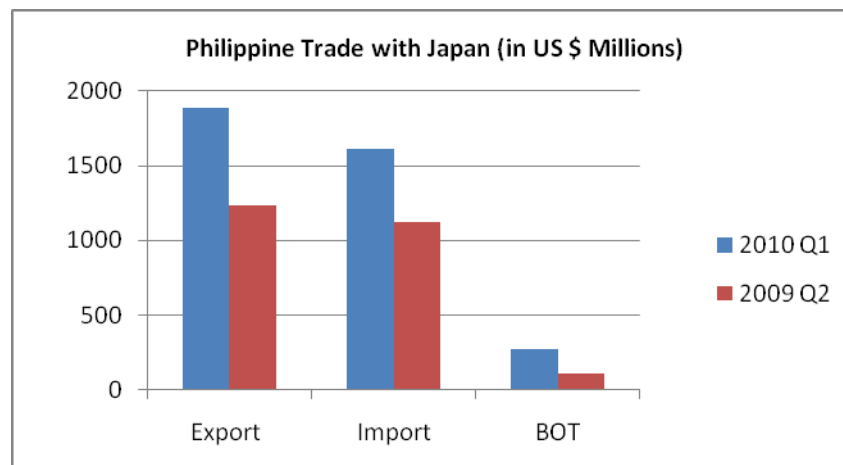
JPEPA stipulates the creation of a Joint Committee to be composed of representatives from the governments of Japan and the Philippines. The Joint Committee is mandated to (i) review the implementation and operation of JPEPA; (ii) consider and recommend to both governments any possible amendment to the Agreement; (iii) oversee and coordinate the work of the ensuing subcommittees; and (iv) adopt the Operational Procedures on Trade in Goods and Rules of Origin (ROO) under Article 25, the Operational Procedures on Mutual Recognition under Article 65, and the Rules of Procedure under Article 159; and e) perform other functions as the two governments may agree.

To support the work of the Joint Committee, subcommittees will also be created with the task of monitoring actions and issues related to specific themes of JPEPA implementation. There are at least 11 subcommittees that are supposed to be created once JPEPA is set in place, on themes namely: Trade in Goods, Trade in Services, ROO, Customs Procedures, Mutual Recognition, Investment, Movement of Natural Persons, Intellectual Property, Government Procurement, Improvement of the Business Environment, and Cooperation.

They are mandated to assess the status of JPEPA implementation and determine the need to amend or repeal laws and regulations related to JPEPA. Other subcommittees may be created if agreed between the two parties. As of 2009, 5 of the 12 subcommittees had been convened and 9 working groups under JPEPA's Chapter on Cooperation were submitted for consideration, including Movement of Natural Persons. The government is taking further steps to implement other pending commitments.

On August 13, 2010, the Department of Trade and Industry convened government agencies and stakeholders to take stock of what JPEPA has accomplished and to make an early assessment on JPEPA's impact. Special attention was given on sectors that were fearful of potential negative impact.

The good news is that two years after implementation, JPEPA showed no significant adjustment costs for the government. No sector also showed signs of displacement and dislocation. Even the auto industry, which feared JPEPA's adverse impact, posted positive growth despite the global crisis. Comparing Direction of Trade data on 1<sup>st</sup> quarter of 2009 and 2010, Philippine trade with Japan increased, with Philippine export showing huge potential for bigger gains in 2010.



Source: National Statistics Office

Nonetheless, many of the more substantial actions have yet to be implemented. In fact, many Japanese investors have echoed these concerns through various venues in the hope of getting government attention to these commitments.

Japanese investors in the country, along with other foreign investors complain about inadequate infrastructure that impedes the efficient flow of goods from the production to the market place. Poorly maintained road networks and incomplete infrastructure networks, compounded by heavy traffic congestion, severely limit the movement of goods undermining the productivity of industries, particularly those that are located



inside economic zones. Electricity tariffs in the Philippines are much higher than those of its neighbors in the ASEAN. The looming energy crisis in the Philippines sends jitters to the investors who fear the sustainability of their operations in the country and dampens the interest of prospective investors who are considering the Philippines in their investment decisions.

Fiscal constraints faced by the Philippines further undermine the ability of the government to beef up investments in these sectors. With infrastructure and capital spending in the Philippines that is considered rather low at a rate of 3.3% of GDP, compared to the average of 5% in the region, it is alarming for many investors that the poor physical environment in the country will take time to be substantially addressed. To illustrate, vehicle operating costs and intercity freights in the country are estimated to be 50% higher than those in Indonesia and Thailand. Power tariffs are also high at 20-80% more than in other ASEAN countries, according to ADB.

Investors also complain of the high transaction cost of doing business in the Philippines. This observation is reinforced by a World Bank assessment that placed the Philippines in a survey of 184 countries: 144 in ease of doing business; 162 in starting a business; 111 in dealing with construction permits; 132 in protecting investors; and 118 in enforcing contracts.

Inadequate infrastructure and weak institutional framework undermine the overall competitiveness of the Philippines, including its ability to maximize gains from JPEPA. In 2009, the Philippines ranked 43<sup>rd</sup> in the World Competitiveness Survey, which covered a sample of 57 countries. This is rather low, compared to other Asian countries included in the survey: Hongkong (2); Singapore (3); Malaysia (18); China (20); Taiwan (23); Thailand (27); only Indonesia was close at 42.

Breaking down this ranking into sub-factors, the Philippines ranked very low in categories related to capital investments, such as (overall) infrastructure (56); basic infrastructure (57); education (54); health (48); and scientific infrastructure (56). The policy and governance environment in the country also deterred international investors, as indicated by the low rankings in institutional framework (42); government efficiency (42); business legislation (50); and public finance (54).

Japanese contractors also complain of the onerous contracts that govern the public sector programs and projects in which they are engaged. The experience in taxation and claim settlements in these domestic projects are not encouraging for Japanese contractors. This negative experience has affected the provision of Japanese ODA to the Philippines.

Immediate and satisfactory resolution of the manner by which Japanese ODA is utilized is necessary. Japan remains to be largest provider of ODA to the Philippines, with contributions amounting to over US\$24.5 billion<sup>5</sup> over the last four decades. This makes the Philippines, among the top 10 recipients of Japanese ODA, in form of technical assistance, concessional loans, and contributions to programs and project of

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<sup>5</sup> MOFA website



multilateral institutions. While the Philippines has long been a major recipient of Japanese ODA, there is much to improve on the impact of Japanese ODA to the long-term development of the Philippines.

For this reason, the governments of Japan and the Philippines have agreed to prepare a program of support that will support actions related to JPEPA implementation, including the weaknesses identified by the Japanese affiliate parties, such as the Japanese Chamber of Commerce and Industry of the Philippines. The package of assistance seeks to contribute to the overall goal of improving the investment climate for the private sector, through reforms related to tax administration, simplification of customs services and procedures, pending commitments under the Revised Kyoto Protocol, and public-private sector partnerships. The Japanese Government has also pledged to provide an economic revitalization package to its key partners, including the Philippines, making it third to Vietnam and Indonesia to receive such support. Many sectors are thus pinning their hopes on the possible outcomes of these cooperative efforts in the hope of catching up on committed actions.

## **E. Conclusion**

The Philippines could not afford to delay JPEPA implementation as our neighbors in the ASEAN are investing heavily on their human resources and built environments in the name of global competitiveness and sustainable development. ODA is one of the many instruments to advance this goal.

The slow action to set place complementary policies and institutions consistent with trade liberalization resulted in the prolonged adjustment and restructuring among domestic industries. These policies undermined efficiency considerations. Trade policies and economic priorities have become inconsistent and incompatible with global parameters and with the country's own development agenda.

The East Asian region has been touted as one of the most dynamic economic regions in the world. It has become a preferred destination for many international investors and has witnessed exponential increases in trade volume. However, the gains are uneven in the region, with China as one of the economic champions, while the Philippines has yet to gain from this economic vibrancy.

The new age FTAs like JPEPA underscores the urgency to implementing reforms. In many cases, where governance takes time to even be considered, openness makes up for the absence of credible governance practices. Market appetite and behavior provide immediate feedback to government decision-makers on the inadequacy of the actions being undertaken.

Being the first FTA to be signed by the Philippines, the experience and performance under JPEPA will be subject to close scrutiny that could consequently influence the future EPAs to be entered into by the Philippines. It also signals the seriousness and

readiness of the Philippines to take a more active part in promoting free trade based on cooperation. The opposite signals otherwise.

Without solid reforms and actions, the gains from JPEPA in particular, and from globalization and integration in general will not be maximized. JPEPA is the embodiment of a development objective, but not a substitute to a development strategy. JPEPA opens up opportunities to access a bigger market and explore other development prospects, but these will remain promises if actions are not taken. In this regard, the role of a decisive leadership and pro-active policies to take full advantage of the benefits of JPEPA can not be overemphasized.

It is equally challenging to ensure that the benefits of JPEPA spread through as many sectors and segments of the society as possible. For example, SMEs need to be placed in a position to capture gains in a globalizing world. It is necessary to demonstrate that JPEPA has positive impacts on ordinary lives in form of improved incomes and productivity and increase employment opportunities and market access, among others. It is also necessary that the public and private sectors in the Philippines better gear up to ensure that the agreed reforms are implemented. Key agencies, such as the Departments of Trade and Industry, Foreign Affairs, Finance, and Labor and Employment, should ideally possess capacities to pursue country level actions related to JPEPA.

Given the economic asymmetries, most particularly market size, the challenge for developing countries in North-South agreements is to ensure that any negotiated outcome is supportive of the interest of both countries. Most often than not, the main motivation for developing countries engaging in trade agreements is poverty reduction and to help sustain and achieve its development goals. Henceforth, the priority needs are not merely trade policy-related but revolve around bolstering trade capacity and improving the investment climate through the cooperation agreements embodied in the trade agreements. (Balboa, 2008)

The challenge for the new administration is how to take a more aggressive stance in making JPEPA work and arrest the continuing decline of the country's competitiveness in the global economy.

**Box. 2.**

**Revisiting the JPEPA Process: Outlining a Protocol for FTA**

This section revisits the key processes that JPEPA underwent with the objective of outlining a possible protocol for future EPAs. This proposed processes and organizational preparations could be considered to facilitate future deliberations of prospective EPAs to be entered into by the Philippines.

- a) *Creation of a special committee composed of multiple stakeholders from the public and private sectors.* No less than the president issued Executive Order 213 creating the Philippine Coordinating Committee (PCC) to determine the feasibility of then proposed JPEPA. PCC was tasked to shepherd the JPEPA through the technical and political process including the negotiations for JPEPA. The Department of Trade and Industry and of Foreign Affairs were appointed to jointly chair the Committee.

b) *Organization of a Research Project Team.* The Philippine APEC Study Center Network, a regular project component of the Philippine Institute of Development Studies, was appointed as the Research Project Team for JPEPA. The team was tasked to undertake studies to determine the impacts of JPEPA on the macroeconomy and on identified sectors. The studies were used as important inputs into the deliberations of JPEPA. Leading universities, colleges, and research institutes were tapped to directly undertake the specific studies.

c) *Extensive multisectoral consultation.* Following the conduct of the studies, extensive consultations were undertaken among different sectors of the society. The results were subjected to technical and policy level debates that helped articulate and refine the arguments in favor of JPEPA.