

# **JPEPA: a raw deal for the Philippines**

Thursday 5 April 2007, by [PURUGGANAN Joseph](#) (Date first published: 31 March 2007).

**This paper was presented at the forum on JPEPA: More Pain than Gain for Filipinos organized by Peace Cycle, March 7, 2007, University of the Philippines, Manila.**

“The Philippines is ripe for more trade and investments” was Foreign Affairs Secretary Alberto Romulo’s sales pitch at the World Economic Forum (WEF) held in Davos, Switzerland in January this year.

But with all of these bilateral deals and deal making happening left and right alongside the on-going efforts to jump start the stalled Doha negotiations in the World Trade Organization (WTO), the more relevant issue may not be our readiness for more trade and investment but whether opening the doors for these would actually benefit the Philippines.

Are these deals good for us or are we in fact getting a raw deal in all of these bilateral and multilateral trade and investment agreements?

## **THE CASE OF JPEPA**

The signing of the Japan-Philippines Economic Partnership Agreement (JPEPA) at the sidelines of the Asia-Europe Summit in Helsinki in September 2006 was hailed by both Japanese Prime Minister Junichiro Koizumi and Philippine President Gloria Macapagal Arroyo as a “milestone in the continuing cooperation and collaboration, setting a new chapter of strategic partnership for mutual opportunity and growth (for both countries).”(1)

JPEPA which has been referred to as a ‘mega treaty’ is a comprehensive plan for opening up of markets in goods and services as well as removing barriers and restrictions on investments. It is a deal that encompasses even our commitments to the WTO.

The complexity of JPEPA became all the more evident at the Senate hearing conducted by the Committee on Trade and Commerce last November 2006. The committee, chaired by Senator Mar Roxas, heard differing views and perspectives on JPEPA. On one hand the committee heard Government’s rosy projections on the economic benefits of JPEPA and on the other hand the views of environmental and trade activists who raised there very serious concerns about the country being turned into Japan’s toxic waste basket. The discussion in the Senate showed that JPEPA is not just an issue concerning trade and economic relations with Japan but one that touches on broader national development concerns.

## **GOVERNMENT’S VIEW: ROSY PROJECTIONS**

Taking off from the presentation made by the Department of Trade and Industry (DTI) at the last Senate hearing on JPEPA (2), which touched on the general contents of the treaty, Secretary Peter Favila outlined the DTI’s response to some of the issues raised during the last hearing. Hoping to address some of the issues raised during the previous hearing, the government through Trade Undersecretary Tomas Aquino made a presentation on issues related to the process (questions of

transparency and stakeholder participation), the net economic effect on the Philippine economy arising from treaty, legal issues and concerns, and environmental issues.

## **PROCESS**

The negotiations for JPEPA underwent a process that started with the drafting of Executive Order 213 which called for the "Creation of a Philippine Coordinating Committee to Study the Feasibility of the Japan-Philippines Economic Partnership Agreement." The committee is co-chaired by the Undersecretary for International Trade of the DTIO and Undersecretary for International Economic Relations of the Department of Foreign Affairs (DFA). Area and Chapter mandates were then developed for corresponding national government agencies (NGA). A Director-level representative from each NGA was then tasked to be the lead negotiator for each areas/chapter mandate.

The consultations are under the purview of the concerned agencies that may call for such as they deem appropriate.

The working sessions prior to formal negotiations ran for about one and a half years while the formal negotiations took two and a half years to complete. Formal negotiations for JPEPA began in February 4, 2004 and the agreement was signed in September 9, 2006.

According to the DTI, compared to Japan's other EPAs with other countries, the JPEPA took much longer to conclude. Japan's EPA with Singapore was concluded in a year's time, with Malaysia in over a year, while that with Mexico in a little over two years.

The DTI report claims transparency in the negotiations with a "structured, step-by-step negotiations process consisting of both formal and informal meetings, extensive consultation and public hearings, including attendance in House of Representative hearings." The public was also informed about JPEPA, so the government claims, through press releases and press interviews that were conducted from 2002 to 2006. The report also cites the establishment of two on-line information sources - [www.tradelinephil.dti.gov.ph](http://www.tradelinephil.dti.gov.ph) and [www.business.gov.ph](http://www.business.gov.ph).

For groups however that have been trying to get hold of information on JPEPA since its launch in 2004, the eventual release of the final document and other related information on the agreement after the signing of the deal in Helsinki is a little too late. Groups monitoring the negotiations had to make do with outdated texts in arguing against the agreement.

While the DTI indeed participated in hearings conducted by the House of Representatives, it refused to provide even the Special Committee on Globalization copies of the latest draft text. It is this refusal of the DTI to disclose information that prompted the petition of Akbayan party to the Supreme Court for public disclosure on JPEPA.

The lack of transparency in the JPEPA negotiations underscores a prevalent attitude in government that looks at trade negotiations as endeavors best left to government's trade experts and bureaucrats to handle. This attitude ran counter to the belief shared by the basic sectors that trade negotiations are matters of public interest and therefore should be open to public scrutiny and debate.

## **IN LINE WITH NATIONAL INTEREST?**

According to the Philippine government the JPEPA negotiations are in line with the Philippines' domestic and global economic policies as defined in the Medium Term Philippine Development Plan (MTPDP) and the Philippine Export Development Plan (PEDP).

The priority areas of Philippine negotiating interest are 1. Market Access for agricultural goods; 2. Significant Increase in Foreign Direct Investment, 3. Market Access for nurses and caregivers, IT professionals among others; and 4. Enhanced bilateral economic cooperation through technical assistance.

## **PROJECTED GAINS**

### **\* Exports**

Annual growth rate of Philippine exports to Japan is projected to increase from 10% to 15-20 %. With JPEPA, the value of exports to Japan for 2007 is estimated to be US\$9.08 billion, or an increase of 300 million dollars in export from the \$8.71 billion that we would earn without JPEPA. The contribution of JPEPA would increase to US\$800 million in 2008, US\$1.37 billion in 2009, US\$2.05 billion in 2010 and US\$2.88 billion in 2011.

The projected annual growth rates expected to be realized with the signing of JPEPA are considerably higher than the projected increases in annual growth rates of Mexico (10.3 %) and Singapore (7.3 %) with the signing of their respective EPAs with Japan.

Citing 2002 figures, the government lists the country's top five exports to Japan (by value) as electrical and electronic equipment contributing 42.4 % of exports, machinery contributing 30.2%, export of vehicles at 4.2 %, fruits at 3.9% and optical, technological and medical equipment at 2.3 %. With the exception of fruit exports however, which corners 71.2 of market share in Japan, Philippine exports have not been able to dominate the Japanese market. Electrical and electronic equipment, our top export, only account for 6.7 % of the Japanese market.

The government however reports Philippine's role as supplier for the Japanese market expanding in the areas of electronics, automotive and other industrial manufactures, agricultural products mainly fresh and dried bananas, dried and salted fish), and consumer manufactures like babies' clothes, t-shirts, and wood furniture.

The report also cites the following products where the Philippines has comparative advantage and where its role as supplier can be expanded. These include anything from fish, fruits, charcoal, iron ore concentrates, crude vegetable materials, to clothes, watches and zoo animals and pets.

The Philippines' role as supplier however has been declining in mostly agricultural and food products, and consumer manufactures.

### **\* Investments**

Japan continues to be the number one source of foreign investments, with FDI flows from 2004-2005 amounting to US\$487.26 million. FDIs from Japan are expected to increase from Php137 billion (\$2.8 billion) for the period of 1995-2005 to Php559 billion (\$11.5 billion) from 2007-2016. The increase in FDI flows however will not translate to higher employment, as FDIs are expected to generate 35,477 jobs, a slight dip from the 35,731 jobs generated by FDIs prior to JPEPA. Revenues from FDIs with JPEPA will likewise show a decline from Php4.75billion to Php4.72 billion (\$98 million to \$97.4 million).

### **\* Overseas Employment**

It is in the area of overseas employment however where JPEPA is projected to deliver the most gains for the Philippines. With JPEPA, the government expects easier entry of qualified Filipino nurses and certified care workers through language training, clear guidelines on exercise of

profession/occupation and streamlined processing of application. There is also the possibility that the easing of restrictions on Filipino overseas work in Japan could also be applied to other professions.

The government is counting on the increasing demand for care-workers in Japan on account of its maturing population. The Japanese health care market is projected to increase in market size from US\$56 trillion in 2002 to US\$75 trillion by 2010. The demand for labor is likewise projected to increase from 5.5 million in 2002 to 7.5 million by 2010.

## **EXPECTED PAINS**

The optimism of the Philippine government based on these very positive economic projections however must be tempered by empirical studies.

A recent paper from the Asian Development Bank (ADB) concludes that “bilateral FTAs with Japan are not beneficial for most Asian economies”.<sup>(3)</sup> The report further argues that because “Japan is relatively open for its manufacturing market and its import protection is mainly applied in the agriculture and food sectors, only countries like Thailand and Vietnam (which account for relatively larger share of the Japanese market) would “gain stronger competitive advantages in the Japanese market through their bilateral FTAs with Japan. In other words an easing of restrictions in the Japanese market on hitherto protected sectors like agriculture and food would benefit countries that have, prior to the FTA, already cornered a large share of the Japanese market.

In the case of the Philippines, figures cited by the DTI show that with the exception of fruits, Philippine exports to Japan hardly dominate the Japanese market. The DTI reports also that even in the agriculture and food sectors, the share of Philippine exports in the Japanese market is declining.

### **\* Revenue Losses**

The DTI also presented figures on estimated foregone tariff revenues resulting from tariff reductions under JPEPA. Tariff commission estimates the figure at Php4.15 billion (\$85.6 million), which is within the estimate range of PIDS (2003) of Php3-5 billion (\$62 - 103 million) but well below the figures cited by Ibon of Php9 billion (\$187.8 million).

Government argued however that the foregone tariff revenues in fact are partly retained in the country as business savings for expanding working capital and/or additional investible funds to generate more economic activities. Furthermore, it argued that foregone revenues also partly boost consumer spending and trigger increased demand for goods and services. The increased economic activity, through the multiplier effect, would in turn generate more jobs, incomes, and a bigger revenue base in the coming years.

On possible detrimental impact on industries, the government argued that the adverse effects will only be limited to certain product groups owing to the fact that more than 50 % of total value or Philippine imports from Japan already enter duty-free even prior to JPEPA and another 35% are subject to very low tariffs anyway of 5% and below. The government also identified some garment products, footwear and furniture, tiles and certain steel products, some machines and electrical and electronic appliances, auto and auto parts as some of the products that might be affected. It argues however that these same products/product groups possess possibilities for export expansion or if solely for domestic market-oriented may resort to trade remedies against possible import surge from Japan.

## **CAUSE FOR CONCERN**

Against the very positive picture drawn by the Philippine government of the JPEPA, a number of concerns have been raised by civil society organizations casting doubt on whether or not the deal would really be beneficial to Filipinos.

### **\* Toxic Dumping**

Environmentalists have raised the concern that JPEPA would provide mandate for the dumping of toxic wastes into the country. The inclusion of toxic wastes as a trade-able good in a trade agreement with Japan a country with a known track record of exporting its wastes to developing nations is an invitation to environmental disaster. Environmental groups further pointed out that the liberalization of toxic waste trade ran counter to multilateral environmental agreements like the Basel Convention and the Basel Ban Amendment which prohibits the trade of toxic wastes.

The response of the government to the issue raised by environmental groups about toxic waste trade is contained in a briefer prepared by DTI. In the briefer, government reports that a total of 141 environment-related products considered as waste will have zero tariffs. It argued however that the zero tariffs on these products are of no consequence to their movement from Japan to the Philippines and vice versa since these products are prohibited or regulated under Philippine laws and regulations. Furthermore, the briefer states that the zero tariffs do not automatically mean that the parties are obliged to trade or accept such products in their territories.

The government contends further by citing provisions in the JPEPA including the preamble that JPEPA upholds the implementation of Philippine laws and regulations particularly Republic Act 6969 or the Toxic Substance and Hazardous and Nuclear Wastes Control Act of 1990.

The government has been trying to downplay the issue raised by environmentalist. A recent newspaper report even quoted President Arroyo as saying that the controversy over toxic wastes was “uncalled for controversy, which slowed down the process of ratification”. Arroyo contends that JPEPA does not provide for the importation of toxic materials.

### **\* Nurses and Caregivers**

The claims of government on overseas employment particularly on nurses and caregivers must also be scrutinized. Two questions are relevant in this regard. First, do the provisions in the agreement actually constitute an easing of restrictions on nurses and caregivers? Would these provisions result to a real opening of the Japanese market for Filipino nurses and caregivers or merely an opening in paper?

The agreement stipulates the following requirements for entry and temporary stay of up to three years for nurses and caregivers to Japan. For nurses, the applicant must be a licensed nurse in the Philippines with three year experience. In order to qualify as a nurse or careworker under Japanese Law, the applicants must first undergo training in Japan including Japanese language training for six months. After completion of the said training, applicants must undergo on-the-job training at the hospital under the supervision of a “kangoshi” or a duly registered nurse in Japan for nurses and a “kaigofukushishi” or a certified careworker in Japan for caregivers. After the on-the-job training, the applicants must then pass the licensing examinations in Japan.

A discussion of all these requirements at the Senate Hearing last November 27, 2006, prompted Senator Mar Roxas to remark “kung dadaan naman tayo sa butas ng karayom” (If (our nurses and caregivers) would have to go through the eye of a needle) then it is not such a big opportunity after all.”

Granted however that our nurses and caregivers are able to go through the eye of the needle, the

next question and perhaps more critical, would Filipino nurses and caregivers actually benefit?

While there may be real economic benefits particularly income benefits, there are a host of other social costs associated with overseas employment that must be factored in.

A report by Takemasa Ando (4), a Japanese researcher from Waseda University in Japan, argues that Filipino nurses and caregivers will be “integrated into the bottom level of Japanese labor market and forced to compete with Japanese part-time workers even though they acquire professional skills”.

Ando contends that under the system of “dispatched labor” in Japan dispatched workers face unstable working conditions. They do not have a chance to develop their skill because over 70% of their contracts are good for one year only, and they do not enjoy the same level of social security as full-time workers. Ando further refers to this system of dispatched labor as a new form of deprivation.

## **RAW DEAL**

The Japan-Philippine Economic Partnership Agreement is a raw deal for the Philippines. It is a haphazardly concluded agreement that was negotiated in almost total secrecy. The belated efforts of the Philippine government to make documents public after the deal was already concluded only underscores the government’s total disregard for public interest especially the interest of sectors whose livelihoods face serious threats from the liberalization being pushed by JPEPA.

The rosy economic projections of the Philippine government on trade and investment belie empirical studies even by the ADB that say that bilateral FTAs with Japan are not beneficial for most Asian economies and that only countries that already dominate the Japanese market would benefit from further market openings.

In the case of the Philippines, figures cited by the DTI show that with the exception of fruits, Philippine exports to Japan hardly dominate the Japanese market. The DTI reports also that even in the agriculture and food sectors, the share of Philippine exports in the Japanese market is declining.

Even areas in the agreement purported beneficial to the Philippines such as overseas employment particularly the easing of restrictions on nurses and caregivers, closer examination reveals that the purported gains may be merely paper gains rather than substantive gains. In the end, the cumbersome processes and procedures and requirements may even prevent the gains from materializing. Furthermore, whatever economic gains that would be achieved from increased labor exports to Japan carry social costs including strains on the Philippine healthcare system.

The issue of toxic wastes dumping is something that must not be ignored given the notoriety of Japan as an exporter of waste to developing countries and the institutional weaknesses in the Philippines in the implementation of environmental laws and safeguard measures.

It is now up to the Senate of the 14<sup>th</sup> Congress to study this agreement and weigh the projected benefits against the very real threats to our economy and our sovereignty.

## **NOTES**

(1) Joint Statement on the Occasion of the Signing of the Agreement between Japan and the Republic of the Philippines for an Economic Partnership. 9 September 2006.

(2) DTI presentation is available at [www.business.gov.ph](http://www.business.gov.ph)

(3) Fan Zhai, "Preferential Trade Agreements in Asia: Alternative Scenarios of 'Hub and Spoke'", Asian Development Bank ERD Working Paper Series No. 83 (October 2006).

(4) Ando Takemasa. JPEPA: Will it serve the interest of Filipino and Japanese Peoples? Waseda University, Tokyo, Japan. April 2006.

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\* From Focus on Trade #128.

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