



CEM WORKING PAPER SERIES

**POLICYMAKING AT WORK:
THE DEPARTMENT OF ECONOMICS' ROLE IN THE
JAPAN-PHILIPPINE
ECONOMIC PARTNERSHIP AGREEMENT (JPEPA)**

by

Amelia L. Bello, Jose DV. Camacho Jr.,
Niño Alejandro Q. Manalo, and Rodger M. Valientes

Working Paper No. 2009-01

College of Economics and Management
University of the Philippines Los Baños
College, Laguna
Philippines
January 2009

The studies in the CEM Working Paper Series are preliminary and designed solely for the purpose of eliciting comments and suggestions. These do not necessarily reflect the opinions and views of the college and/or university.

POLICYMAKING AT WORK:
The Department of Economics' Role in the Japan-Philippine
Economic Partnership Agreement (JPEPA)

Amelia L. Bello, Jose DV. Camacho Jr.,
Niño Alejandro Q. Manalo, and Rodger M. Valientes

INTRODUCTION

The Philippine government formally initiated the establishment of a free trade agreement with Japan on December 4, 2002 following the state visit of President Gloria Macapagal-Arroyo. Dubbed as the Japan-Philippines Economic Partnership Agreement (JPEPA), the bilateral agreement would include other forms of economic cooperation in human resource development, information and communication technology, investment and services. It is the Philippine's first free trade agreement and Japan's fourth (the others are with Singapore, Mexico, and Malaysia). As one of the sidelights of the Asia-Europe Meeting in Helsinki, Finland, JPEPA was signed on the 9th of September 2006 by President Arroyo and then Prime Minister Junichiro Koizumi. On the same day, a transmittal letter was sent to the Philippine Senate for ratification. President Arroyo recommended the ratification of the document, with the concurrence of the trade, planning, labor, budget and justice departments and the Bureau of Customs, Intellectual Property Office, and the Tariff Commission. In her transmittal letter, the President said that under JPEPA, both countries shall eliminate tariffs on almost all industrial goods within ten years from the date of entry into force of the JPEPA. However, uproar has been unleashed in the Philippines about whether and how JPEPA will encourage trade and toxic wastes from Japan to the Philippines and this may constrain its ratification (see Box 1).

While the feasibility and desirability of JPEPA was studied before it was finalized for ratification, several faculty members of the Department of Economics, College of Economics and Management were involved in a research project under the auspices of the Philippine Institute for Development Studies (PIDS) with the objective of enlightening the public and various stakeholders about the economic relationship between Japan and the Philippines; identifying the issues as well as challenges and opportunities in entering into a trading agreement under a framework of bilateralism (see Box 2); and analyzing the impact of the potential economic partnership. The Department was commissioned to prepare policy papers relating to the issues and impacts of the agreement on agriculture, human resource development and official development assistance (ODA).

BOX 1. The Japan-Philippine Economic Partnership Agreement (JPEPA) Controversy

The controversy over JPEPA revolves on two major issues – the legality and constitutionality of the agreement and the issue of toxic wastes.

Critics of the agreement say that there is a need to guarantee the supremacy of the Philippine Constitution over the treaty's provision on matters such as the grant of national treatment and MFN status. There is a fear that JPEPA would give parity rights to Japanese investors, which would violate the Constitution. For instance, the Agreement is said to open up the practice of all professions, the ownership, control and administration of educational institutions, and the advertising industry. Likewise, there is the apprehension that the loopholes in Annex 7 dealing with investments can be used to circumvent the provisions of Annex 6 which deals with services.

Fr. Joaquin G. Bernas, S.J., avers that the more difficult issue has to do with the provision in the Philippine Constitution that are non self-executing. The provisions deal with policy issues and can give rise to cases where the Courts may be asked to go into “the uncharted ocean of social and economic policy making.” (*in Bernas S.J., Fr. J. 11/5/07 Debate Over JPEPA. Philippine Daily Inquirer*)

Regarding the second issue, then Prime Minister S. Abe has said that Japan “*would not be exporting toxic wastes to the Philippines, as defined and prohibited under the laws of both countries, in accordance with the Basel Convention and the understanding that provisions related to this topic in the Agreement do not prevent the adoption or enforcement of such measures under existing and future national laws, rules, and regulations of the Philippines and Japan.*”

Certain quarters claim that since under JPEPA, tariff rates on chemical wastes, municipal wastes and the like are scheduled to be reduced to zero percent, this is an open invitation to unscrupulous businessmen to dump garbage by exporting them to the Philippines.

DEPARTMENT OF ECONOMICS COMMISSIONED PAPERS¹

A. Towards a Philippine-Japan Economic Cooperation in Agriculture

What does the Philippine agriculture sector stand to gain from JPEPA? Japan is the second largest market of Philippine agricultural products. It imports close to 80% of bananas, 98% of pineapples, and 61% of mangoes from the Philippines. Next to the United States, the Philippines is considered to be the second largest exporter of fresh and prepared fruits. Japan also imports about 5% of its food requirement like beef, pork, prawn, shrimp, and chicken, with the Philippines ranking 16th among the top food suppliers for 1999-2000 (Statistics of Japan Food Imports, 2000). In addition to bananas, pineapples, and mangoes, Japan also imported shrimps, prawns, tuna and bonito, and asparagus from the Philippines. On the other hand, Philippine agricultural imports from

1 The three commissioned papers are: (1) Towards a Philippine-Japan Economic Cooperation in Agriculture by Amelia L. Bello, Zenaida M. Sumalde and Juan Carlos Lorenzo L. Vega, (2) Exploring the Potentials of a Philippine-Japan Economic Partnership in Human Resource Development by Jhoana V. Alcalde, Niño Alejandro Q. Manalo and Rodger M. Valientes, and (3) The Dynamics of a Philippines-Japan Economic Cooperation: The Case of Japan's Official Development Assistance (ODA) in the Philippines by Jose DV Camacho, Jr. and Agham C. Cuevas.

Japan generally consist of agricultural chemicals, manufactured fertilizers, and agricultural machinery.

While agriculture is a sensitive issue for both the Philippines and Japan, the Philippine stands to gain if Japan agrees to further open its market for Philippine agricultural products. Also, while a review of the existing structure of tariff rates would reveal that the latter's tariff rates on most agricultural commodities are higher than that of Japan, most of the gains would come from provisions in JPEPA that relate to various areas of cooperation and capability building. Trade facilitation measures such as the simplification and harmonization of customs procedures and cooperation and technical assistance to cope with sanitary and phytosanitary (SPS) requirements would have great impacts on the sector. A major problem however in penetrating the Japanese market is the exacting Japanese consumer taste, which are reinforced by strict regulations, e. g., Food Sanitation Law, rules on labeling, containers and packaging and sometimes high tariff rates. Nonetheless, prospects for the agricultural sector are bright if technical assistance in meeting Japan's SPS regulations is extended, and if possible joint ventures and investments in the sector would ensue. Promoting economic cooperation in agriculture cannot be on a crop for crop basis. The direct route of distribution which bypasses the wholesale markets may be explored and produce maybe grown using Japanese seeds and technology, to eliminate the risk of "taste failure". In the final agreement, Japan would grant several concessions in agriculture through the immediate removal of tariffs on shrimps and prawns, asparagus, dried bananas, guavas, mangoes, leguminous vegetables, fresh papayas, coconut (copra) refined or unrefined, dried durians, jackfruits, and rambutan. Gradual elimination of tariffs will be implemented on fresh yellow fin tuna, prepared or preserved tuna, fresh banana, dried pineapples, and fruits containing added sugar.

For sugar, a tariff rate quota (TRQ) under an in-quota just half of the applied MFN will be introduced while for poultry, the TRQ will provide an in-quota rate of 8.5%, against an MFN applied rate of 11.9%. For beverages, there will be an immediate tariff removal for coffee, beer and fermented drinks made from bignay, calamansi, coconut, dalandan, guava and marang, among others. Most of these food items will require marketing efforts and product improvement ad development to make these foods acceptable to the Japanese consumer.

Table 1. Principal Exporters of Fresh Fruits

	First	Share (in %)	Second	Share (in %)
Bananas	Philippines	78.9	Ecuador	17.2
Pineapples	Philippines	97.9	Taiwan	0.8
Avocados	Mexico	97.8	USA	1.7
Mangoes	Philippines	60.7	Mexico	27.5
Oranges	USA	85.2	South Africa	7.4
Lemons/Limes	USA	77.3	Chile	15.4
Grapefruits	USA	75.3	South Africa	18.0

Grapes	Chile	67.6	USA	28.0
Watermelons/Melons	Mexico	61.1	USA	30.8
Papayas	USA	50.9	Philippines	48.4
Apples	North Korea	60.3	Australia	27.8

Source: Statistics of Japan's Food Imports in 2000

B. Exploring the Potentials of a Philippine-Japan Economic Partnership in Human Resource Development

The study reckoned that the magnitude and sustainability of a nation's economic development is largely anchored on the degree of development of its largest asset, its human resources. Exploring possible opportunities to develop and make use of such robust asset is imperative, including entering into a bilateral agreement in this area with countries that apparently have relative success in developing their own.

JPEPA is one path where the country has the opportunity to further human resources development. The United Nations Development Programme (UNDP), through its Human Development Index (HDI), ranked Japan as the 9th highest among the countries in the world for its effort to further human development, while the Philippines was placed in the 77th spot in 2002. This alone provides an overarching incentive to learn from and cooperate with Japan. While it seems to be a skewed cooperation agreement in favor of the Philippines, Japan is also expected to benefit from it. As such, it has been the intention of the paper to identify possible areas of cooperation between the two countries, particularly in health, nutrition, and education/training.

Table 2. Human Development Indices, Japan and the Philippines, 1975-2000

	Rank (2002)	1975	1980	1985	1990	1975	2000
Japan	9	0.854	0.878	0.803	0.909	0.923	0.933
Philippines	77	0.652	0.684	0.688	0.716	0.733	0.754

.Source: UNDP, 2003

The study identified thirteen possible intervention or cooperation areas. These are: (i) the concerns on Japan's aging population, (ii) drawing on Japan's assistance on health and medical care, (iii) channeling Japan's ODA -technical cooperation to HRD, (iv) facilitating professional and technical training, (v) collaborative technical education and training, (vi) cooperation of education and research institutions, (vii) exploiting both countries strong pronouncements on lifelong learning, (viii) mutual recognition of professional qualifications and education, (ix) mutual assistance on promoting language proficiency, (x) information and communications technology, (xi) exchange of government officials for capacity building, (xii) participation in international youth

exchanges as well as (xiii) cultural exchanges. These possible areas of cooperation were all reckoned to be important so as to fully harness the competitive advantages of one country in order to fill in the specific human needs of the other country and vice versa.

C. The Dynamics of a Philippines-Japan Economic Cooperation: The Case of Japan's Official Development Assistance (ODA) in the Philippines

Japan primarily extends economic cooperation through its Official Development Assistance (ODA) by taking into account each country's request, its social and economic status, its bilateral relations with the recipient country. For a financing deficit recipient country like the Philippines, ODA is crucially important in facilitating the process of economic development by enlarging the pool of capital available for physical and human capital investments. It also cushions the constraints on public funds available for necessary public investments.

With the proposed bilateral trade and economic partnership agreement with Japan, the Philippines is expected to gain an improved access to the formers' ODA. More than just access, the proposed partnership also improves the opportunity of the Philippines to carve out a greater share from the development assistance relative to other countries, particularly for capital formation in the infrastructure sector.

The potential repercussions of enhanced access to and extent of Japanese ODA can stimulate an increase in investment and capital accumulation causing more employment opportunities to be created. Output capacity will expand and so with cost of production, by way of economies of scale. Moreover, export volume will increase at lower prices, thus enhancing competitiveness in the world market. Trade and business facilitation particularly among Japanese firms in the Philippines will be further enhanced due to an improvement in infrastructure and other support services, for instance, farm-to-market roads, energy, power and telecommunication, irrigation and information technology. Overall, as a result of an increase in capital inflows, national output is expected to rise.

The Philippine economy can derive huge potential economic gains as the proposed agreement gives importance and lays significance on technical assistance and development cooperation for capacity-building in the fields of information and communication technology, science and technology, intellectual property, human resource development and the enhancement of the country's capacity to design an appropriate competition policy. An increase in Japanese ODA channeled to the social sector will significantly improve poverty alleviation and human development. An increase in ODA allocated to technical and vocational education translates to an enhancement of skills and IT literacy that will ultimately improve the quality of the labor force needed by the various sectors, particularly industry and services.

To realize the huge economic potentials that these opportunities present, several issues must be addressed. These include, among other things: the allocation and disbursement of Japan's ODA, ODA efficiency and absorptive capacity, harmonization of goals and sectoral/geographical priorities, and local government units' (LGUs) and NGOs' participation. Pushing JPEPA towards its establishment is indeed consistent with the

country's goals of reform programs that include poverty reduction and human development, environmental protection, sustainable development and global competitiveness.

BOX 2. Bilateralism vs. Multilateralism

Former World Trade Organization (WTO) head Renato Ruggiero emphasized that *“bilateralism and multilateralism are not alternative approaches; multilateralism offers a rule based, non-discriminatory and enforceable system while bilateralism is discriminatory by definition, unstable by nature and very often extremely expensive in political terms.”* Yet a review of the history behind the General Agreement on Tariffs and Trade (GATT) shows bilateral negotiations as the foundation of the agreement. The only multilateral component was the signing of the agreement itself by all the member-nations. Since 1947, eight trade rounds were held under GATT. Trade bargaining was mostly bilateral in these rounds, and it was only in the Kennedy and Tokyo rounds where some sort of multilateral bargaining (though adoption of a common formula for reducing tariff rates) was present. Still, bilateral talks remained crucial in these two rounds and were still the bargaining mode of choice in the Uruguay Round (Rixon and Rohlfing, 2005).

The task of bargaining governments in trade negotiations is coming to an agreement such that a domestic balance is created between the costs and benefits of import-competers and exporters in all countries involved in the negotiations. Rixon and Rohlfing (2005) acknowledged that bilateralism is the institutional mode by which governments can best negotiate agreements where the costs are just equal, or even better, below political benefits. The recent gravitation of countries to bilateral agreements in the fallout of the stalled WTO negotiations in Cancun, Mexico has belied the fact that theoretically, multilateral bargaining should reduce transactions cost involved compared with bargaining with other countries independently.

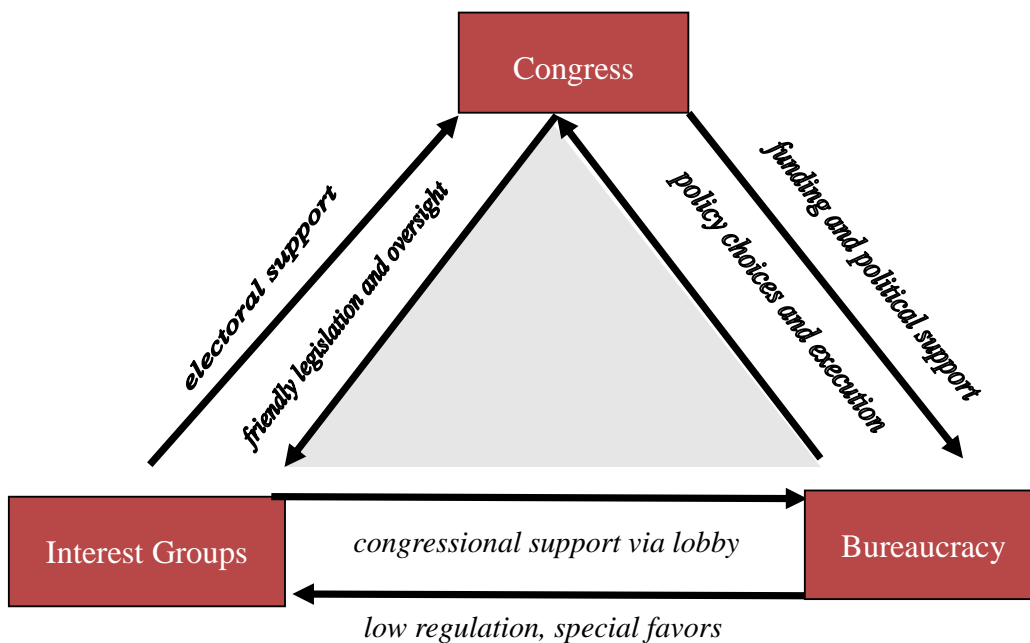
THE IRON TRIANGLE AT WORK

What has embroiled JPEPA is an example of the Iron Triangle principle. The Iron Triangle is a concept used by political economy theorists in depicting the policy-making relationship between the legislature, the bureaucracy and interest groups (Adams, 1981; Wikipedia, 2009).

The Iron Triangle assumes that the bureaucratic agencies, as political entities, seek to form and consolidate their power base (Figure 1). Thus, the agency's power is determined by its constituency and not by its consumers. Bureaucratic dysfunction occurs when the bureaucracy and its constituents form alliances that may ruin or disregard the official goals of the agency at the expense of the citizenry. The bureaucracy's need for constituency could lead to the agency's cultivation of a select group of private or special interest groups, groups which possess considerable power, are well-organized, have ample resources, are easily mobilized and are active in political affairs such as lobbying, voting, and campaign contribution.

The triangle illustrates three corners which depict the dynamic relationship between interest or lobby groups, the Congress and the bureaucracy. Interest groups can influence Congressional votes and can guarantee the reelection of a member of Congress in return for the favor of supporting their programs. At another corner of the triangle are the members of the Congress who would want to align themselves with a constituency for political and electoral support. The third apex of the triangle is occupied by the bureaucrats who are often pressured by the same interest groups their agency is supposed to regulate. What results is a three-way alliance that is sometimes called a subgovernment.

Figure 1. The Iron Triangle at Work



Source: Wikipedia, 2009

An iron triangle could result in the passage of very narrow policies that benefit only a minute segment of the population. This happens when the interest groups' needs are met while the needs of the general public are not.

Examples of the Iron Triangle may be found in the food industry. The agribusiness industry is an interest group constituency that seeks to benefit from government agricultural policies like subsidies. Agricultural ministers, agricultural officials and farming interests in the European Union also form a triangle.

In the case of JPEPA, the actors involved are the following: Congress/Senate, the bureaucracy (e.g. Department of Trade and Industry, Department of Agriculture,

Department of Environment and Natural Resources, Board of Investments, Department of Labor and Employment, and the National Economic and Development Authority) and interest groups. Following the proposal for the initiative for a Japan-ASEAN Comprehensive Economic Partnership in January 2002, informal consultations were conducted beginning August. In May 2003, the Philippine Coordinating Committee was formed, co-chaired by the Department of Foreign Affairs Undersecretary for International Economic Relations and the Department of Trade and Industry Undersecretary for International Trade. The Philippine Institute for Development Studies presented the results of the different studies in November followed by formal negotiating sessions, and a legal review.

The most vocal critics of the agreements come from interest groups in the environment sector. Likewise, concern has been raised regarding the “constitutionality” of JPEPA. Atty. Ma. Tanya Karina A. Lat of IDEALS argue that JPEPA as an international trade agreement must be determined (crafted) not by technocrats and professional diplomats but by elected officials who are directly accountable to the people. Together with Atty. Antonio L. Salvador, they dispute that the process of the trade negotiation and policy-setting since mandates, duties, and functions are scattered across various government agencies, which could have different and conflicting views. Stakeholders, they claim have been left out of the policy-setting and negotiating process, creating general distrust of the negotiating outcomes. Only the Tariff Commission, they claim has been conducting public hearing on the proposed tariff schedules.

While the many examples of the Iron Triangle in the literature present a stable relationship between the three major actors (this is why it is sometimes called a subgovernment), what has happened with JPEPA is the opposite. The more vocal cause-oriented groups which include some farmer and environment groups oppose the ratification of JPEPA; in some cases, declaring their withdrawal of support for a senator who called for the Agreement's ratification after a committee chaired by the senator found that non-ratification would leave the country behind its ASEAN neighbors and cause substantial losses.

POSTSCRIPT

The Philippine Senate ratified JPEPA on October 8, 2008. The Agreement takes effect a month after the two countries officially notify each other through an exchange of letters that the necessary legal procedures have been completed.

REFERENCES

- Adams, Gordon. 1981. *The Iron Triangle: The Politics of Defense Contracting*. New Brunswick, NJ: Transaction Press.
- Bernas, S.J., Fr. J. *Debate Over JPEPA*. Philippine Daily Inquirer, November 5, 2007.

Rixen, Thomas and Ingo Rohlfing. 2005. The Political Economy of Bilateralism and Multilateralism: Institutional choice in trade and taxation, in Meeting of the International Relations Section of the German Political Science Association, Mannheim, Oct 6-7, 2005. available at econpapers.repec.org/paper/pramprapa/325.htm

Statistics of Japan's Food Imports in 2000. available at http://www.jetro.go.jp/ag/e/report/food_2000_stat.pdf

United Nations. 1993. *Human Resources Development and Economic Growth*. Economics and Social Commission for Asia and the Pacific.

http://en.wikipedia.org/wiki/Iron_triangle