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An Analysis of Industry and Sector-Specific Impacts of a Japan-Philippines Economic Partnership

Royce Elvin O. Escolar

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For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies
3rd Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines
Tel Nos: 8924059 and 8935705; Fax No: 8939589; E-mail: publications@pidsnet.pids.gov.ph
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Royce Elvin O. Escolar
Asian Institute of Management - Policy Center

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Royce Elvin O. Escolar
Asian Institute of Management - Policy Center

Abstract

The paper aims to identify industry and macro-level factors that affect competitiveness of selected sectors upon the implementation of the JPEPA. Priority sectors identified by the Department of Trade and Industry, accounting for 82% of total Philippine exports to Japan in 2002, were included in the study. For Philippine industries to gain, market access issues on trade facilitation, non-tariff barriers and recognition of standards come into play especially for the service and agricultural sectors. Internal industry-level factors deal with access to raw materials, lowering input costs through growth of support industries and infrastructure development, SME financing, exploiting economies of scale, firm-level flexibility in part due to utilization of new technologies, greater knowledge of the Japanese market and sustainability of human capital competitiveness through training. Social safety nets, if required, may be more effective if they focus on retraining and relocation of displaced workers. Cement, the import competing industry identified in the paper, will only face limited competition due to the constrained capacity and market of the Japanese cement importer. Industry-level co-opetition or triangular relations with complementary counterparts in ASEAN countries to serve the Japanese market should be explored especially given that an ASEAN-Japan FTA is also being negotiated. The main macro-level factor is on poor governance leading to political and economic uncertainty which adversely affect the attractiveness of the country as an investment site.

EXECUTIVE SUMMARY

- Japan remains the Philippines second largest export market after the United States accounting for 15.06% of the total Philippine export to the world in 2002. The country is also the top supplier of Philippine imports in 2002, accounting for 21% of the total imports of the Philippines.

- The paper will focus on selected industries or sectors to determine if they will benefit or be harmed by the proposed FTA with Japan. Internal and external factors that affect competitiveness in an FTA scenario will also be brought to light.

- The sectors included in this study account for 82.46% of total Philippine exports to Japan in 2002. A major portion of this is from electronics exports which is by far the largest export category of the Philippines to Japan obtaining a 64% share.

- To be competitive, the furniture and houseware sector should address new trends in customer service innovations such as "just-in-time" deliveries and customized service. Local manufacturers should take advantage of international trade fairs to gain more knowledge on the Japan market and to update designs.

- Problems hound the future competitiveness of the furniture industry such as: lack of supply of raw materials, insufficient and antiquated woodworking technology, lack of financing opportunities for SMEs, high labor cost, lack of information and necessary trainings, low productivity; and, political, economic and peace and order situation of the country.

- The inherent domestic strength identified with this sector is its human capital with its highly skilled labor force experienced in mixed media, design capability, and good quality craftsmanship.

- There is a need to consolidate, link and empower the predominantly SME composition of the furniture and houseware sector in terms of harnessing economies of scale and standardization of product quality.

- For electronics, an FTA would benefit the industry through the investment route which will eventually be converted to increased trade volumes. In this light, the attractiveness of our country as an investment site and the capacity of Filipino workers to sustain their competitiveness in this field are crucial.

- For the electronics and automotive sectors, there is a need to determine where multinationals assign the Philippines in the value chain segment among the other powerhouses in the ASEAN such as Malaysia, Thailand and Singapore and in East Asia such as Korea and China. The need to develop a local components supply base will depend on our place in the value chain.

- Opening up of the domestic cement industry to increased Japanese imports will give limited market access to Japan due to constraints in the Japanese cement importer's silo terminal capacity. Non-tariff barriers such as the 28-day compressive strength testing for imported cement may become an issue. Philippine cement exports face slow demand in

Japan as well as non-tariff barriers on product certification. Mutual recognition of standards is therefore important for this sector.

- Supporting agricultural export expansion will be valuable in mitigating the expected price bias of the JPEPA against agricultural products and capital. Agricultural export expansion depends less on tariff levels but on non-tariff barriers such as strict sanitary and phytosanitary standards (SPS).

- Marine products exports, particularly of tuna, should address sustainable resource management issues and expansion of fishing grounds from bilateral arrangements with other countries to remain competitive. Investment in infrastructure such as in port facilities should also be done to handle increased capacity.

- The tuna industry should be ready to face the issue of SPS measures. Government should also strengthen its participation in international standard-setting organizations to ensure that fish products for export are not required to conform to standards higher than those warranted by scientific evidence.

- The competitiveness of our country in terms of IT professionals is compromised by our laxity in terms of promoting professional certification. This should be promoted intensely.

- The Japan Information Technology Standard Examination of the Philippines (JITSE-Phil) may prod additional investments in education that will lead to improvements in the standard of professional services as workers are forced to upgrade to remain relevant.

- Promotion of the JITSE-Phil. program should be intensified particularly partnerships with local universities and training centers for review sessions. A JPEPA may also be a good opportunity for educational exchanges in science and technology courses that will surely uplift our local educational standards in those areas.

- Although safety nets imposed by the Philippine government such as the Safeguard Measures Act may be the most practical method for the government and benefits the protected industry directly, the plight of workers was not taken into consideration. Cost-cutting by affected firms to improve competitiveness may involve lower wages. In cases of wage rigidity by law, job layoffs may occur. Social safety nets directly addressing displaced workers should focus on public and private sector initiatives in retraining and relocation assistance.

- The Philippine government's stand on the service sector specifically the sending of Filipino nurses and IT professionals to Japan should only be a short-term program as this will have serious repercussions on the long-term growth prospects of our country. Meanwhile, structures exist that we can fully utilize such as the Science and Technology Advisory Council-Japan (STAC-Japan) and United Nations Transfer of Knowledge Through Expatriate Nationals (TOKTEN) Project that enable immigrants to return to their home countries for short-term consultancies for technology transfer purposes.

- In a survey by JETRO, insufficient infrastructure was cited by 77% of Japanese manufacturers as the biggest factor in adversely affecting the country's investment environment. Port facilities, cheap electricity and water, access to roads, affordable transport costs, telecommunications, and fast custom clearance procedures, when not adequately provided by the government, will be reflected as cost items by companies.

- New opportunities for products that will cater to Japan's graying society will be in demand. Filipino manufacturers should be quick to grab at these opportunities.

- Firms must also make full use of new innovations in information technology to supplement their marketing and information gathering efforts. This is especially relevant for SMEs.

- The Philippines should exploit co-opetition or triangular trade relations with fellow AFTA members in our trade with Japan. Given that an ASEAN-Japan FTA is also in the works, it will be very hard for the Philippines to succeed by itself in a competitive environment without cooperation. It will find, as other countries should find, that it can only succeed if our ASEAN neighbors also succeed.

- Good governance is a major issue. Efforts to maintain competitiveness will come to naught if the country succumbs to political and social instability. 72% of Japanese affiliated manufacturers currently in the country identified this as a pressing problem of the Philippine investment environment

An Analysis of Industry and Sector- Specific Impacts of a Japan-Philippines Economic Partnership

Royce Elvin Escolar
AIM Policy Center

1. INTRODUCTION

Trade liberalization, now more than ever, has not lost its contentious character. Amidst the backdrop of multilateral liberalization as exemplified by the World Trade Organization (WTO), the Asian region is in a frenzied state over negotiations of a different kind. The trend of bilateral free trade agreements (FTAs) has started and was even spurred by the perceived failure of the WTO as exemplified by the impasse in the September WTO Ministerial meeting in Cancun, Mexico. The pace and coverage of negotiations have been picking up and countries in the Asia Pacific seem eager to join the bandwagon.[1]

Japan, in particular, has been very active recently in wooing its neighbors with economic partnership agreements. Such partnership does not only provide for elimination of trade barriers under a standard FTA; it also includes a broader area of cooperation that aims for greater integration between the partners. In the Japan-Singapore Economic Partnership Agreement (JSEPA), the areas included are as follows: Trade in Services, Investment, Movement of Natural Persons, Intellectual Property, Government Procurement, Competition, Financial Services Co-operation, Information and Communications Technology, Energy, Science and Technology, Human Resource Development, Employment and Labor Management Relations, Small and Medium Enterprises, Broadcasting, and Tourism.[2] Bilateral agreements are becoming a practical way for countries to agree on a wider range of topics as opposed to the delay and difficulties of a multilateral consensus under the WTO.

This paper aims to identify potential winners and losers among the various sectors and industries in the Philippine economy if and when a Japan-Philippine Economic Partnership Agreement (JPEPA) is established. Specifically, the study aims to pinpoint internal and external factors that enable specific sectors to gain or be burdened by an FTA with Japan. Understanding the mechanisms of how trade policy affects different sectors will have far-reaching implications in policy reforms. By identifying these factors, it is our hope that private sector initiatives and public policy reforms may be encouraged to mitigate the short-term harm to specific sectors caused by trade openness.

The study proceeds by providing a brief background on the current state of Japan-Philippine economic relations. A brief preview on recent studies done on the Japan-

[1] Japan has started serious bilateral FTA discussions with the Philippines, Thailand, and Malaysia. Outside the region, it is undergoing negotiations with Chile while its talks with Mexico is expected to be concluded by the end of 2003. Singapore has recently signed FTAs with the United States and Japan. Thailand has signed an FTA with Australia and is now in the final stages of negotiations with Japan.
[2] Japan-Philippines Economic Partnership Agreement Working Draft (Philippine APEC Study Center Network, August 2003).

Philippine FTA will also be included in Section II. Section III details the research methodology and conceptual framework used in this study. Section IV analyzes industry and sector impacts in the Philippine economy. Adjustment costs accompanying trade liberalization, and market characteristics that affect adjustment costs will be discussed in Section V. Section VI ends with the conclusion.

2. BACKGROUND

2.1 JAPAN-PHILIPPINE TRADE THROUGH THE YEARS

Japan remains the Philippines second largest export market after the United States accounting for 15.06% of the total Philippine export to the world in 2002. The country is also the top supplier of Philippine imports in 2002, accounting for 21% of the total imports of the Philippines.[3]

A look at Philippine-Japan trade statistics would show that the value of Philippine exports to Japan have expanded from US$1.74 Billion in 1992 to US$5.29 Billion in 2002, a growth of 204.48% for the 10-year period (Refer to Table 1). In fact, for the same 10-year period, 2002 exports to Japan in terms of value were second only to 2000 levels. The year 2000 saw a very big spurt in export growth outpacing import growth for that period and contributing to the smallest trade deficit the Philippines had with Japan in the last 10 years. Yearly export growth to Japan outpaced import growth from 1995 to 2000. The year 2001 saw a marked decline in exports due largely to the fall in the electronic sub-sector by US$247 Million. Figures for 2002 showed a rebound with exports registering a respectable 4.7% growth from 2001 figures.

Table 1: Japan-Philippines Trade (In million US Dollars)

YEAR	EXPORT	Export Growth (%)	IMPORT	Import Growth (%)	Trade Balance
1992	1,738	-	3,078	-	(1,340)
1993	1,817	4.55	4,029	30.90	(2,212)
1994	2,024	11.39	5,188	28.77	(3,164)
1995	2,742	35.47	5,957	14.82	(3,215)
1996	3,668	33.77	7,129	19.67	(3,461)
1997	4,192	14.29	7,414	4.00	(3,222)
1998	4,232	0.95	6,029	-18.68	(1797)
1999	4,660	10.11	6,136	1.77	(1,476)
2000	5,606	20.30	6,511	6.11	(905)
2001	5,054	-9.85	6,633	1.87	(1,579)
2002	5,292	4.71	7,233	9.05	(1,941)

Source: National Statistics Office (NSO)

As a partial reflection of this recovery, Philippine exports to Japan from January to April 2003 registered a 1.8% increase to US$1.72 Billion from US$1.69 Billion for the same period last year. Imports, meanwhile, outpaced export growth by recording an

[3] Department of Trade and Industry (DTI) website at http://tradelinephil.dti.gov.ph/betp/Japan4

8.6% growth from last year figures. For January to April 2003, Philippine imports from Japan reached US$2.4 Billion compared to US$2.22 Billion for the same period in 2002.[4]

Compared to its Association of Southeast Asian (ASEAN) neighbors, the Philippines in 2001 ranks fourth for both Japanese import and export market (Refer to Table 2 and 3). A cursory look at Japanese import figures will show that Malaysia and Thailand have climbed the ranks at our expense throughout the years. For instance, in 2001, the Philippine export value was just 64% of Thailand's export value to Japan. In 1980, the reverse was true – Thailand's export to Japan was only 57% of our country's export.

Comparing the export growth rates of the Philippine to Japan from that of Malaysia and Thailand, one can clearly see that staring from 1980 up until 1995, Philippine export growth to Japan lagged sorely behind its neighbors. Only in 1998 did the Philippines caught up in terms of export growth rates.

Table 2. Value of Japan Imports by Principal Country of Origin (1975-2001) (In Billions of Yen)

Country	1975	1980	1985	1990	1995	1998	1999	2000	2001
Total Value	17,170	31,995	31,085	33,855	31,549	36,654	35,268	40,938	42,416
Indonesia	1,018	3,004	2,431	1,821	1,335	1,416	1,429	1,766	1,806
Growth rate (%)	-	*195.09*	*-19.07*	*-25.09*	*-26.69*	*6.07*	*0.92*	*23.58*	*2.27*
Malaysia	205	792	1,035	780	992	1,133	1,241	1,563	1,561
Growth Rate (%)	-	*286.34*	*30.68*	*-24.64*	*27.18*	*14.21*	*9.53*	*25.95*	*-0.13*
Thailand	215	257	246	599	950	1,068	1,008	1,142	1,260
Growth Rate (%)	-	*19.53*	*-4.28*	*143.50*	*58.60*	*12.42*	*-5.62*	*13.29*	*10.33*
Philippines	**331**	**445**	**300**	**313**	**326**	**579**	**603**	**776**	**779**
Growth Rate (%)	**-**	**34.44**	**-32.58**	**4.33**	**4.15**	**77.61**	**4.15**	**28.69**	**0.39**
Singapore	119	345	381	512	644	616	618	694	654
Viet Nam	12	11	16	85	161	229	223	285	317
Brunei	304	738	454	183	127	135	120	178	206
Myanmar	7.6	18	8.5	6.0	8.7	12	12	13	12
Cambodia	0.2	0.1	0.1	0.5	0.7	2.1	3.9	5.6	8.0

Source: Japan Foreign Trade Statistics

If the goal of a FTA is to stimulate the Japanese economy, then it is not surprising to note that Japan has initiated serious FTA discussions with the top four ASEAN export markets of Japanese products (Refer to Table 3). Negotiations with Indonesia, the top Japanese import market and the fifth market for Japanese exports, are still in its exploratory stages possibly because Indonesia relatively does not figure prominently in Japanese export markets.

[4] National Statistics Office (NSO) website at www.census.gov.ph

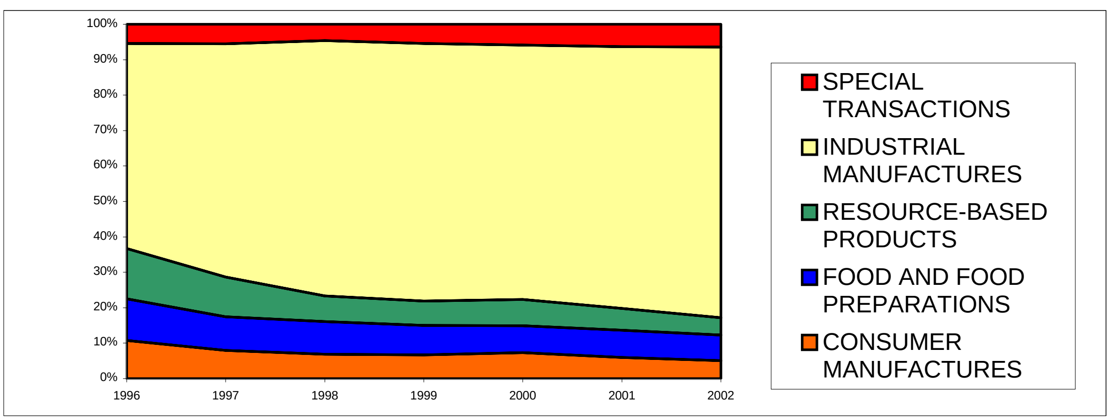
Table 3. Value of Japan Exports by Principal Country of Origin (1975-2001)
(In Billions of Yen)

Country	1975	1980	1985	1990	1995	1998	1999	2000	2001
Total Value	16,545	29,382	41,956	41,457	41,531	50,645	47,548	51,654	48,979
Singapore	452	885	925	1,547	2,158	1,930	1,854	2,244	1,786
Thailand	284	435	488	1,315	1,850	1,222	1,285	1,469	1,442
Malaysia	168	465	523	793	1,573	1,216	1,265	1,497	1,337
Philippines	305	382	224	363	667	948	997	1,106	995
Indonesia	548	780	520	724	935	560	551	818	778
Viet Nam	24	25	35	31	86	174	185	213	216
Myanmar	18	49	44	14	15	24	21	21	23
Brunei	10	20	21	12	12	8.0	6.0	6.1	6.8
Cambodia	0.0	5.6	0.4	0.6	7.2	5.8	5.7	5.6	6.1

Source: Japan Foreign Trade Statistics

In terms of product composition, industrial manufacturers have been increasing in its domination of Philippine exports to Japan with a 76% share in 2002. This is in contrast to its 1996 levels of 58%. Meanwhile, other product categories have seen declining shares. From 1996 to 2002, Resource-base products' shares declined from 14% to 5%; Food and Food Preparations from 12% to 7%, and Consumer Manufactures from 11% to 5% (Refer to Graph 1).

Graph 1. Export Share of Major Product Category to Total Philippines Export to Japan



Source: National Statistics Office (NSO)

2.2 FTA NEGOTIATIONS / CONFORMITY TO WTO ARRANGEMENTS

Japan's Ministry of Economic Affairs indicated that FTAs, as part of the Japanese strategy, plays an important role in strengthening partnerships between countries in areas not covered by the WTO with the goal of achieving liberalization beyond levels attainable under the WTO. Three points must be noted as regards to the Japanese policy on concluding FTAs with other countries. To quote the Economic Affairs Bureau of the Japanese Ministry of Foreign Affairs, these are[5]:

- Duties and other regulations of commerce should not be higher or more restrictive than the corresponding duties and other regulations of commerce prior to the formation of the FTA.
- Partner countries must eliminate duties and other restrictive regulations of commerce with respect to substantially all the trade (Article 24 of the General Agreement on Tariffs and Trade). That is, countries must achieve a standard of liberalization that compares favorably to international standards in terms of trade volume (e.g. NAFTA average of 99%; Mexico and EU FTA average of 97%).
- Must ensure completion of RTAs within a 10-year period, at least in principle.

The Japan-Singapore Economic Partnership Agreement (JSEPA), being the first ever FTA signed by Japan, is important since it will temporarily serve as the model and standard on which Japanese negotiations with other Asian countries will be patterned after. However, the Japanese government acknowledges the need for flexibility with its negotiations with other ASEAN countries whose level of development is not equal that of Singapore. Thus, they have indicated openness in exploring a "Singapore-plus" or "Singapore-minus" approach to these negotiations. It is therefore "possible to have specific areas such as investment and services agreed in advance or to conclude an economic partnership agreement limited to covering such areas."[6]

2.3 PREVIOUS STUDIES

Econometric studies done by Japanese researchers tasked to analyze the feasibility of a Japan-Philippines Economic Partnership Agreement (JPEPA) generated favorable results. Simulation done using the GTAP (Global Analysis Project) and Computable General Equilibrium (CGE) models showed that a JPEPA will benefit the Philippines more than Japan in terms of Real GDP growth and that almost all of its industries, except selected service sectors, will benefit. The model also showed that a Japan-Malaysia and Japan-Thailand FTA would provide negative effects on the Philippine economy (Urata & Kiyota 2003, Kawasaki 2003).[7]

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[5] Japan's FTA Strategy - Economic Affairs Bureau (Ministry of Foreign Affairs, October 2002).
[6] Ibid.
[7] Presentations made during a PASCN-sponsored Roundtable Discussion with Japanese Researchers, July 2003.

Meanwhile, a CGE – Microsimulation Approach done by Cororaton (2003) to analyze the possible effects of a JPEPA on unemployment, distribution and poverty in the Philippines generated the following preliminary results[8]:

- An FTA with Japan will contract the Philippine agriculture sector as production reallocation and resource movements favor the non-food manufacturing sector
- Higher unemployment for agricultural laborers
- Lower returns to capital in agriculture
- Lower income for rural households dependent on agriculture.
- Industry, particularly the non-food manufacturing sector, will expand due to increased export price competitiveness caused by lower domestic price of inputs brought about by the influx of cheaper imports
- Lower unemployment for production workers
- Increase returns to capital in industry
- Increase income for urban households particularly in the National Capital Region
- Income inequality as measured by the Gini coefficient deteriorates; gap between rural and urban income will increase
- Labor sector most adversely affected will be low educated male in the rural sector.

Given the initial results of the above, a case for policy intervention is required to reduce the bias of an FTA against agriculture and the rural sector.

3. CONCEPTUAL FRAMEWORK AND METHODOLOGY

The Heckscher-Ohlin (HO) Theorem states that a country will have a comparative advantage in the good whose production involves intensive use of the factor that is abundant in the country. Thus, under conditions of unrestricted trade, each country would specialize in and export the good that utilized the abundant factor intensively.[9] This theory predicts that Japan, being relatively capital-intensive compared to the Philippines, will be expected to contribute increased capital investment and technology transfer that will positively affect long-run growth prospects of the Philippines. Meanwhile, as verified by the current composition of trade between the two countries, the Philippines, a relatively labor-intensive economy versus Japan, is expected to provide labor-intensive or resource-based products or possibly labor inputs to complement Japanese capital investments.

The Stolper-Samelson theorem, meanwhile, states that a change in price of a good changes the price of the factor used intensively in the good's production more than proportionally and in the same direction. In combination with the HO theorem, the implication of the Stolper-Samuelson theorem is that opening trade raises the real reward

[8] The initial results of the economteric simulation by Cororaton were presented in a workshop hosted by the Philippine Institute of Development Studies (PIDS) held last 29 August 2003.
[9] Beth Yarbrough and Robert Yarbrough, The World Economy Trade and Finance Fifth Edition (USA, 2000), 82.

to the abundant factor while lowering real reward to the scarce factor.[10] This is because trade boosts the production and relative price of the comparatively advantaged good. Therefore, the controversy regarding the effects of trade is explained by the Stopler-Samuelson theorem since breaking trade barriers leads to output price changes that alter real factor rewards in favor of the abundant factor. Owners of the abundant factor are then expected to support freer trade while owners of scarce factors are expected to resist open trade even though theoretically the whole country is made better off from free trade as the gains from the winners are more than enough to compensate the losers. The resistance is due to the fact that redistribution rarely happens in reality. Thus, in the Philippines, theoretically, owners of labor-intensive and resource-based exports are expected to flourish while capital-intensive industries will face stiffer competition from their Japanese counterparts.

International trade tends to shift resources to sectors where worker productivity relative to wages and returns on investment are higher compared with other domestic industries, while eliminating jobs in less productive and less profitable sectors. Import competition forces less efficient producers to either modernize their production processes or face bankruptcy. In theory, the capital and workers forced to leave the declining industries can then be employed in industries that are more efficient, competitive, and profitable.[11] Adjustment costs are incurred because of rigidity of movement of factors of production across industries.

The analysis of this paper will focus on selected industries or sectors to determine if they will benefit or be harmed by the proposed FTA with Japan. In effect, the paper will be highlighting the comparative advantages and disadvantages of various sectors / industries in the Philippines. In the process of analysis, internal and external factors that affect competitiveness in an FTA scenario will also be brought to light. Policy recommendations will strive to present solutions to maintain Philippine industry competitiveness. The Department of Trade and Industry (DTI) already identified specific priority sectors it deems as existing and potential export winners or sources of revenue streams. This study will closely adhere to this sector selection.

A detailed study on every sector affected by an FTA with Japan is beyond the scope of this paper due to budget and time constraints. Indeed, such detailed sector-specific studies can, in themselves, be the topic of individual research papers that can extensively delve into all the issues in much detail. This limitation should be borne in mind in assessing the recommendations and results of this study.

Also, an FTA with Japan does not in any way rule out the utilization of the Philippines of links with other regional partners such as, but not limited to, those defined under the ASEAN-Free Trade Area (AFTA). Within AFTA, there are rooms for improving the competitiveness of certain Philippine exports to Japan or other third country through so-called triangular relations to benefit all participants. For instance,

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[10] Ibid, p. 109.
[11] Daniel Griswold, "Trade, Jobs, and Manufacturing: Why (Almost All) U.S. Workers Should Welcome Imports," Cato Institute, September 1999, p. 3.

Philippine furniture makers can explore producing in Indonesia at lower costs using Philippine management and skilled workers combined with Indonesian natural materials under joint venture agreements or outsourcing.

Therefore, competition from Thailand and Malaysia, which may sign separate FTAs with Japan, can be mitigated by cooperation measures among the Philippines, Thailand and Malaysia. In this case, competition and cooperation should not be seen as mutually exclusive.[12]

4. PHILIPPINE INDUSTRY AND SECTOR-SPECIFIC PROSPECTS AND IMPACTS

The sectors included in this study account for 82.46% of total Philippine exports to Japan in 2002. A major portion of this is from electronics exports which is by far the largest export category of the Philippines to Japan obtaining a 64% share (Refer to Table 4). This is a significant increase from the 30% share of the electronics sector in total exports to Japan in 1995. Fresh Foods and Marine Products combined account for a 6.5% share of the country's export to Japan in 2002.

Table 4. Summary of Philippine Merchandise Exports to Japan by Major Product Grouping

	2002	
FOB Value in Dollars	**VALUE**	**% Share**
TOTAL EXPORTS TO Japan	**5,295,453,657**	**100.00%**
HOUSEWARES	26,576,991	0.50%
FURNITURE	20,063,255	0.38%
BUILDERS' WOODWORKS	71,720,730	1.35%
ELECTRONICS	3,392,717,513	64.07%
MACHINERIES/TRANSPORT EQUIPMENT/APPARATUS AND PARTS	478,695,939	9.04%
FRESH FOODS	223,168,543	4.21%
MARINE PRODUCTS	121,691,538	2.30%
CONSTRUCTION MATERIALS	31,836,154	0.60%
SUBTOTAL	**4,366,470,663**	**82.46%**

Source: National Statistics Office

4.1 FURNITURE AND HOUSEWARE

The Philippine Furniture Industry is concentrated in three main production centers mainly: Metro Manila, Pampanga and Cebu. There are about 15,000 establishments in this industry dominated by small and medium enterprises (90% of total). The breakdown of the industry in terms of firm size is as follows[13]:

- Cottage-Small: 9.750 (65%)

[12] This illustrates the concept of Co-opetition – a game theoretic approach to business strategy that revolutionized the way people look at competition (Brandenburger and Nalebuff 1996).
[13] DTI website at www.dti.gov.ph/contentment/9/16/7.jsp.

- Medium: 3,750 (25%)
- Large: 1,500 (10%)

Due to its mostly SME composition, the furniture industry is labor-intensive and employs about 500,000 direct workers, 300,000 indirect workers and about 1,000,000 in subcontractors and suppliers. US and Japan are the top destinations for Philippine furniture (Refer to Table 5). The top 5 manufacturers account for 16% of total exports while the top 20 manufacturers account for 24% of total exports.[14]

Table 5. Top Export Markets of Philippine Furniture in 2001 (million US$)

USA	188.15
Japan	26.92
Great Britain and N. Ireland	9.07
Netherlands	7.88
France	7.02
Others	57.74

For exports to Japan, Rattan and Wood furniture have seen steadily declining figures from 1995 to 2002. In 1995, the country used to export US$8.7 Million and US$6.7 Million worth of rattan and wood furniture to Japan respectively. In 2002, this figure both went down by 56% to US$4.9 Million and US$3.8 Million, respectively. Parts of Furniture registered the largest business cycle shifts from a mere US$746,000 worth of exports to Japan in 1995 to US$38.4 Million worth in 2000. Figures have significantly dropped since then from 2000 levels to only US$9.2 Million in export value in 2002 (Refer to Table 6). The big drop of total furniture exports in 2001 was attributed to the social and political instability of the country during that time coupled with the general weakness of demand abroad. Philippine furniture exports enjoy zero tariffs in Japan.[15]

The main production centers of Houseware products, meanwhile, are located in the National Capital Region (NCR), Region 3 (Pampanga and Angeles), Region 4 (Laguna, Rizal, Quezon, Cavite), Region 5 (Albay), Region 6 (Bacolod, Iloilo, Aklan) and Region 7 (Cebu). The product's main export market is the US.[16] Japan is also a major export market but only registers about one-fourth of the value of total houseware exports to the US. The challenge for the overall sector is to sustain its export growth rates and expand its market share in Japan via intensive marketing, product development and cost competitiveness.

Basketwork / Wickerwork and Articles of Textile Materials, meanwhile, were the biggest value items in the Houseware category in 2002 both accounting for about 72% of the total Houseware exports to Japan. Woodcraft export to Japan has been declining

[14] Ibid.
[15] APEC Tariff Database at www.apectariff.org
[16] DTI website at www.dti.gov.ph/contentment/9/16/7.jsp

significantly through the years from 1995 levels of US$5.9 Million to a negligible

Table 6. Summary of Philippine Furniture Exports to Japan by Major Product Grouping (FOB Value in US Dollars)

	2002	2001	2000	1999	1998	1997	1996	1995
Total Furniture	20,063,255	26,917,169	54,320,874	42,858,077	33,612,675	29,417,729	24,973,546	19,979,984
Bamboo Furniture	40,539	184,707	136,579	123,903	121,367	97,742	81,196	57,103
Buri Furniture	5,691	0	30,600	12,320	92,030	313,516	211,209	159,908
Furnishings	80,007	230,849	85,208	20,492	13,541	172,584	996,749	533,361
Metal Furniture	1,278,301	1,685,954	1,589,841	1,134,143	1,416,152	2,795,544	3,136,562	2,196,075
Parts Of Furniture	9,169,471	13,053,549	38,385,755	31,026,251	16,248,343	5,450,253	1,557,315	746,718
Plastic Furniture	364,105	270,038	296,552	146,713	96,559	70,698	185,415	275,246
Rattan Furniture	4,882,416	5,932,052	6,077,784	5,219,492	5,567,265	8,177,644	9,424,119	8,725,709
Stone Furniture	234,217	302,775	564,438	368,833	781,535	656,964	769,802	497,063
Wood Furniture	3,759,848	5,106,118	7,003,659	4,740,836	9,247,682	11,498,389	8,460,733	6,742,071
Furniture Of Other Materials	248,660	151,127	150,458	65,094	28,201	184,395	150,446	46,730

US$892,000 in 2002 - a decrease of 85% in 7 years (Refer to Table 7).

(Source: Bureau of Export Trade Promotion (BETP) – DTI)

Table 7. Summary of Houseware Exports to Japan by Major Product Groupings (FOB Value in US Dollars)

	2002	2001	2000	1999	1998	1997	1996	1995
TOTAL HOUSEWARES	26,576,991	30,837,761	34,239,629	36,744,352	33,755,776	44,615,310	37,776,469	29,786,234
Growth Rate (%)	-13.82	-9.94	-6.82	8.85	-24.34	18.10	26.83	
Basketwork/ Wickerwork	9,825,267	10,080,475	8,435,843	8,136,864	7,593,435	8,700,355	10,789,255	10,770,014
Shellcraft And Other Carving Materials	91,380	135,731	143,619	64,061	71,006	105,339	118,287	123,676
Woodcraft	892,683	1,223,825	1,724,762	2,113,317	2,459,681	3,044,897	4,173,985	5,950,719
Ceramics/ Stoneware	433,501	1,128,820	1,098,546	915,588	689,276	1,792,223	1,883,326	1,647,668
Articles Of Textile Materials	9,514,531	13,169,307	16,893,595	20,505,529	16,526,592	19,229,263	12,883,963	5,942,828
Artificial Flowers And Trees	387,788	411,305	631,580	649,317	662,789	1,029,118	1,113,389	1,227,194
Metalware	142,034	160,500	968,243	1,203,245	955,744	2,099,404	2,207,316	1,617,111
Articles Made Of Glass	210,034	270,622	263,047	217,804	283,545	146,077	115,894	81,715
Decorative/ Handblown Glass	71,505	165,231	195,124	130,707	222,001	46,655	0	0
Glassware	138,529	105,391	67,923	87,097	61,544	99,422	115,894	81,715
Other Housewares	5,079,773	4,257,176	4,080,394	2,938,627	4,513,708	8,468,634	4,491,054	2,425,309

(Source: Bureau of Export Trade Promotion (BETP) – DTI)

Global trends in the furniture and houseware sector include customer service innovations such as "just-in-time" deliveries and customized service.[17] It should be noted that most Japanese customers do not like to wait so that Philippine companies interested in succeeding in the Japanese market should be mindful about the efficiency of their delivery systems. Global taste preferences favor products with strong brand identity and up-to-date design trends. Since China is the largest exporter of furniture to Japan, it would also be advantageous for Filipino manufacturers to visit China to survey and study their craft and designs.

For Philippine furniture and houseware manufacturers to remain competitive in Japan, they must be flexible enough to adapt to changes in buyers preferences as well as continuously update their designs by regularly participating in trade fairs and conventions and closer information sharing with Japanese buyers. Also, the furniture industry should give importance in being organized and promoting cleanliness not only in the products but also in home offices of companies interested to venture in Japan. It is customary for Japanese companies to first personally visit the office of their foreign partners or suppliers before finalizing a contract.[18]

Chamber of Furniture Industries of the Philippines (CFIP) identified major concerns of the furniture export industry as follows: lack of supply of raw materials, insufficient and antiquated woodworking and other technology, lack of financing opportunities for SMEs, high labor cost, lack of information and necessary trainings, low productivity; and, political, economic and peace and order situation of the country.[19]

The inherent domestic strength identified with this sector is its human capital with its highly skilled labor force experienced in mixed media, design capability, and good quality craftsmanship. [20] To be competitive, there is a need to link and empower the predominantly SME composition of the furniture and houseware sector in terms of harnessing economies of scale and standardization of product quality. Also, the availability of indigenous raw materials such as rattan is a concern that has important implications for the competitiveness of the industry. For rattan, Philippine furniture manufacturers had explored importing from rattan-abundant Indonesia. This has posed new problems since Indonesia imposed an export tax that is tantamount to banning exports of rattan to the Philippines. In addition, collaboration between Indonesian and Filipino businessman on this triangular trade relation seems to be sorely wanting and had, in the past, been bogged down by equity disagreements.[21] A possible solution is to elevate negotiations in the industry association level. Another problem encountered was instead of firm level cooperation, Indonesian manufacturers sometimes opted to just import Filipino craftsmen. This raises the issue of brain drain when technology is transferred to foreign industry to the detriment of the local industry who now faces less

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[17] Ibid.
[18] Leotes Lugo, "Opportunities Still Abound for Furniture Exports to Japanese Market,"BusinessWorld Online, February 13, 2003.
[19] "Furniture exports posts positive growth," www. bworld.com.ph, February 20, 2003.
[20] Ibid.
[21] Inputs from Director Ramon Kabigting (DTI-BITR) given during the JPEPA Forum held on September 11, 2003.

supply of skilled labor. Rules of origin issues will also have to be threshed out in these cases which may be arduous given the many overlapping trade agreements in the region.

The renewal of the Capital Investment Act, which expired in 1998, is also on top of the wish list of the Chamber of Furniture Industries of the Philippines (CFIP). The Act enabled exporters to buy their capital inputs duty-free. As it is, exporters pay a 10% VAT and a 3% tax on machinery, materials and tools used for production. The establishment of a permanent one-stop center to feature the showrooms of the best furniture exporters of the country should also be studied. With this, foreign buyers need not visit each plant located in different provinces whenever no trade shows are in progress. Malaysia and Indonesia reportedly have similar centers to attract foreign buyers.[22]

4.2 ELECTRONIC INDUSTRY

The electronics industry had the biggest product share in total exports to Japan accounting for 64% of the total Philippine exports to the country in 2002. On average, total electronic exports increased annually by 8.53% from 1996 to 2000 (See Table 8).

The Semiconductors (microelectronics) sub-sector is the biggest in the industry. It involves manufacturers of integrated circuits (ICs), transistors, diodes, resistors, capacitors, coils, transformers, PCBs and other components. Philippine subsidiaries of Intel, Texas Instruments, Philips, Amkor, and Fairchild Semiconductors are some of the major players in the market.

Electronic Data Processing (EDP) Equipment, composed of computer, peripheral storage and input/output manufacturers, is the next biggest sub-sector. This sector is dominated by Japanese companies such as Toshiba, Acer, Epson, Fujitsu, Ionics, and Sampo Technology.

Other sectors in the electronics industry and their export value in 2002 are: Office Equipment (US$21 Million), Telecommunications (US$98 Million), Consumer Electronics (US$58 Million), Automotive Electronics (US$103 Million), Communication and Radar (US$17 Million), Control and Instrumentation (US$10 Million) and Medical / Industrial Instrumentation (US$1.3 Million). The latter two sectors involve Philippine-based companies. Dominated by multinational firms, the electronics industry employs about 335,000 workers. Out of the 715 electronic firms, 72% are foreign-owned while 28% are locally owned.[23]

Prospects for the industry abound. Morgan Stanley projects the information and communication market in China will grow by 30% a year for the next 4 to 5 years driven by demand for personal computers and mobile communications. They estimated that

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[22] "The Sun is Shining on the Philippine Furniture Industry," 3M Philippines website at www.3m.com/int/ph/about3M/newsroom/3M_furniture.html
[23] DTI website at www.dti.gov.ph/contentment/9/16/7.jsp

Chinese domestic production would only meet 15% of the rise in demand.[24] Europe and the United States will also form formidable markets especially in the mobile phone category. Branching out to non-traditional export markets should be the focus of exporters given the weakness of the economies of Japan and the United States in recent years.

Tariff barriers in Japan for products in the electronic industry are non-existent. The benefits of increased trade and market access will be dependent on increased investments and possibly expansion of existing operations to meet increased global demand for electronic products. An FTA would then benefit the industry through the investment route which will eventually be converted to increased trade volumes.

The capacity of Filipino workers to sustain their competitiveness in this field is crucial. In this light, the planned partnership between the Philippine Economic Zone Authority (PEZA) and the Semiconductor and Electronic Industry of the Philippines, Inc. (SEIPI) in setting up a training institute to upgrade technological skills of Filipino engineers is laudable. The turnover in technology is swift and employment opportunities favor those who are prepared to adapt and learn new skills and applications. The growing need for components supplier, accompanying the expected increases in demand for electronic products, will also provide additional opportunities for investment and employment.

Table 8. Summary of Philippine Electronics Export to Japan (FOB Value in US Dollars)

	2002	2001	2000	1999	1998	1997	1996	1995
TOTAL ELECTRONICS	3,392,717,513	3,175,969,129	3,422,671,394	2,647,193,112	2,394,533,196	2,027,562,257	1,547,229,388	835,658,337
Components/ Devices (Semiconductors)	1,792,329,151	1,631,825,737	1,887,249,365	1,478,231,880	1,460,390,286	1,255,878,399	914,272,626	537,147,026
Electronic Data Processing	1,292,015,182	1,170,006,639	1,261,984,119	962,519,621	714,591,131	571,789,445	376,790,316	96,704,168
Office Equipment	20,918,775	25,112,898	16,256,948	10,242,447	11,260,557	8,004,309	4,258,960	21,575
Medical/Industrial Instrumentation	1,310,984	607,522	682,763	617,652	147,948	11,293	13,239	0
Control And Instrumentation	9,979,497	17,498,920	12,037,805	9,949,173	7,207,341	198,139	623,180	313,995
Communication And Radar	17,200,633	22,240,474	24,458,799	18,152,759	11,671,155	10,400,357	19,051,133	11,900,670
Telecommunications	98,287,687	136,348,399	55,188,355	28,607,278	44,165,899	37,978,159	74,542,613	54,917,744
Automotive Electronics	103,068,919	104,649,532	103,059,630	78,283,364	53,454,907	29,759,556	34,571,149	53,577,206
Consumer Electronics	57,606,685	67,679,008	61,753,610	60,588,938	91,643,972	113,542,600	123,106,172	81,075,953

(Source : Bureau of Export Trade Promotion (BETP) – DTI)

[24] Ibid.

4.3 MOTOR VEHICLE PARTS AND COMPONENTS

Automotive parts is the biggest component of Transport Equipment exports to Japan accounting for 95% of the total US$412 Million exports in 2002. However exports at US$390 Million still pale in comparison with automotive parts imports from Japan amounting to US$440 Million in 2002. Combined motor vehicle, motorcycle units and motorcycle parts' share in total transport equipment export, however, are negligible especially in 2001 and 2002. The drop is most notable for motor vehicle exports. From a high of US$4.9 Million, motor vehicle exports to Japan declined significantly reaching its lowest point in 2002 when it registered only US$28,190 in export value (Refer to Table 9). Motor vehicle imports from Japan reached US$83.9 Million while motorcycle parts imports dominate with US$55.6 Million in 2002.[25] The magnitude of our parts imports from Japan indicates our dependence on imports and our lack of local suppliers base in this sector.

The decline in motor vehicle exports may be due to the consolidation of operations and diversion of exports of completely built-up units (CBUs) to other ASEAN countries instead of Japan. Export of CBU to Japan may be passé but opportunities for exports to other Asian countries still exist and are still expanding.

The parts and components manufacturing sector is composed of 256 companies producing various parts and components made of metals, plastic, rubber and composite materials both for the overseas export and replacement markets. The principal components manufacturers are Yazaki-Torres Manufacturing Corp. (wiring harness), United Technologies Automotive Phils. (wiring harness), Temic Automotive (Phils.) Inc. (anti-brake lock system), Honda Engine Manufacturing Phils., Inc. (engines), Asian Transmission Corp. (automotive transmissions), Toyota Autoparts Phils. (automotive transmission), Fujitsu Ten corp. of the Phils. (car stereos) and Aichi Forging Co., Inc. (forged parts). By end of 1999, the parts industry contributed investments of approximately P27 billion, employment of 45,000 and export of over US$1.1 billion, a more than ten-fold increase from 1988 levels.[26]

Recognizing the promise of the parts sector, foreign auto manufacturers in the Philippines bared their expansion plans last July 2003. Mitsubishi Motors Corporation of Japan plans to put up an assembly plant for CBUs for export in addition to a parts production plant which is part of its overall plan to make the Philippines its export hub for Asian utility vehicles (AUV). Honda Motors Co. Ltd. has just opened a new vehicle transmissions facility in Laguna to serve its subsidiaries in the US, Japan, and Europe. Toyota Motors Philippines Corp., through its subsidiary firm Toyota Autoparts Phils. (TAP), meanwhile, expanded its transmission plant to boost its annual exports to US$77 Million.[27]

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[25] National Statistics Office (NSO) website at www.census.gov.ph
[26] DTI website at www.dti.gov.ph/contentment/9/16/7.jsp
[27] Philippine Business Report, Vol. 14, No. 7, DTI, July 2003, p. 2.

Table 9. Machineries/ Transport Equipment/ Apparatus and Parts Export to Japan (FOB Value in US Dollars)

	2002	2001	2000	1999	1998	1997	1996	1995
TOTAL MACHINERIES/TRANSPORT EQUIPMENT/APPARATUS AND PARTS	478,695,939	389,203,123	394,139,151	410,166,528	354,039,140	413,903,977	319,938,998	229,749,261
Machineries/Equipment/ Apparatus	15,015,713	14,242,908	13,776,267	12,970,294	11,498,518	4,088,753	6,182,627	3,364,971
Metal Machinery / Equipment / Apparatus Parts	51,215,534	44,313,052	51,913,925	36,746,438	27,410,795	27,014,153	27,457,997	15,261,187
Transport Equipment	412,464,692	330,647,163	328,448,959	360,449,796	315,129,827	382,801,071	286,298,374	211,123,103
Motor Vehicles	28,190	103,266	2,380,273	2,757,542	4,936,502	3,610,198	557,940	275,996
Automotive Parts	390,168,641	309,903,294	318,208,071	302,242,228	270,004,176	358,262,496	276,633,265	202,902,176
Metal Automotive Parts	386,465,512	305,781,936	312,162,466	297,576,164	267,753,168	357,824,219	276,347,894	202,302,525
Other Automotive Parts	3,703,129	4,121,358	6,045,605	4,666,064	2,251,008	438,277	285,371	599,651
Motorcycle	65,231	22,136	21,529	53,300	56,311	30,258	15,613	181,257
Motorcycle Parts	0	14,658	0	0	0	0	0	0
Others	22,202,630	20,603,809	7,839,086	55,396,726	40,132,838	20,898,119	9,091,556	7,763,674

(Source: Bureau of Export Trade Promotion (BETP) – DTI)

4.4 CONSTRUCTION MATERIALS

In the construction materials industry, the Builders' Woodworks sectors lords it over the others with an export value to Japan of US$71.7 Million in 2002 (Refer to Table 10)[28]. Imports from Japan in 2002 amounted to only US$71,000. At present, there are about 36 export-oriented manufacturers in this sector. Processing plants are concentrated in Manila (12), Bulacan (6), Davao del Norte (6), Cagayan de Oro (3), Cavite (3), Laguna (2), Cebu (2), Agusan del Norte (2), Zamboanga del Sur (1), South Cotabato (1) and Batangas (1).[29]

Table 10. Summary of Philippine Construction Materials Export to Japan (FOB Value in US Dollars)

	2002	2001	2000	1999	1998	1997	1996	1995
BUILDERS' WOODWORKS	71,720,730	74,763,619	154,868,469	62,732,469	36,376,502	24,646,394	43,426,574	21,014,167
CONSTRUCTION MATERIALS	31,836,154	22,984,588	38,030,527	27,111,264	23,297,248	20,137,833	18,690,275	19,816,815
Construction Materials, Metal-Based	7,165,303	5,191,480	5,781,414	2,997,483	5,611,425	5,941,521	5,973,327	7,836,367
Sanitary Wares And Bathroom Fixtures	16,343,850	12,436,699	21,664,607	16,034,960	10,640,305	10,045,708	8,252,645	6,590,590
Clay And Ceramic Materials	171,903	205,970	112,227	11,667	52,705	25,308	62,504	9,632
Cement/Cement Product	0	1,520	31,807	14,108	17,327	3,354	2,388	9,058
Asbestos Materials	14,288	307	14,077	0	57,400	84,510	0	0
Other Construction Materials	8,140,810	5,148,612	10,426,395	8,053,046	6,918,086	4,037,432	4,399,411	5,371,168

(Source: Bureau of Export Trade Promotion (BETP) – DTI)

[28] The Builders' Woodworks Sector involves goods such as: joineries/moldings, doors, windows, door and window jambs/frames, wood parquet tiles and bamboo tiles.
[29] DTI website at www.dti.gov.ph/contentment/9/16/7.jsp

The Sanitary Wares Sector is next the big-ticket item and holds the biggest potential for the construction materials industry garnering exports of US$16.3 Million in 2002. This figure is a substantial 148% increase from its export levels in 1995 pegged at US$6.6 Million (Refer to Table 10). The current Sanitary Wares sector is composed of 11 producers, 3 of which are exporters. Again, manufacturing plants are mostly located in Metro Manila (8), 2 in Cavite and 1 in Bulacan. Japan remains the top export market controlling 62% of total exports in 2000 (Refer to Table 11).

Table 11. Sanitary Wares Top Market for Export

Priority Markets	Export Value Year 2000 (In US$ M)	Share in RP Exports %	Ave. Growth Rate 1996-2000 %
Japan	21.7	60	28
Taiwan	6.5	18	879
United States	5.3	15	171
Singapore	0.9	3	594
Australia	0.6	2	79

(Source: Bureau of Export Trade Promotion (BETP) – DTI)

4.4.1 THE CASE OF THE CEMENT INDUSTRY

Increased competition may pose a concern for domestic cement players although the industry is still better off since it will not be facing competition from cheaper cement imports from Taiwan and Indonesia.

Import figures show that in 1999, China was initially displaced by Taiwan and Japan as the main sources of imported cement with a share of total imports of 52% and 39% respectively (Refer to Table 12). Japanese cement, meanwhile, was a major player in 1998 when it accounted for 45% of total Philippine imports. The following year, Taiwan's share of total imports rose further to 57% while the re-entry of Indonesia, which garnered a 23% share, relegated Japan to third place to a 19% share. For the first three quarters of 2001, Indonesia overtook Taiwan as the biggest exporter of cement to the Philippines, accounting for approximately half of the total volume imported. Taiwan contributed 35% and Japan, 14%.[30]

Southern Cross Cement Corporation (SCCC) is the local importer of cement from Japan under the Star brand name. It has a 15,000 metric ton capacity cement-handling terminal at the Manila Harbour Centre. The company's cement terminal is equipped with both bulk-loading and bagging machines enabling cement to be delivered to customers in bulk or bags. SCCC's sales of cement are predominantly in bulk implying that majority of their sales are for big infrastructure projects and not in retail. SCCC sources its cement from its Japanese parent companies, Taiheiyo Cement Corporation and

[30] The figures were obtained from PHILCEMCOR contained in the Cement Report of the Tariff Commission.

Tokuyama Corporation. Imported cement from Japan in 2002 stood at US$6.1 Million. Taieyo Cement indicated that its main buyers, Japanese contractors in the Philippines, were demanding Japan-quality cement that had higher specification than the Philippine cement. Southern Cross has been importing cement in bulk from Japan since 1999 and in bags from Indonesia since 2000. Countries with reported excess cement capacities are Thailand with 32.9 million metric tons; Indonesia, 26.6 million metric tons; Japan, 15.6 million metric tons; Malaysia, 13.7 metric tons; and Korea, 12.9 metric tons. In 2002, the Philippines was also suffering from a surplus of 14.2 million metric tons. However, it was an open target for foreign cement exports because it had the most open market with a 3-percent tariff for ASEAN cement and 5 percent for non-ASEAN. This is in stark contrast to other Asian countries that charge between 5 and 100 percent in tariffs.[31]

DTI has reinstated tariff protection in response to calls from the local cement manufacturers allegedly being unfairly hurt by imported cement from Japan, Taiwan and other countries. A definitive safeguard duty of P20.60 per 40 kilogram bag was imposed and would be effective for three years on imported gray Portland cement from various countries starting December 10, 2001.

Table 12. Philippine Imports of Cement by Country of Origin 1996- Sep 2001

Country of Origin	1996		1997		1998	
	Imports (MT)	% Share to Total	Imports (MT)	% Share to Total	Imports (MT)	% Share to Total
China	306,438	45.09	289,251	82.22	88,272	48.99
Mexico	209,889	30.88	0	0	0	0
Taiwan	51,800	7.62	10,000	2.84	0	0
Japan	6,000	0.88	32,567	9.26	81,263	45.10
Malaysia	22,513	3.31	0	0	0	0
Turkey	11,800	1.74	0	0	0	0
Indonesia	10,000	1.47	0	0	0	0
Korea	6,500	0.96	0	0	10,636	5.90
Hong Kong	54,432	8.01	19,961	5.67	0	0
Singapore	240	0.04	0	0	0	0
TOTAL	679,612	100.00	351,779	100.00	180,171	100.00

Source of basic data: PHILCEMCOR

Country of Origin	1999		2000		Jan. – Sept. 2001	
	Imports (MT)	% Share to Total	Imports (MT)	% Share to Total	Imports (MT)	% Share to Total
Indonesia	0	0.00	369,437	23.40	944,715	50.64
Taiwan	247,580	52.18	901,590	57.10	662,200	35.49
Japan	184,850	38.96	302,600	19.16	258,400	13.85
China	33,400	7.04	5,400	0.34	0	0.00
Hong Kong	8,600	1.81	0	0.00	0	0.00
TOTAL	474,430	100.00	1,579,027	100.00	1,865,315	100.00

Source of basic data: PHILCEMCOR

[31] Gil Cabacungan, "Cement makers in all-out price war in Cebu," Philippine Daily Inquirer, August 21, 2002.

Initially, the Tariff Commission concluded that there was no basis to impose safeguard measures for cement. Furthermore, their study showed that there was no link between employment and the influx of imports. DTI reversed this decision of the Tariff Commission and concluded that "the sudden, sharp and significant surge in cement imports during the period of investigation has resulted to significant declines in sales volume, market share, actual production, capacity utilization, profitability and employment of the domestic cement industry."[32]

The outcome was a defining moment for the Safeguard Measures Act since it defined the exact authority of the DTI Secretary (Refer to Box 1). It also defined the parties for and against protection of the local cement industry. On one side, forty-one parties supported the Philippine Cement Manufacturers Corporation's (PHILCEMCOR) application for safeguard action. These parties included: cement plant suppliers, cement workers' groups, members of the House of Representatives, local government executives, community leaders, school principals, and civic organizations. On the other side, opposing the application were fourteen parties composed of cement importers, consumer groups, constructors' associations, an Indonesian cement producer/exporter, two Japanese cement producers/exporters, along with the governments of Indonesia and Japan.[33]

In spite of the decision, some of the justifications of the Tariff Commission in not granting protection to the local cement industry are worth revisiting particularly in the context of imported cement from Japan. These are:[34]

- Non-tariff barriers exists such as the BPS Memorandum Circular No. 004 (dated 11 September 2001) which provides revised guidelines on the importation of cement. In effect, the circular requires imported cement to be subjected to compressive strength testing lasting for a holding period of 28 days.

- SCCC has a limited silo capacity. The commission believed that it is not likely that substantially increased importation originating from Japan is imminent.

- Provisions of the Civil Code of the Philippines (Articles 1723, 2190, and 2192), make it more advantageous for local constructors to source their cement requirements from local producers. By doing so, the local cement producers are held liable with the local constructors if inferior material quality is found to be the cause of the collapse of an infrastructure.

- The Commission believed that employment trends in the cement industry will be balanced by trends in employment in the construction industry. It is noted that the construction industry employed 1.584 million workers in 2001 based on data from the Bureau of Labor and Employment Statistics as opposed to the cement industry which employed less than 4,000 workers in the first half of 2001.

[32] Secretary Manuel Roxas of DTI as quoted by the DTI Public Relations Office, June 23, 2003.
[33] Formal Investigation on Cement Industry, Tariff Commission, p. 11.
[34] Ibid, p. 56.

In July 2003, SCCC threatened to pull out of the country unless the Department of Trade and Industry removes the definitive tariff on imported cement. The company has filed a petition with the Supreme Court asking to temporarily restrain DTI from imposing the P20.60 duty on every 40-kg bag of imported cement. The cement firm said the imposition of the import tariff would have dire consequences on its cash flow.[35]

Meanwhile, exports of Philippine cement to Japan may face pressures arising from product standards and certifications aside from the low demand due to Japan's sluggish economy. In this case, opening up of the cement industry to increased Japanese imports will only give market access to Japan albeit in limited quantities due to constraints in SCCC's silo terminal capacity. However, one can also counter that the entry of imported cement in general will depress prices which will eventually benefit the consumers.

BOX 1
Tariff Commission versus DTI: The Case of Protecting the Cement Industry

"On 22 May 2001, the DTI received an application for safeguards measure by the Philippine Cement Manufacturers Corporation (PHILCEMCOR) against the importation of gray Portland cement. The DTI's preliminary investigation showed that there was a surge of cement imports into the country in 2000 that caused serious injury on the local cement industry. Further, according to the DTI decision, there were "critical circumstances" affecting the industry that threaten employment and investments.

Following this, on 7 November 2001, DTI issued a Decision imposing a provisional safeguard measure equivalent to P20.60 per 40 kilogram bag of gray Portland cement for a period not exceeding 200 days from the date of issuance by the Bureau of Customs.

However, during the 200 day period of the imposition of the provisional safeguard measure, the Tariff Commission concluded that there was no ground for the imposition of a definitive safeguards measure. The DTI disagreed with these conclusions and sought the opinion of the Department of Justice on the DTI Secretary's "scope of options in acting on the Commission's recommendations."

The DOJ then opined that DTI is bound by the findings of the Commission. However, PHILCEMCOR then filed a petition with the Court of Appeals, which then ruled that: 1) the findings of the Tariff Commission do not necessarily constitute a final decision; and 2) such findings are still recommendatory and the DTI Secretary exercises the discretion to review and render a final decision, either affirming or reversing the report of the Commission."

Excerpt from the DTI Public Relations Office Report dated June 23, 2003

4.5 FRESH FOODS

Fresh food particularly Philippine fresh fruits exports to Japan is a significant export item with a total value of US$206 Million in 2002. Japan continues to be the top export destination of the product with a 60% share in total fresh fruits exports in 2000 (Refer to Table 13). The value of exports to Japan has increased through the years by 13.8% from US$181.6 Million in 1995 to US$206.2 Million in 2002 (Refer to Table 14). In the Japanese market, pineapples have a large market share at 97.9%, followed by

[35] Elaine Ramos, "Japanese Cement Firm Threatens Pullout due to Import Tiff," Manila Standard, July 14, 2003.

bananas (78.9%), mangoes (60.7%) and papayas (48.4%). The Philippines is also the number one supplier of pineapple fruit juice to Japan at 36.3%.[36]

Table 13. Philippine Exports of Fresh (FOB Value in '000 US$)

	1996	1997	1998	1999	2000
Total	303,200	285,680	279,580	297,150	354,143
Japan	172,180	176,970	165,230	187,740	214,520
Korea	19,550	16,670	11,460	24,580	47,764
China	36,030	25,640	39,360	23,840	28,789
HKSAR	29,380	29,710	29,870	19,960	20,888
Taiwan	2,060	3,820	9,830	16,360	18,084
Others	44,000	32,870	23,830	24,670	24,098

Source: BETP-DTI

Table 14. Philippine Fresh Food Exports to Japan (FOB Value in US Dollars)

	2002	2001	2000	1999	1998	1997	1996	1995
FRESH FOODS	223,168,543	225,299,970	235,476,898	207,240,159	184,817,493	195,853,241	193,961,778	202,699,294
Meat (Fresh)	48,498	34,422	12,372	0	0	0	0	1,657
Cereals	6,212	0	0	0	134,149	101,137	145,994	140,869
Fresh Fruits	206,159,666	204,980,248	214,519,971	187,736,570	165,231,155	176,784,704	171,683,855	181,611,188
Fresh Vegetables	16,541,105	20,093,213	20,716,126	19,333,260	18,850,138	18,775,415	21,630,888	18,727,340
Nuts And Coconut Products (Fresh)	413,062	192,087	228,429	170,329	602,051	191,985	501,041	221,956
Coffee (Fresh)	0	0	0	0	0	0	0	1,996,284

Source: BETP-DTI

At present, there are about 23 fresh banana producers/exporters mostly in Mindanao, 6 mango producers, 2 Davao-based pineapple producers, and 2 papaya exporters. In terms of employment, the fresh fruit export industry is significant in its coverage of 5.9 million farmers and farm households utilized in the banana industry, 2.5 million farmers and family members covered by the fresh mango industry and about 420,000 farmers supported by the pineapple industry.[37]

A potential major point of contention in the FTA talks with Japan would be sanitary and phytosanitary standards (SPS), market and tariff-free access of Philippine agricultural exports. In the negotiations, attention must be given also to non-tariff barriers such as overly strict packaging and phytosanitary standards. The recent economic partnership agreement signed between Japan and Singapore did not include opening up of the agricultural sector. Singapore, unlike the Philippines, does not have a significant agricultural sector. It is inevitable that agricultural openness of the Japanese economy will be placed on the negotiating table especially when one is negotiating with a developing country with significant agricultural exports and whose development objective is to improve its poverty incidence focused mainly on the rural-agriculture

[36] JETRO Marketing Guidebook for Major Imported Products, www.jetro.go.jp/ec/e/market/mgb/1-13.pdf, p. 130-131.
[37] DTI website – www.dti.gov.ph/contentment/9/16/7.jsp

sector. It should be noted that the free trade pact between Japan and Mexico, a country with substantial agricultural interests, have been extended from its October signing due to the contentious agriculture issue.

However, the present Japanese government stance regarding liberalization, at least from the Ministry of Foreign Affairs, may give an optimistic glimpse on how past rigidities attributed to opening up its agricultural sector may be tackled.

> *"Japan cannot secure the advantages of FTAs without enduring some pain arising from the opening of its markets, but this should be regarded as a process that is necessary for raising the level of Japan's industrial structures. Unavoidable issues will emerge concerning various areas of regulatory control, including movement of natural persons, as well as the opening of markets and the implementation of structural reforms in the agricultural sector. With due respect for political sensitivities, unless we take a stance linking FTAs to economic reforms in Japan, we will not succeed in making them a means of improving international competitiveness of Japan as a whole."* [38]

The Philippines should do well to regard the above statements with guarded optimism. The statements in favor of broad liberalization and opening up of the Japanese market, although encouraging, has not been converted yet to a national policy. Recent moves by Japan in the agricultural arena are promising. Earlier this year, The Japanese government expanded the coverage of its Generalized System of Preferences (GSP) that cut existing tariff lines to as much as zero percent (Refer to Table 15). Although a move in the right direction, the GSP conveniently ignored major Philippine export items such as fresh banana (20% to 25% tariff), mangoes (6% tariff), pineapple (20% tariff), asparagus (5% tariff) and other high-value crops.[39]

Suspension of GSP privilege is also possible when rapid importation becomes detrimental to local producers.[40] One option for Japan is to space liberalization in its agricultural sector. However, this may adversely affect the public acceptance of a JPEPA on the Philippine side specifically from cause-oriented groups especially if industry is opened beforehand. This may give the impression that the JPEPA is only to benefit Japan. Disregarding the agriculture sector in the negotiations is not an option for the Philippine side especially given the findings of Cororaton (2003) that the agriculture sector will be hardest hit upon the implementation of a JPEPA. Supporting agricultural export expansion will be valuable in mitigating the price bias of free trade against agricultural products and capital.

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[38] Statement by Japan's Ministry of Foreign Affairs (October 2002).
[39] APEC Tariff Database at www.apectariff.org
[40] Rocel Felix, "Agriculture exports to Japan seen to rise," Philippine Star, August 28, 2003.

Table 15. Japan GSP Coverage for Selected Agriculture Products

PRODUCT	TARIFF RATE
Coconut Oil	0% from 4.5%
Papaya	0% from 2%
Fruit stones, Kernels and other vegetable products	0% from 3%
Vegetable Planting Materials	0% from 3%
Yeast	0% from 3.8%
Prepared Bananas, Avocadoes, Mangoes other than those packed in airtight containers	4.8% from 9.6%
Prepared Mangoes and Guavas	7.5% from 15%
Preserved Papayas	6% from 10%
Prepared Papayas	3.8% from 6 to 7.5%
Vegetable, Fruit nuts prepared in sugar	9% from 12.8 to 18%
Prepared Cashew Nuts	5% from 6 to 10%

Source: Philippine Star, August 28, 2003, B-1.

4.6 MARINE PRODUCTS

Based on national trade figures, the fishing industry contributed 3.9% to the country's Gross Domestic Product (GDP) in 2001. The importance of this sector in terms of employment is reflected in its employment of about 10% of the active labor force in agriculture and 5% of the total labor force.[41]

In terms of its sub-sectors, the tuna industry reportedly employs at least 18,000 workers inclusive of allied and support industries. Those engaged in municipal operations number 773,000 while 51,000 are in commercial fisheries. The shrimp and prawn industry, meanwhile, directly employs over 120,000. Major processing centers are located in Bulacan, Negros Occidental, Capiz, Cebu, Bohol and Zamboanga.[42]

Philippine marine exports to Japan, composed of high-value products, have declined through the years from US$267 Million in 1995 to US$121 Million in 2002 – a 55% drop in 7 years. Shrimp exports in 2002 were only one half the value of its exports in 1995 while Tuna exports in 2002 were just 40% of its 1995 export value (Refer to Table 16). Tuna exports face a tariff of 3.5% in Japan while shrimps and prawns are imposed a 1% tariff rate.[43]

A study done by the Asian Institute of Management (AIM) – Policy Center, noted that the surge in tuna exports increased by 323% annually from 1970 to 1998. This growth was a direct result of PD 941 which created the Philippine Export Council (PEC) tasked to develop and implement a national export program. As such, exports grew by 840% annually in the 1970s and 6.17% annually in the 1980s. During the 1990s, the study noted that exports declined by an average of 0.87% annually despite increased

[41] DTI website
[42] Ibid.
[43] APEC Tariff Database

production in the same period. The main reason for this is the increasing domestic demand for fresh tuna as raw materials for the canning industry.[44]

Table 16. Major Philippine Marine Products Export to (FOB Value in US Dollars)

	2002	2001	2000	1999	1998	1997	1996	1995
TOTAL MARINE PRODUCTS	121,691,538	125,706,352	150,877,469	144,773,757	167,938,591	161,601,671	195,685,489	267,219,124
Live Fish	1,023,786	898,014	999,219	1,099,827	1,231,271	1,845,634	1,824,516	1,823,680
Fresh/Chilled/ Frozen Fish	2,370,116	6,742,665	8,116,521	3,101,533	4,020,212	4,985,130	4,206,186	5,391,222
Tuna	20,703,798	13,356,605	21,926,045	27,732,081	41,457,948	30,124,069	41,783,936	51,035,034
Fresh/Chilled/ Frozen	12,673,133	8,497,906	17,442,888	23,260,192	36,166,053	20,099,888	32,469,899	38,894,863
Canned	7,687,399	4,129,076	3,680,200	4,156,107	5,291,895	10,024,181	9,314,037	12,140,171
Crustaceans	88,256,973	91,904,433	106,854,555	101,347,013	103,219,891	102,432,619	128,101,359	178,305,563
Shrimps And Prawns	86,400,377	90,174,683	103,692,961	98,025,939	97,718,770	96,013,046	120,877,035	172,258,531
Fresh/ Chilled/ Frozen	86,397,420	90,146,143	103,524,181	97,924,394	97,658,285	95,924,156	120,732,042	172,083,188
Lobsters	1,256,232	1,387,152	1,580,780	1,798,625	2,152,642	2,819,509	1,956,046	1,874,176
Mollusk	6,421,388	8,243,101	8,485,218	8,112,810	14,633,677	17,887,376	15,644,016	23,899,621

Source: National Statistics Office

There are two types of tuna exported to Japan - the fresh/chilled yellowfin tuna and the frozen skipjack tuna. In 1999, Japan, with 33% share of total exports, is the second largest market for Philippine yellowfin tuna next to the United States which had 52% share (Refer to Table 17). Meanwhile, Japan is the largest frozen skipjack tuna export market for the Philippines in 1999 with a 55% share in total exports followed by Thailand at 34% share (Refer to Table 18).

Table 17. RP Yellowfin Tuna Exports by Major Destinations

Country	Volume (MT)	Value ($'000)
TOTAL	6,382	29,363
USA	2,849	15,143
Japan	**2,531**	**9,787**
Hong Kong	5	2,508
Hawaii	213	1,140
China	87	334
Others	114	451

Source: National Statistics Office

[44] Sarah Lantican and Joey Silva, "The Mindanao Tuna Industry: Breaking Into Deep Waters," AIM Policy Center Mindanao Development Series No.2 (2002), 5.

Table 18. RP Frozen Skipjack Tuna Export by Major Destinations, 1999

Country	Volume (MT)	Value ($'000)
TOTAL	28,910	16,370
Japan	**15,846**	**8,437**
Thailand	9,804	5,439
Indonesia	2,605	1,897
USA	616	564
Australia	31	15
Canada	9	18

Source: National Statistics Office

Sulu Sea, Moro Gulf and the waters extending to the North Celebes Sea have been identified as the most productive fishing grounds for yellowfin and skipjack. The waters of Mindanao account for about 55% of the total yellowfin and skipjack catch. Mindanao is also where most of the tuna canneries are located. Foremost among these locations is General Santos City. This is the center for the production, processing and trade of tuna in the country. The city has direct access to international markets such as neighboring Brunei, Singapore, Kuala Lumpur, Jakarta, Australia, Japan, Hongkong, the Middle East, Europe, the Pacific Islands and the United States. The competitive advantages of the tuna industry in General Santos City are as follows:[45]

- Proximity of the city to major fishing grounds makes it an idea location for tuna canning industries.
- Room for expansion of fishing grounds in the untapped areas of Palau to Papua New Guinea.
- Advantage of preserving the quality of fresh tuna since the source is close to the plant. Thus, post-harvest losses are minimized when mode of transfer is within short distances.

However, various challenges exist that will affect the future competitiveness of our tuna exports. These challenges if not addressed would particularly hinder the utilization of benefits of a JPEPA. Some of these concerns as identified by the study and by the SOCKSARGEN Federation of Fishing Associations and Allied Industries, Inc. (SFAAII) are as follows:[46]

- Depletion of fish reserves / Improper resource management
- Competition from other countries
- Inadequate infrastructure, facilities and related services
- Inadequate fish port facility. The port in General Santos can only accommodate 1,000-ton vessels while international fleets can reach up to 8,000 tons.
- Definition of maritime waters
- Lack of bilateral access agreements with Pacific Island resource holders

[45] Ibid., p. 8.
[46] Ibid., p. 12 – 13.

- Inefficiency in the supply chain between the fishing companies and canneries through the maintenance of the bidding system. This prevents canneries from forecasting accurately the cost of their tuna and consequently the price they will be sold at to their distributors
- Cash flow problems of canneries which are passed on to the supply chain (i.e. fishing fleets, fuel and gear suppliers, etc.) Tightening bank policies contribute to the source of the cash flow problems
- Trade promotion is not being maximized as Philippine tuna is exported mostly under a foreign label

If regional development and poverty alleviation should be gained through the JPEPA, we should particularly look into Mindanao growth industries and one such industry is tuna. Thus, to prevent depletion of fish resources, stricter implementation of laws regarding protection and conservation of fish resources is needed by all concerned government agencies. Aside from this, massive information campaigns on fishery resource conservation should be enacted through partnerships among stakeholders and local participants.

On the trade side, like their counterparts in the agriculture industry, the tuna industry should be ready to face the issue of SPS measures. Government should also strengthen its participation in international standard-setting organizations to ensure that fish products for export are not required to conform to standards higher than those warranted by scientific evidence (Lantican and Silva 2002).

Training for post harvest techniques and upgrading of cold storage facilities should be provided by the government. Japanese post harvest techniques should be studied and implemented. Industry must also reform the supply link by possibly adopting a brokerage or a six month buying program. The Department of Foreign Affairs, with the possible backing of industry players, must also lobby for bilateral fishing agreements with Pacific Island countries such as Papua New Guinea, Micronesia and Palau (Lantican and Silva 2002).

4.7 OTHER SECTORS

The inclusion of services in bilateral trade agreements has been encouraged by the Department of Trade and Industry (DTI) to widen the overseas employment of Filipino professionals like nurses, teachers, Information Technology (IT) professionals and accountants.[47] Mutual recognition of professional certification is therefore important. The steps undertaken in the IT field should serve as a model worthy of replication for other professional fields.

The competitiveness of our country in terms of IT professionals is compromised by our laxity in terms of promoting professional certification. Recent figures of Microsoft certified professionals in Southeast Asia showed the Philippines lagging

[47] DTI Philippine Business Report, Vol. 14 No. 4, April 2003.

behind its neighbors in this regard with only 1,588 certified professionals as compared with Malaysia's 4,532, Singapore's 5,942, Thailand's 1,711 and Indonesia's 1,711 (refer to Table 19).[48] Professional IT certification is a clear indication that a person has reached world-class standards and paves the way for work overseas or employment by multinational companies with stringent labor standards. For instance, in Taiwan, certification is a requirement for an IT position in most companies. Thus, government and private organizations should not be complacent and should continue to push for certification programs to help boost the competitiveness of local IT professionals.

Table 19: Microsoft Certified Professionals

Country	2001	2002	% growth
Philippines	1174	1588	35.26%
Malaysia	3068	4532	47.72%
Singapore	4747	5942	25.17%
Thailand	n.a.	1711	n.a.
Indonesia	1298	1697	30.74%

Source: INQ7.net, January 28, 2003.

In this regard, the Japanese government, in coordination with the DTI, has instituted a Japan Information Technology Standard Examination of the Philippines (JITSE-Phil) which enables Filipinos to take a globally recognized IT exam in the Philippines that immediately opens doors for employment in Japan. The JITSE-Phil is in its initial stages and will conduct only its second exam on September 2003. Testing centers are scattered in major urban areas in the country such as: Baguio, Manila, Cebu, Davao, and Zamboanga.[49] Such professional standard examinations may prod additional investments in education that will lead to improvements in the standard of professional services as workers are forced to upgrade to remain relevant. Promotion of the JITSE-Phil. program should be intensified particularly partnerships with local universities and training centers for review sessions. A JPEPA may also be a good opportunity for educational exchanges in science and technology courses that will surely uplift our local educational standards in those areas.

In this regard, efforts must be given to promote and enhance the performance of Filipinos in the Japanese IT Standards Examination (JITSE). The Philippine National Standard (PNS), through the Bureau of Product Standard (BPS) of the Department of Trade and Industry (DTI), has recently adopted the JITSE as its national standard in IT certification program.

However, to avoid a disadvantageous situation wherein the best and brightest leave the country while those who remain do so because they failed the exams, a better alternative to maintain the best professionals within our shores is to attract Japanese direct investments in the IT field particularly in the offshore research and development outsourcing. In this case, our country gains from the positive externalities of our

[48] Erwin Lemuel Oliva, "Philippines produces fewest MS-certified professionals," INQ7.net, January 28, 2003.
[49] Dateline Jetro, Vol. 4 No. 20 (Manila: August 2003), p.2.

workers' domestic presence in terms of technology transfer to other workers leading hopefully to an increase overall productivity.

In this regard, our investment climate relative to other countries in the region will be the determining factor. The establishment of a one-stop center at the JETRO Manila office, wherein prospective investors are given market and business set-up information, will assist in improving our investment and business expansion prospects. This is congruent to the results of the survey done by JETRO in 2002 on obstacles faced by Japanese firms in entering new markets. Lack of information on markets and products was cited by 40% of the respondents as the main obstacle in expansion. A close second is lack of information on local importers and distributors (Refer to Annex I). This is especially relevant for potential Small and Medium Enterprises (SME) investors who have limited capabilities to fund start-up costs in exporting (e.g. market research) compared to bigger firms.[50]

Specific domestic sub-sectors exhibit enormous trade deficits that may indicate levels of comparative disadvantage and may mean that these domestic sub-sectors will face stiffer competition from imported goods upon implementation of an FTA. These sectors and their import and export values in 2002 are as follows:[51]

- Paper and paper products: US$28.0 Million Imports vs. US$2.0 Million Exports
- Pharmaceutical products: US$ 9.7 Million Imports vs. US$153,000
- Machineries/Equipment/Apparatus, Total: US$548.0 Million Imports vs. US$66.0 Million Exports
- Iron and Steel: US$214.0 Million Imports vs. US$61,817 Exports
- Metal-based Construction Materials: US$82.0 Million Imports vs. US$7.0 Million Exports
- Chemicals: US$353 Million Imports vs. US$36 Million Exports
- Petrochemicals: US$184 Million Imports vs. US$17 Million Exports

Aside from internal industry-level factors of competitiveness, the external environment also plays a big factor in the macro and micro competitiveness of the different sectors. Various surveys identified the quality of politics and governance as a major deterrent to government and private sector's efforts to boost economic growth and attract investments to the country.[52]

Other factors considered by multinational companies as major deterrents to business are: poor infrastructure, high cost of doing business, economic instability,

[50] The recent establishment of a Japan External Trade Organization (JETRO) – Business Support Center Philippines (BSCP), the third outside Japan, provides office space for two months rent-free to Japanese SMEs. These firms can thus conduct market research and given expert advice on aspects such as business laws, taxation and labor.

[51] National Statistics Office at www.census.gov.ph

[52] Results of the 2003 Annual Corporate Survey of Wallace Business Forum with 36 multinational companies as respondents identified corruption, political instability, peace and order problems, red tape and inconsistency of government policies as the biggest problems besetting businesses. The Swiss-based International Management Development (IMD) survey also pointed out government and private sector inefficiency as factors in the drop of Philippine competitiveness rankings through the years.

currency fluctuations, lack of political will to implement policies, market size, and the justice system.[53]

Recently, the Japan Association of Corporate Executives (JACE) echoed the sentiments of the Japanese ambassador about safety concerns of Japanese nationals as an investment consideration. The JACE representative indicated that while the Philippines could be an attractive investment site in Asia, Japanese locators would prefer safer places like China and Thailand. The Japanese Chamber of Commerce and Industry in the Philippine have also cited labor unrest as one of the major concerns of Japanese companies in the Philippines.[54]

5. ON LIBERALIZATION AND ADJUSTMENT COSTS

5.1 TEMPORARY ADJUSTMENT COSTS

When import barriers are brought down, relatively inefficient domestic firms face a downward pressure on their sales and profits as consumers are attracted to cheaper imported products from relatively efficient foreign firms. This downward pressure on profits will also be felt through lower wages, job layoffs, lower returns to capital or even firm closures. Faced with these prospects, affected firms and laborers are expected to shift to other sectors such as an expanding export industry. This transition process is not as easy as it seems. Workers incur adjustment costs for being unemployed, for expenses incurred in actively searching for new jobs, and for training costs to acquire new job skills. Capital owners in declining industries also face adjustment costs in dealing with a decline in capital values, investment in new production techniques to increase competitiveness and in some cases, the cost of transferring capital from one industry to the other. Indeed even the expansion of export industries after trade liberalization requires adjustment costs in the form of extra investments to absorb additional workers for expansion of their export markets.[55]

To be sure, the adjustment process described above leads to efficiency gains because factors of production shift in accordance with comparative advantage. Also, consumers gain through lower prices and through more choices afforded to them by trade liberalization. The temporary nature of this adjustment process does not in any way lessen the harm it does to affected sectors. This is especially true for developing countries where adjustment costs can mean a rise in unemployment and poverty incidence in their most vulnerable sectors.

Small adjustment costs for the whole economy tend to be large seen from the point of view of specific groups. Meanwhile, the big overall benefits to consumers of trade liberalization tend to be scattered. Thus, due to the convenience of agglomeration, there is an incentive for the affected groups to lobby for a return to protectionism while

[53] Michelle Remo, "Poor Governance is Economy's Top Problem: Survey," INQ7.net, October 13, 2003.
[54] Iris Cecilia C. Gonzales and Carina I. Roncesvalles, "Investors Remain Wary (But Prospects Have Improved, say Foreign Governments)," Businessworld Online, October 13, 2003.
[55] "Adjusting to Trade Liberalization The Role of Policy, Institutions and WTO Disciplines, WTO 2003.

consumers quietly sit at the sidelines. Adding to the problem, the policy maker "knows that the workers who would lose their job as a result of trade liberalization are aware of this and thus are unlikely to vote for them in the next election, while the workers who get new jobs in the expanding export sector are unlikely to link the existence of new jobs to trade reforms and unlikely to reward the political leaders by voting for them."[56]

It is important to note that adjustment costs differ from long-term distributional effects of trade. If, for instance, a country imports a good that is produced intensively with unskilled labor, it is obvious that domestic unskilled laborers in that specific sector will be affected and will leave that sector thereby increasing the supply of unskilled labor in the whole economy. The main long run effect of this increased supply is to drive down unskilled labor wages even in those sectors not affected by trade even though only the unskilled labor in the affected industry will have to incur the adjustment cost. All unskilled workers across sectors will have to bear the burden of lower wages. This poses a difficult challenge of a more redistributive system of compensating for the long run losses of those who are not entitled to adjustment assistance programs.[57]

5.2 FACTORS AFFECTING ADJUSTMENT COSTS

The size of adjustment costs may be affected by the macroeconomic status of the country at the time of reform. If the economy is booming and unemployment is high, workers can easily shift from one job to the other and adjustment costs is fairly small. On the other hand, if unemployment is high and the economy is in a recession at the time of reform, adjustment costs are expected to be higher as workers will find it harder to replace lost jobs.[58] In the case of the Philippines, assuming a contraction in agriculture as an FTA shifts relative prices in favor of manufacturing occurs, the informal service sector may balloon as workers ill-equipped with skills needed in the manufacturing sector opt to find work elsewhere. Skills training courses targeting the affected laborers is therefore important. This may be jointly funded and organized by the government and expanding industries looking for additional labor.

In addition, credit constraints caused by an inefficiently functioning credit market may exacerbate and hinder the adjustment process. Small companies with adjustment related investments would bear the brunt of this credit constraint as banks tend to look at firm size in giving out loans (Bigsten, et al. 1999; Jaramillo and Schiantarelli 1996). Distortions in the credit market may prod government intervention in the form of credit assistance. However, care must be taken since this move may be counter productive if assistance is given to companies that will not be competitive in the long run.[59] One option is for government to announce trade liberalization in advance so that firms may start accumulating profits and utilize internal financing to face future foreign competition. In any case, this solution will not make a difference to low income workers who are unable to accumulate savings from their income. Laborers affected by trade

[56] Ibid., p.19.
[57] Ibid, p. 31.
[58] Ibid, p. 22.
[59] Ibid, p. 33.

liberalization will find it doubly hard to obtain loans to finance their own adjustment costs. In the absence of safety nets, particularly in developing countries, this may result in greater economic hardships.[60]

In the Philippine setting, the restructuring of loans when a business is on the brink of bankruptcy may also be a cause of credit constraints. There will be less opportunities for small laborers to borrow these loans because money that should be available is frozen in loan restructuring.[61]

Social safety nets have been much discussed in the context of developing countries but inadequate and inefficient government resources hinder its implementation. Safety nets imposed by the Philippine government such as the Safeguard Measures Act tries to protect affected firms from import protection by reinstating tariffs until such time that these firms can recover its competitiveness (Refer to Annex II).[62] Although this may be the most practical method for the government and benefits the protected industry directly, the plight of workers was not taken into consideration. Cost-cutting by affected firms to improve competitiveness may involve lower wages. In cases of wage rigidity by law, job layoffs may occur.

An alternative model is presented by the United States through the Trade Adjustment Assistance (TAA). Instead of the reinstatement of tariffs, direct compensation to injured workers and industries for their losses occurs. Compensation for workers in this case could took the form of extended unemployment benefits, retraining, and relocation assistance. For firms, TAA provides low interest loans and assistance for firms to explore new product lines (Refer to Annex III). However, the goal of compensating workers may contradict the goal of hastening their adjustment process. In the case of the TAA, economist observed that its heavy emphasis on unemployment benefits and weak focus on retraining and relocation assistance may actually encourage workers to remain unemployed rather than seek work in growing industries.[63]

The quality of infrastructure and utilities in a country also affects the adjustment costs of firms. The lack of infrastructure and utilities provision will result in more firm investments in capital goods and higher transaction and information costs all of which aggravate the cost incurred by the adjusting firm.

The acceptability and credibility of trade reforms may also affect the duration of adjustment costs. If workers and firms who run counter against trade reforms feel that a reversal of policy is at hand, inaction may be the result which may further prolong their respective adjustment periods.

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[60] Ibid, p. 39.
[61] Inputs of Director Kabigting of the DTI-BITR during the Forum on JPEPA, September 11, 2003.
[62] Other safety nets include RA 8751 or the Countervailing Duty Act and RA 8752 or the Anti-dumping Duty Act.
[63] Yarbrough, The World Economy Trade and Finance, 128-129.

6. CONCLUSION AND POLICY IMPLICATIONS

The expansion of exporting industries, particularly in agriculture, is important in order for the trade liberalization adjustment process to be smooth. Active export promotion, whether in agriculture or industry, may also give the government the political support it needs to counter protectionist moves by import competing sectors.

Safety nets available to policy makers should not be limited to reinstatement of tariffs but should instead be directed to retraining and relocation assistance to displaced workers. Private sector and civil society participation should be encouraged as government resources are sorely lacking in this respect.

Consolidation of the estimated 15,000 SMEs accounting for 90% of all firms in the furniture sector is a must to exploit economies of scale and standardization of quality. Proper resource management and supply agreements from other countries to address the lack of raw materials should be explored. Boosting SME financing will increase capital expenditures leading to increased productivity in the sector. This should be in conjunction with government incentives such as the establishment of a one-stop center to showcase furniture exports and tax-breaks for imported capital.

Competitiveness of the tuna industry depends on sustainable resource management and access to bilateral fishing agreements with Pacific countries. Furthermore, investments to improve the capacity of port facilities are needed along with acquiring modern techniques of post harvest handling and supply bidding.

Most non-food manufactured goods exports of the Philippines enjoy zero or very low tariffs in Japan. If the Philippines is to benefit from the JPEPA, we have to be mindful of other trade related issues such as non-tariff barriers (i.e. SPS) or trade procedures and facilitation especially in our agricultural and resource-based exports.[64] This is especially true for our fresh fruit, agriculture and marine product exports. Capacity-building programs in these areas should then be stressed in the JPEPA.

Firm level cost competitiveness in the electronics and automotive sectors necessitates that further improvements must be made in developing the local supply base for industries (Refer to Annex II). The challenge then is to identify the components that will be in demand from the expansion plans of manufacturers. This can only be done if we are privy to the investment plans of major industry players. The decision of where to assign the Philippines in the value chain segment among the other electronics powerhouses in the ASEAN such as Malaysia, Thailand and Singapore and in East Asian countries such as Korea and China lies in the hands of major multinationals. The same is true for the automotive industry wherein Japanese and American players dictate where to locate their manufacturing units. What is within our immediate control is how to make the Philippines an attractive investment locus so that we can "lengthen and strengthen that part of the value chain that is assigned to us."[65]

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[64] Inputs from Director Ramon Kabigting during the Forum on JPEPA, September 11, 2003.
[65] Ibid.

In the construction industry, cement, which has enjoyed safeguard protection by the government, will face limited competition from Japanese cement. Most of the Japanese cement sold in the country are in bulk which serves a particular market niche. However, non-tariff barriers such as the 28-day compressive strength testing may be challenged by similar requirements for Philippine cement exports to Japan.

The Philippine government's stand on the service sector specifically the sending of Filipino nurses and IT professionals to Japan should only be a short-term program as this will have serious repercussions on the long-term growth prospects of our country. Meanwhile, structures exist that we can fully utilize such as the Science and Technology Advisory Council (STAC) and United Nations Transfer of Knowledge Through Expatriate Nationals (TOKTEN) Project that enable immigrants to return to their home countries for short-term consultancies for technology transfer purposes.

The employment of Filipino professionals can best serve the country when Japanese companies locate to the country and transfer technology through various means. In this regard, the country's ability to attract Japanese investment relative to our neighbors especially those that are concluding FTAs with Japan is of utmost importance

In a survey by JETRO, insufficient infrastructure was cited by 77% of Japanese manufacturers as the biggest factor in adversely affecting the country's investment environment (Refer to Annex IV). Port facilities, cheap electricity and water, access to roads, affordable transport costs, telecommunications, and fast custom clearance procedures, when not adequately provided by the government, will be reflected as cost items by companies.

Another challenge we pose to the Philippine public and private sector is to maintain our edge in human capital through continuing education and relevant skills training. Workers must stay relevant in a rapidly changing and more competitive global environment (ex. Certification of IT professionals). Recognition of professional standards between Japan and the Philippines, which has started in the IT field through JITSE, should be expanded to other professional sectors. Continued skills training to complement the specific needs of foreign locators such as Japanese language programs should be introduced and promoted so that Filipino workers remain competitive in the eyes of the Japanese.

Firms must also adapt to new technologies and be quick to anticipate new opportunities for diversification. For instance, new opportunities that will cater to Japan's graying society will be in demand. The so-called joint-use goods, goods that are designed with the needs of the elderly and the disabled in mind, have seen value of shipments grow at an average annual rate of 30% from 1996 to 2000. Examples of such goods are shampoo and conditioner bottles designed differently to be identifiable by touch, and braille labels on canned drinks.[66]

Firms must also make full use of new innovations in information technology to supplement their marketing efforts. For example, the Virtual Trade Fair offered by the JETRO through its website offers Japanese buyers to view and purchase products from different countries online. Local exporters with an aversion to technology will definitely miss out on new business opportunities. Areas with no internet service providers will similarly face the same fate. On the downside, new developments in information technology will immediately highlight the price and service disadvantages of uncompetitive products and firms.

The hesitancy to use new technology is more prominent in the SME sector. According to Bureau of Domestic Trade Director Meynardo Orbeta, DTI's initiatives to assist SMEs to set-up online catalogues received a lukewarm response from SMEs based in the provinces due mainly to security concerns that "exposing their products and designs to the global market will result in someone stealing their designs."[67] Thus, sustained education is needed in this sector on the areas of intellectual property protection and benefits of IT for SMEs particularly in e-commerce. Most Filipino exporters utilize the internet only for communication purposes and not for business transactions such as e-biddings. The lack of infrastructure support in terms of availability of ISPs and applications is also a deterrent to SME adoption of e-commerce.[68]

Given that our ASEAN neighbors particularly Malaysia and Thailand are seriously concluding FTA negotiations with Japan, what then should Philippine firms and labor do to ensure it could derive the maximum benefits of the JPEPA? These are valid concerns in that: a) our neighbors have a stronger existing trade relationship with Japan which implies an already established sales and distribution network, and b) our neighbors have similar goods to offer Japan. This may have already placed us at a disadvantage but the road to trade liberalization has been paved and either we decide to be apart of it or be left behind in the race. There is no dilemma really as not entering into an FTA with Japan, when others have done so, is a far worse scenario with our country feeling the whole brunt of trade diversion. Thus, challenges must be seen as opportunities for growth and improvement. One challenge for us is to exploit co-opetition or triangular trade relations with fellow AFTA members in our trade with Japan. Given that an ASEAN-Japan FTA is also in the works, it will be very hard for the Philippines to succeed by itself in a competitive environment without cooperation. It will find, as other countries should find, that it can only succeed if our ASEAN neighbors also succeed.

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[66] Dateline Jetro Market Report, Vol. 4 No. 20, August 2003. The market of joint-use good and services in Japan was worth US$4.1 Billion in 1995. In 1996, the market increased to US$8.3 Billion and further to US$19.2 Billion in 2000. A big portion of this is from the consumer electronics goods followed by canned drinks and housing furniture.
[67] Eleanore Sanchez, "Gov't notes need to sustain IT promotion among SMBs," http://itmatters.com.ph/news/news_09102003e.html, September 10, 2003.
[68] Ibid.

The final and probably the hardest challenge we pose to the public sector is to maintain a stable macroeconomic and investment policy that is characterized by transparency, stability and predictability. Efforts to maintain competitiveness will come to naught if the country succumbs to political and social instability. 72% of Japanese affiliated manufacturers currently in the country identified this as a pressing problem of the Philippine investment environment (Refer to Annex IV). Perception may spell the difference between winners and losers in a highly competitive and integrated global economy.

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ANNEX I

OBSTACLES FACED BY JAPANESE FIRMS OVERSEAS

(N = 897)

Lack of information on markets / products	40.5%
Lack of information on local importers and distributors	33.9%
Lack of employees with sufficient foreign language skills	26.8%
Lack of employees available to take on new tasks	23.0%
Lack of information on taxation, investment, etc.	21.5%
Lack of information on partners for merger and tie-ups	17.6%
Lack of sufficient funds for entering overseas markets	15.7%
Lack of information on investment risks	13.8%
Lack of know-how for setting up company in local market	10.6%
Lack of employees with hands-on trade know-how	7.8%
Absence of FTA, investment treaty, etc. between Japan and local country	5.0%
Other	3.9%

Source: Survey on overseas expansion by Japanese firms, conducted in June 2002 (JETRO)

ANNEX II

Republic Act No. 8800
SAFEGUARDS MEASURES ACT
AN ACT PROTECTING LOCAL INDUSTRIES BY PROVIDING SAFEGUARD MEASURES TO BE UNDERTAKEN IN RESPONSE TO INCREASED IMPORTS AND PROVIDING PENALTIES FOR VIOLATION THEREOF.

CHAPTER 1
GENERAL PROVISIONS

SEC. 1. ***Short Title.*** - This Act shall be known as the "Safeguard Measures Act".

SEC. 2. ***Declaration of Policy.*** - The State shall promote the competitiveness of domestic industries and producers based on sound industrial and agricultural development policies, and the efficient use of human, natural and technical resources. In pursuit of this goal and in the public interest, the State shall provide safeguard measures to protect domestic industries and producers from increased imports which cause or threaten to cause serious injury to those domestic industries and producers.

SEC. 3. ***Scope of Application.*** - This Act shall apply to products being imported into the country irrespective of source.

SEC. 4. ***Definitions.*** - For the purposes of this Act, the following terms are defined as follows:

(a) "Agricultural product" refers to a specific commodity under Chapters 1 to 24 of the harmonized system (HS) of Commodity Classification as used in the Tariff and Customs Code of the Philippines;

(b) "Commission" shall refer to the Tariff Commission;

(c) "Consumers" shall refer to natural persons or organized consumer groups who are purchasers, lessees, recipients or prospective purchasers, lessees, recipients of consumer products, services or credit;

(d) "Critical circumstances" shall mean circumstances where there is prima facie evidence that increased imports, whether absolute or relative to domestic production, are a substantial cause of serious injury or threat thereof to the domestic indus try and that delay in taking action under this Act would cause damage to the industry that would be difficult to repair;

(e) "Directly competitive product" shall mean domestically produced substitutable products;

(f) "Domestic industry" shall refer to the domestic producers as a whole, of like or directly competitive products manufactured or produced in the Philippines or those whose collective output of like or directly competitive products constitutes a major proportion of the total production of those products;

(g) "Interested parties" shall include domestic producers, consumers, importers and exporters of the products under consideration;

(h) "Like product" shall mean a domestic product which is identical, i.e. alike in all respects to the imported product under consideration, or in t he absence of such a product, another domestic product which, although not alike in all respects, has characteristics closely resembling those of the imported product under consideration;

(i) "Market access opportunity" shall mean the percentage of the total annual volume of imports of an agricultural product to the corresponding total volume of domestic consumption of the said product in the country in the three (3) immediately preceding years for which data are available;

(j) "Minimum Access Volume (MAV)" is the amount of imports of an agricultural product allowed to be imported into the country at a customs duty lower than the out –quota customs duty;

(k) “Positive adjustment to import competition” shall refer to the ability of the domestic industry to compete successfully with imports after the termination of any safeguard measure, or to the orderly transfer of resources to other productive pursuits; and to the orderly transition of dislocated workers in the industry to other productive pursuits;

(l) “Price difference” is the amount obtained after subtracting the c.i.f. import price from the trigger price;

(m) “Product” refers to articles, commodities or goods;

(n) “Secretary” shall refer to either the Secretary of the Department of Trade and Industry in the case of non-agricultural products or the Secretary of the Department of Agriculture in the case of agricultural products;

(o) “Serious injury” shall mean a significant impairment in the position of a domestic industry after evaluation by competent authorities of all relevant factors of an objective and quantifiable nature having a bearing on the situation of the industry concerned. In particular, the rate and amount of the increase in imports of the product concerned in absolute and relative terms, the share of the domestic market taken by increased imports, changes in levels of sales, production, productivity, capacity utilization, profit and losses, and employment;

(p) “Substantial cause” means a cause which is important but not less than any other cause;

(q) “Threat of serious injury” shall be understood to mean serious injury that is imminent;

(r) “Trigger price” is the price benchmark for applying the special safeguard measure; and

(s) “Trigger volume” is the volume benchmark for applying the special safeguard measure.

CHAPTER II

GENERAL SAFEGUARD MEASURE

SEC. 5. ***Conditions for the Application of General Safeguard Measures.*** - The Secretary shall apply a general safeguard measure upon a positive final determination of the Commission that a product is being imported into the country in increased quantities, whether absolute or relative to the domestic production, as to be a substantial cause of serious injury or threat thereof to the domestic industry; however, in the case of non-agricultural products, the Secretary shall first establish that the application of such safeguard measures will be in the public interest.

SEC. 6. ***Initiation of Action Involving General Safeguard Measure.*** - Any person, whether natural or juridical, belongings to or representing a domestic industry may file with the Secretary a verified petition requesting that action be taken to remedy the serious injury or prevent the threat thereof to the domestic industry caused by increased imports of the product under consideration. The petition shall include documentary evidence supporting the facts that are essential to establish:

(1) an increase in imports of like or directly competitive products;

(2) the existence of serious injury or threat thereof to the domestic industry; and

(3) the causal link between the increased imports of the product under consideration and the serious injury or threat thereof.

The Secretary shall review the accuracy and adequacy of the evidence adduced in the petition to determine the existence of a prima facie case that will justify the initiation of a preliminary investigation within five (5) days from receipt of the petition.

The Secretary may also initiate action upon the request of the President; or a resolution of the House of Senate Committee on Agriculture, or House or Senate Committee on Trade and Commerce.

In the absence of such a petition, the Secretary may, motu proprio, initiate a preliminary safeguard investigation if there is evidence that increased imports of the product under consideration are a substantial cause of, or are threatening to substantially cause, serious injury to the domestic industry.

The Secretary may extend legal, technical and other assistance to the concerned domestic producers and their organizations at all stages of the safeguard action.

SEC. 7. ***Preliminary Determination.*** - Not later than thirty (30) days from receipt of the petition or a motu proprio initiation of the preliminary safeguard investigation, the Secretary shall, on the basis of the evidence and submission of the interested parties, make a preliminary determination that increased imports of the product under consideration are a substantial cause of, or threaten to substantially cause, serious injury to the domestic industry. In the process of conducting a preliminary determination, the Secretary shall notify the interested parties and shall require them to submit their answers within five (5) working days from receipt of such notice. The notice shall be deemed received five (5) working days from the date of transmittal to the respondent or appropriate diplomatic representative of the country of exportation or origin of the imported product under consideration.

When information is not applied within the above time limit set by the Secretary or if the investigation is significantly impeded, decision will be based on the facts derived from the evidence at hand.

Upon a positive preliminary determination that increased importation of the product under consideration is a substantial cause of, or threatens to substantially cause, serious injury to the domestic industry, the Secretary shall, without delay, transmit its records to the Commission for immediate formal investigation.

SEC. 8. ***Provisional Measures.*** - In critical circumstances where a delay would cause damage which would be difficult to repair, and pursuant to a preliminary determination that increased imports are a substantial cause of, or threaten to substantially cause, serious injury to the domestic industry, the Secretary shall immediately issue, through the Secretary of Finance, a written instruction to the Commissioner of Customs authorizing the imposition of a provisional general safeguard measure.

Such measure shall take the form of a tariff increase, either ad valorem or specific, or both, to be paid through a cash bond set at a level sufficient to redress or prevent injury to the domestic industry. Provided, however, That in the case of agricultural products where the tariff increase may not be sufficient to redress or to prevent serious injury to the domestic producer or producers, a quantitative restriction may be set. The cash bond shall be deposited with a government depository bank and shall be held in trust for the importer who posted the bond. The duration of the provisional measure shall not exceed two hundred (200) days from the date of imposition during which period the requirements of the subsequent sections of this Act on the initiation of a formal investigation, notification and consultation shall have been met: Provided, That the duration of any provisional measure shall be counted as part of the initial period and any extension, of the imposition of the definitive final safeguard measure.

When the provisional safeguard measure is in the form of a tariff increase, such increase shall not be subject or limited to the maximum levels of tariff as set forth in Section 401 (a) of the Tariff and Customs Code of the Philippines.

SEC. 9. ***Formal Investigation.*** - Within five (5) working days from receipt of the request from the Secretary, the Commission shall publish the notice of the commencement of the investigation, and public hearings which shall afford interested parties and consumers an opportunity to be present, or to present evidence, to respond to the presentation of other parties and consumers, and otherwise be heard. Evidence and positions with respect to the importation of the subject article shall be submitted to the Commission within fifteen (15) days after the initiation of the investigation by the Commission. The Commission shall complete its investigation and submit its report to the Secretary within one hundred twenty (120) calendar days from receipt of the referral by the Secretary, except when the Secretary certifies that the same is urgent, in which case the Commission shall complete the investigation and submit the report to the Secretary within sixty (60) days.

SEC. 10. ***Inspection of Evidence.*** - The Commission shall make available for inspection by interested parties, copies of all evidence submitted on or before the relevant due date: Provided, however, That any information which is by nature confidential or which is provided on a confidential basis, shall, upon cause being shown, not be disclosed without permission of the party submitting it. Parties providing confidential information may be requested to furnish nonconfidential summaries thereof or if such parties indicate that such information cannot be summarized, the reasons why a summary cannot be provided: Provided, further, That if the Commission finds that a request for confidentiality is not warranted and if that party concerned is either unwilling to make the information public or to authorized its disclosure in generalized or summary form, the Commission may disregard such information unless it can be demonstrated to its satisfaction from appropriate sources that the information is correct.

SEC. 11. ***Adjustment Plan.*** - In the course of its investigation, the Commission shall issue appropriate notice to representatives of the concerned domestic industry or other parties, to submit an adjustment plan to import competition, within forty five (45) days upon receipt of the notice, except when the Secretary certifies that the same is urgent, in which case the adjustment plan must be submitted within thirty (30) days.

If the Commission makes an affirmative determination of injury or threat thereof, individual commitments regarding actions such persons and entities intend to take to facilitate positive adjustments to import competition shall be submitted to the Commission by any (a) firm in the domestic industry, (b) certified or recognized union or group of workers in the domestic industry, (c) local community, (d) trade association representing the domestic industry, or (e) other person or group of persons.

SEC. 12. ***Determination of Serious Injury on Threat Thereof.*** - In reaching a positive determination that the increase in the importation of the product under consideration is causing serious injury or threat thereof to a domestic industry producing like products or directly competitive products, all relevant factors having a bearing on the situation of the domestic industry shall be evaluated. These shall include, in particular, the rate and amount of the increase in imports of the products concerned in absolute and relative terms, the share of the domestic market taken by the increased imports, and changes in the level of sales, production, productivity, capacity utilization, profits and losses, and employment.

Such positive determination shall not be made unless the investigation demonstrates on the basis of objective evidence, the existence of the causal link between the increased imports of the product under consideration and serious injury or threat thereof to the domestic industry. When factors other than increased imports are causing injury, such injury shall not be attributed to increased imports.

SEC. 13. ***Adoption of Definitive Measures.*** - Upon its positive determination, the Commission shall recommend to the Secretary an appropriate definitive measure, in the form of:

(a) An increase in, or imposition of, any duty on the imported product;

(b) A decrease in or the imposition of a tariff-rate quota (MAV) on the product;
(c) A modification or imposition of any quantitative restriction on the importation of the product into the Philippines;

(d) One or more appropriate adjustment measures, including the provision of trade adjustment assistance;

(e) Any combination of actions described in subparagraphs (a) to (d).

The Commission may also recommend other actions, including the initiation of international negotiations to address the underlying cause of the increase of imports of the product, to alleviate the injury or threat thereof to the domestic industry, and to facilitate positive adjustment to import competition.

The general safeguard measure shall be limited to the extend of redressing or preventing the injury and to facilitate adjustment by the domestic industry from the adverse effects directly attributed to the increased imports: Provided, however, That when quantitative import restrictions are used, such measures shall not reduce the quantity of imports below the average imports for the three (3) preceding representative years, unless clear justification is given that a different level is necessary to prevent or remedy a serious injury.

A general safeguard measure shall not be applied to a product originating from a developing country if its share of total imports of the product is less than three percent (3%): Provided, however, That developing countries with less than three percent (3%) share collectively account for not more than nine percent (9%) of the total imports.

The decision imposing a general safeguard measure, the duration of which is more than one (1) year, shall be reviewed at regular intervals for purposes of liberalizing or reducing its intensity.

The industry benefiting from the application of a general safeguard measure shall be required to show positive adjustment within the allowable period. A general safeguard measure shall be terminated where the benefiting industry fails to show any improvement, as may be determined by the Secretary.

The Secretary shall issue a written instruction to the heads of the concerned government agencies to implement the appropriate general safeguard measure as determined by the Secretary within fifteen (15) days from receipt of the report.

In the event of a negative final determination, or if the cash bond is in excess of the definitive safeguard duty assessed, the Sectary shall immediately issue, through the Secretary of Finance, a written instruction to the Commissioner of Customs, authorizing the return of the cash bond or the remainder thereof, as the case may be, previously collected as provisional general safeguard measure within ten (10) days from the date a final decision has been made: Provided, That the government shall not be liable for any interest on the amount to be returned. The Secretary shall not accept for consideration another petition from the same industry, with respect to the same imports of the product under consideration within one (1) year after the date of rendering such a decision.

When the definitive safeguard measure is in the form of a tariff increase, such increase shall not be subject or limited to the maximum levels of tariff as set forth in Section 401 (a) of the Tariff and Customs Code of the Philippines.

SEC. 14. ***Contents of the Report by the Commission.*** - Based on its findings, the Commission shall submit to the Secretary: (a) the investigation report; (b) the proposed recommendations; (c) a copy of the submitted adjustment plan; and (d) the commitments made by the domestic industry to facilitate positive adjustment to import competition.

The report shall also include a description of the short and long-term effects of the affirmative or negative recommendation, as the case may be, on the petitioner, the domestic industries, the consumers, the workers, and the communities where production facilities of such industry are located.

The Commission, after submitting the report to the Secretary, shall make it available to the public except confidential information obtained under Section 10 and publish a summary in two (2) newspapers of general circulation.

SEC. 15. ***Limitations on Actions.*** - The duration of the period of an action taken under the General Safeguard Provisions of this Act shall not exceed four (4) years. Such period shall include the period, if any, in which provisional safeguard relief under Section 8 was in effect. The effective period of any safeguard measure, including any extensions thereof under Section 19 may not, in the aggregate, exceed ten (10) years.

(1) Any additional duty, or any duty imposed under this Section may be specific and/ or ad valorem. It shall be in the amount necessary to prevent or redress or remedy the injury to the domestic industry;

(2) If a quantitative restriction is used, such measure shall not reduce the quantity of imports below the level of a recent period which shall be the average of imports in the last three representative years for which statistics are available, unless clear justification is given that a different level is necessary to prevent or remedy serious injury;

(3) An action described in Section 13 (a), (b), or (c) that has an effective period of more than one (1) year shall be phased down at regular intervals within the period in which the action is in effect;

(4) Within two (2) years after the expiration of the action, the Secretary shall not accept any further petition for the same article: Provided, however, That a safeguard measure with a duration of one hundred eighty (180) days or less may be applied again to the same product if:

i. At least one (1) year has elapsed since the date of introduction of the safeguard measure; and

ii. Such measure has not been applied on the same product more than twice in the five (5) year period immediately preceding the date of introduction of the measure.

SEC. 16. ***Monitoring.*** - So long as any action taken under Section 13 remains in effect, the Commission shall monitor developments with respect to the domestic industry, including the progress and specific efforts made by worker and firms in the domestic industry to make a positive adjustment to import competition

(1) If the initial application of action taken under Section 13 exceeds three (3) years, or if an extension of such action exceeds three (3) years, the Commission shall submit to the Secretary a report on the results of the monitoring, not later than the date which is the midpoint of the initial period, and of each such extension, during which the action is in effect.

(2) The Commission, in the preparation of each monitoring report, shall conduct a hearing at which interested parties shall be given reasonable opportunity to be present, to present evidence, and to be heard.

SEC. 17. ***Notice of General Safeguard Measure.*** - The Secretary shall notify the concerned Committee on Safeguards of the World Trade Organization:

(a) When initiating an action relating to serious injury or threat thereof and the reasons for it;

(b) When adopting a provisional general safeguard measure following a positive preliminary determination; and

(c) When applying or extending a definitive general safeguard measure following a positive final determination.

SEC. 18. ***Reduction, Modification, and Termination of Action.*** - Action taken under Section 13 may be reduced, modified or terminated by the Secretary only after:

(a) Taking into account the results of the monitoring indicated in the report submitted by the Commission under Section 16, he determines that:

i. No adequate efforts to make a positive adjustment to import competition have been undertaken by the domestic industry; and

ii. Changed economic circumstances have impaired the effectiveness of action taken under Section 13.

(b) A majority of the representatives of the domestic industry submits to the Secretary, at least one (1) year before the expiration, a petition requesting such reduction, modification, or termination on the basis that the domestic industry has made a positive adjustment to import competition.

If reduction, modification, or termination of action is being requested for an action that has been in effect for three (3) years or less, the petitioning industry shall submit its request to the Secretary. The Secretary shall refer the request to the Commission which shall conduct an investigation following the procedures under Section 9, to be completed within sixty (60) days from receipt of the request. The Commission shall submit a report to the Secretary who shall then take action after taking into consideration conditions under Section 16 (1) and (2), not later than thirty (30) days after receipt of the Commission's report.

SEC. 19. ***Extension and Re-application of Safeguard Measure.*** -

(1) Subject to the review under Section 16, an extension of the measure may be requested by the petitioner if the action continues to be necessary to prevent or remedy the serious injury and there is evidence that the domestic industry is making positive adjustment to import competition.

(2) The petitioner may appeal to the Secretary at least ninety (90) days before the expiration of the measure for an extension of the period by stating concrete reasons for the need thereof, and a description of the industry's adjustment performance and future plan. The Secretary shall immediately refer the request to the Commission. Following the procedures required under Section 9, the Commission shall then submit a report to the Secretary not later than sixty (60) days from its receipt of the request. Within seven (7) days from receipt of the report, the Secretary shall issue an order granting or denying the petition. In case an extension is granted, the same shall be more liberal than the initial application.

SEC. 20. ***Evaluation of Effectiveness of Action.*** - After termination of any action under Section 13, the Commission shall evaluate the effectiveness of the actions taken by the domestic industry in facilitating positive adjustment to import competition.

The Commission shall hold a public hearing on the effectiveness of the action at which all interested parties shall be afforded opportunity to present evidence or testimony.

CHAPTER III

SPECIAL SAFEGUARD MEASURES FOR AGRICULTURAL PRODUCTS

SEC. 21. ***Authority to Impose the Special Safeguard Measure.*** - The Secretary of Agriculture shall issue a department order requesting the Commissioner of Customs, through the Secretary of Finance, to impose an additional special safeguard duty on an agricultural product, consistent with Philippine international treaty obligations, if:

(a) Its cumulative import volume in a given year exceeds its trigger volume, subject to the conditions stated in this Act, in Section 23 below; or but not concurrently; and

(b) Its actual c.i.f. import price is less than its trigger price subject to the conditions stated in this Act, in Section 24 below.

SEC. 22. ***Initiation of Action Involving Special Safeguard Measure.*** - Any person whether natural or juridical, may request the Secretary to verify if a particular product can be imposed a special safeguard duty subject to the conditions set in Section 21 of this Act. The request shall include data which would show that the volume of imports of a particular product has exceeded its trigger volume or that the c.i.f. import price of a particular product has gone below its trigger price. The Secretary shall comp up with a finding within five (5) working days from the receipt of a request.

The Secretary may, motu proprio, initiate the imposition of a special safeguard measure following the satisfaction of the conditions for imposing the measure set in this Chapter.

SEC. 23. ***Determination of Special Duty Based on the Volume Test.*** - The special safeguard duty allowed to be imposed on the basis of the volume test pursuant to Section 21 (a) of this Act shall be determined as follows:

(a) The trigger volume referred to in Section 21 (a) of this Act is the amount obtained, after adding the change in the annual domestic consumption of the agricultural product under consideration, for the two (2) preceding years for which data are available, to:

i. One hundred twenty-five percent (125%) of the average annual volume of imports of the agricultural product under consideration in the three (3) immediately preceding years for which data are available, hereinafter referred to as the average import volume, if the market access opportunity is at most ten percent (10%); or

ii. One hundred ten percent (110%) of the average annual import volume, if the market access opportunity exceeds ten percent (10%) but is not more than thirty percent (30%); or

iii. One hundred five percent (105%) of the average annual import volume, if the market access opportunity exceeds thirty percent (30%):

iv. Provided, That if the change in the volume of domestic consumption mentioned above is not taken into account in computing the trigger volume, the trigger volume shall be equal to one hundred twenty-five percent (125%) of the average import volume for the immediate three (3) preceding years for which data are available, unless a clear justification is given that a different level is necessary to prevent or remedy serious injury: Provided, further, That the trigger volume shall at least be one hundred five percent (105%) of the average imports of the agricultural product under consideration.

(b) The special safeguard duty to be imposed subject to the conditions stated under the volume test shall be appropriately set to a level not exceeding one-third of the applicable out-quota customs duty on the agricultural product under consideration in the year when it is imposed: Provided, That this duty shall only be maintained until the end of the year in which it is imposed: Provided, further, That this duty may be reduced or terminated in special cases such as when a shortage of a particular agricultural product exists, as determined by the Secretary.

(c) In transit volumes of imports of the agricultural product under consideration at the time the special safeguard duty is imposed shall be exempted from the additional duty. However, such volumes shall be counted in the computation of the cumulative volume of imports of the said agricultural product for the following year.

SEC. 24. ***Determination of Special Safeguard Duty Based on the Price Test.*** - The additional duty allowed to be imposed on the basis of the price test pursuant to Section 21(b) of this Act shall be determined as follows:

(a) The trigger price referred to in Section 21(b) of this Act is the average actual c.i.f. import price or relevant reference price of the agricultural product under consideration from 1986 to 1988, unless clear justification is given that a different reference price is necessary to prevent or remedy serious injury. The Secretary shall publish the list of trigger prices corresponding to each of the agricultural products covered by this Act, after the conduct of public hearings on the subject; and

(b) The special safeguard duty to be imposed subject to the conditions stated under Section 21 (b) of this Act shall be computed as follows:

i. Zero, if the price difference is at most ten percent (10%) of the trigger price; or

ii. Thirty percent (30%) of the amount by which the price difference exceeds ten percent (10%) of the trigger price, if the said difference exceeds ten percent (10%) but is at most forty percent (40%) of the trigger price; or

iii. Fifty percent (50%) of the amount by which the price difference exceeds forty percent (40%) of the trigger price, plus the additional duty imposed under Section 24 (b)(ii), if the said difference exceeds forty percent (40%) but is at most sixty percent (60%) of the trigger price; or

iv. Seventy percent (70%) of the amount by which the price difference exceeds sixty percent (60%) of the trigger price, plus the additional duties imposed under Section 24 (b)(ii) and (b)(iii), if the said difference exceeds sixty percent (60%) and is at most seventy-five percent (75%) of the trigger price; or

v. Ninety percent (90%) of the amount by which the price difference exceeds seventy-five percent (75%) of the trigger price; plus the additional duties imposed under Section 24 (b)(ii), (b)(iii), and (b)(iv), if the said difference exceeds seventyfive percent (75%) of the trigger price.

vi. As far as practicable, a special safeguard measure determined under the provisions of this Section shall not be resorted to when the volume of the imported agricultural product under consideration is declining.

SEC. 25. ***Agricultural Products Subject to Minimum Access Volume Commitments.*** – The special safeguard duty shall not apply to the volumes of the imported agricultural product under consideration that are brought into the country under the minimum access volume mechanism. Provided, however, That these volumes shall be included in computing the cumulative volume of imports of the said agricultural product pursuant to Section 21 (a) of this Act.

SEC. 26. ***Perishable and Seasonal Agricultural Products.*** - Shorter time periods and different reference prices may be used in determining the applicable special safeguard measure taking into account the special characteristics of perishable and seasonal agricultural imports.

SEC. 27. ***Notice of Special Safeguard Measure.*** - The Secretary shall make the administration of the safeguard measure transparent by giving notice in writing to the WTO Committee on Agriculture, in advance to the extent practicable, but in any event within ten (10) days from the implementation of such measure: Provided, however, That for perishable and seasonal agricultural products, notification shall be made from the first action in any period.

The notice shall include relevant data or as may be deemed necessary, information and methods used in cases where changes in consumption volumes must be allocated to individual tariff lines subject to action under Chapter III of this Act.

Where a special safeguard measure action is taken under the provisions of this Act, the Secretary shall consult with interested WTO members and provide all relevant information on the conditions of the application of such action.

SEC. 28. ***Duration of Special Safeguard Measures.*** - The special safeguard measuresfor agricultural products shall lapse with the duration of the reform process in agriculture as determined in the WTO. Thereafter, recourse to safeguard measures shall be subject to the provisions on general safeguard measures as provided in Chapter II of this Act.

CHAPTER IV

SPECIAL PROVISIONS

SEC. 29. ***Judicial Review.*** - Any interested party who is adversely affected by the ruling of the Secretary in connection with the imposition of a safeguard measure may file with the Court of Tax Appeals, a petition for review of such filing within thirty (30) days from receipt thereof: Provided, however, That the filing of such petition for review shall not in any way stop, suspend or otherwise toll the imposition or collection of the appropriate tariff duties or the adoption of other appropriate safeguard measures, as the case may be.

The petition for review shall comply with the same requirements and shall follow the same rules of procedure and shall be subject to the same disposition as in appeals in connection with adverse rulings on tax matters to the Court of Appeals.

SEC. 30. ***Penalty Clause.*** - Any government official or employee who shall fail to initiate, investigate, and implement the necessary actions as provided in this Act and the rules and regulations to be issued pursuant hereto, shall be guilty of gross neglect of duty and shall suffer the penalty of dismissal from public service and absolute disqualification from holding public office.

SEC. 31. ***Prohibition of Concurrent Recourse to Safeguard Measures.*** - There shall be no recourse to the used of the general safeguard measure under Chapter II of this act concurrently with the special safeguard measure as provided for under Chapter III of this Act and vice-versa.

SEC. 32. ***Issuance of Implementing Rules and Regulations.*** - Within sixty (60) days after the effectivity of this Act, the Department of Agriculture and the Department of Trade and Industry in consultation with the Department of Finance, the Bureau of Customs, the National Economic and Development Authority, and the Tariff Commission, after consultation with domestic industries and with the approval of the Congressional Oversight Committee which is hereby created under this Act, shall promulgate the necessary rules and regulations to implement this Act.

SEC. 33. ***Oversight.*** - There shall be a Congressional Oversight Committee composed of the Chairmen of the Committee on Trade and Industry, the Committee on Ways and Means, and the Committee on Agriculture of both the Senate and the House of Representatives to oversee the implementation of this Act.

SEC. 34. ***Administrative System Support.*** - Upon the effectivity of this Act, any sum as may be necessary for the Department of Agriculture, the Department of Trade and Industry and the Tariff Commission to undertake their functions efficiently and effectively shall be included in the General Appropriations Act.

The aforementioned government agencies are hereby authorized to collect such fees, charges, and safeguard duties that are deemed necessary. Fifty percent (50%) of the revenue collected from such fees, charges and safeguard duties shall be set aside in a Remedies Fund which shall be earmarked for the use of these agencies in the implementation of remedies, including the safeguard measures. The remaining fifty percent (50%) shall be deposited under a special account to be created in the National Treasury and shall be earmarked for competitiveness enhancement measures for the industries affected by the increased imports. The disposition thereof shall be determined through the General Appropriations Act.

SEC. 35. ***Assistance to Farmers and Fisherfolk.*** - To safeguard and enhance the interest of farmers and fisherfolk, nothing in this Act shall in any manner affect the provisions of Republic Act No. 8435, otherwise known as the Agriculture and Fisheries Modernization Act.

SEC. 36. ***Conditions for Application of Safeguard Measures.*** - In the application of any safeguard measure under this Act, the following conditions must be observed:

(1) All actions must be transparent and shall not allow any anti-competitive, monopolistic or manipulative business devise; and

(2) Pursuant to the non-impairment clause of the Constitution, nothing in this Act shall impair the obligation of existing supply contracts.

SEC. 37. ***Separability Clause.*** - If any provision of this Act is held invalid, the other provisions of this Act not affected shall remain in force and effect.

SEC. 38. ***Repealing Clause.*** - All laws, decrees, rules and regulations, executive or administrative orders and such other presidential issuances as are inconsistent with any of the provisions of this Act are hereby repealed, amended or otherwise modified accordingly.

SEC. 39. ***Effectivity Clause.*** - This Act shall take effect fifteen (15) days following its complete publication in two (2) newspapers of general circulation or in the Official Gazette, whichever comes earlier.

ANNEX III

Trade Adjustment Assistance (TAA)

In the United States, special benefits accorded to workers displaced by trade liberalization were first enacted under the Trade Expansion Act of 1962. The North American Free Trade Agreement (NAFTA) Implementation Act, passed in December 1993, contained adjustment assistance geared toward workers displaced by the expansion of trade with Canada and Mexico. The first five years of NAFTA saw a total of 564,967 American workers certified eligible for benefits under TAA and NAFTA-TAA programs. Those eligible for TAA benefits, averaging 112,993 workers per year, were relatively small compared to the total U.S. employment average per year of 119 million for the same period.

The reason why large numbers of eligible workers chose not to avail of the assistance program were as follows:

- Finding a job soon after being displaced
- Dropped out of the workforce altogether
- Financed own job retraining independent of federal trade adjustment programs.

For the five year period, 1994 to 1998, only about one in four workers eligible, totaling 150,998 or 30, 200 workers a year – actually received trade readjustment allowances through TAA.

Critics would counter that the criteria for TAA qualification were too strict thereby reducing the number of eligible workers below true levels. On the other hand, there are counter arguments that the program is too loose by providing aid to job losses incidentally connected to trade. In any case, even if participation were to double, assistance would still be collected by a tiny fraction of American workers.

Source: Daniel Griswold, "Trade, Jobs, and Manufacturing: Why (Almost All) U.S. Workers Should Welcome Imports," Cato Institute, September 1999, p. 10.

ANNEX IV

RESULTS OF THE 2002 SURVEY ON JAPANESE-AFFILIATED MANUFACTURER IN ASIA

A 2002 survey on Japanese-Affiliated Manufacturers in Asia conducted by the Overseas Research Department of JETRO covering overseas Japanese companies with at least 10% in the company would be a good indication on the specific concerns that the Philippines should address to attract more investment and encourage existing business expansion and competitiveness. In the Philippines, participation in the survey was from 150 Japanese companies representing a broad range of industries that participated in the survey. The findings are for the Philippine based companies are as follows:

- Reasons for improvement in profits for 2003: 67.7% cited increase in sales due to expansion of exports; 38.7% cited reduction of procurement cost as the reason (up from 27.3% from 2002 survey).

- Countries with Japanese companies reporting exports of 70% or more to China: 9.4% for the Philippines, the highest among ASEAN countries.

- Rates of locally procured materials and parts of more than 51%: 17.4%, the lowest in Asia (Vietnam = 19.4%; Indonesia = 36.8%). Increase in local procurement was cited by Philippine-based companies as the main measure for cutting procurement costs of materials/parts. Correspondingly, 60% of the companies cited difficulties in procurement of local parts and materials as the main problem of production.

- Competition with imported products within local market: 60% responded facing stiff competition from Chinese products; competition from ASEAN products was a close second at 43%.

- Necessary measures to enhance competitiveness (ASEAN response): further cost cutting (80%), human resource development (63%), increase of added values of products (48%), raising of local content ratio (35%), marketing reinforcement (31%), enhancement of research and development (22%), efficient logistics (22%), localization of managerial positions (22%), further implementation of IT (8%) and outsourcing (7%).

- Specific business policies for expansion of scale: 72% responded expansion / diversification of production items.

- Problems of treasury, finance, and foreign exchange: 58% cited volatility of local exchange rate to the US dollar.

- Problems of labor and employment: 60% cited personnel cost of Japanese expatriate officer; 50% responded restrictions on staff dismissal and reduction.

- Problems of investment environment: insufficient infrastructure (77%), unstable and insecure political and social conditions (72%), unclear policy management of local governments (50%).

- Anticipated benefits of an FTA (Asia response): abolition of custom duties (78%), simplification and international harmonization in custom clearance procedures (64%)