

PJEPA:

**Strengthening the Foundation
for Regional Cooperation
and Economic Integration**

Vol. I



Edited by Erlinda M. Medalla

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Edited by
Erlinda M. Medalla



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



Philippine APEC Study Center Network

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Table of Contents

List of Tables, Figures, Boxes, and Appendixes	viii
Foreword	xv
Preface	xvii
Acknowledgment	xix
List of Acronyms	xxi
Chapter 1	
Philippines-Japan Economic Partnership Agreement (PJEPA): Toward a Framework for Regional Economic Integration	1
<i>Erlinda M. Medalla, Catherine Vidar-Vale, and Jenny D. Balboa</i>	
Context for Enhanced Regionalism	1
Forging the PJEPA	2
PJEPA and its Implications	3
Recent Developments and Challenges to Moving Forward	22
Conclusion	25
References	28
Chapter 2	
The Effects of Tariff Reduction in the Philippines-Japan Bilateral Agreements	31
<i>Caesar B. Cororaton</i>	
Model Description	33
Simulation Results	35
Conclusion	41
References	42
Chapter 3	
Understanding the Political Motivations behind Japan’s Pursuit of an Economic Partnership Agreement with the Philippines: Considerations for the Philippine Side	43
<i>Ronald A. Rodriguez</i>	
Introduction	43
The Evolution of Japan’s Regional Interests: an Overview of Japan’s Asian Policy	45
Japan’s FTA Strategy	54

Toward an EPA between Japan and the Philippines	55
Conclusion	59
Chapter 4	
Dealing with Japan in the Age of Globalization	63
<i>Lydia N. Yu Jose</i>	
Philippine Priorities	63
Understanding Japan's Foreign Policy	65
Japan's Priorities	66
The Prospects of Health Care in PJEPA	67
Conclusion	68
References	69
Chapter 5	
A Comparative Study of Bilateral Free Trade Agreement and Closer Economic Partnership Arrangements	71
<i>John Lawrence Avila</i>	
Introduction	71
Guiding Principles	73
Characteristics of Asian FTAs	75
Summary Observations	97
References	98
Chapter 6	
Preferential Rules of Origin for the Japan-Philippine Economic Partnership	101
<i>George Manzano</i>	
Introduction	101
Nature and Principles of Rules of Origin	103
ROO Issues for the Proposed PJEPA	112
Regional Dimensions of ROO for PJEPA	128
Conclusions	130
References	131
Chapter 7	
Movement of Natural Persons Between the Philippines and Japan: Issues and Prospects	133
<i>Tereso S. Tullao, Jr. and Michael Angelo A. Cortez</i>	

Executive Summary	133
Introduction	136
Review of Related Literature	140
Trends in the Movement of Natural Persons	146
Impact of Movement of Natural Persons	149
Problems and Issues in the Movement of Natural Persons	154
Prospects of Enhancing Movement of Natural Persons	156
Commitments of the Philippines under Mode 4 in the GATS	158
Policy Options	170
References	174
Chapter 8	
Exploring the Potential of a Japan-Philippines Economic Partnership in Human Resource Development	177
<i>Jhoana V. Alcalde, Niño Alejandro Q. Manalo, and Rodger M. Valientes</i>	
Introduction	177
Trends and Patterns in Japan-Philippines Human Resource Development	177
Potential Areas of Bilateral Cooperation in HRD between Japan and the Philippines	197
References	219
Chapter 9	
The Dynamics of a Philippines-Japan Economic Cooperation: the Case of Japan’s ODA in the Philippines	235
<i>Jose V. Camacho, Jr. and Agham C. Cuevas</i>	
Introduction	235
The “Development” in ODA: the Role and Impact of ODA in Development	237
Philosophy of Japan’s ODA and Priority Areas in the Philippines	238
Trends and Patterns of Japan’s ODA in the Philippines	239
Most Likely Impact of PJEPA	244
Policy Issues and Challenges	247
Policy Recommendations	256
Bibliography	257
About the Authors	259

List of Tables, Figures, Boxes, and Appendixes

Chapter 1

Table

1	Coverage of PJEPA	4
2	Philippine tariff schedule under PJEPA	8
3	Analysis of "A" classified products by sector	9
4	Japan's tariff schedule under PJEPA	9
5	Analysis of "A" classified products by sector	10
6	Japan's trade with ASEAN (USD million, 2009)	11
7	Ten areas of cooperation under PJEPA	17
8	Waste products that are specifically given 0 percent tariff in PJEPA	21

Figure

1	Results of CGE analysis conducted by Kawasaki	6
2	Gains in real gross domestic product (%)	6
3	Philippine imports by country of origin, 2009	11
4	Japan's foreign direct investment to the Philippines (in USD million)	16
5	Philippine trade with Japan (in USD million)	23

Box

1	Rules of origin (ROO)	12
2	Revisiting the PJEPA process: outlining a protocol for FTA	27

Chapter 2

Table

1	Philippine exports and imports with Japan and the rest of the world, average, 2000–2002	32
2	Tariffs, 1994–2000	32
3	Elasticities	34
4	Macro effects, with and without FTA	35
5	Effects on prices and volumes, without FTA	36
6	Effects on the factor market, without FTA	37

7	Effects on prices and volumes, with FTA	39
8	Effects on the factor market, with FTA	39
9	Effects on nominal household factor incomes	40
10	Gini coefficient	41
11	Poverty indices, with and without FTA	41

Chapter 3

Table

1	General business sentiment	57
---	----------------------------	----

Figure

1	Business sentiment survey in Asia, October 2003	57
---	---	----

Chapter 5

Table

1	Coverage of free trade agreements/closer economic partnerships	79
2	Chile's tariff elimination schedule (10-digit HS code, in percent)	81
3	South Korea's tariff elimination schedule (10-digit HS, in percent)	81
4	Services commitments	86
5	Other areas of cooperation	92

Chapter 6

Table

1	Summary of the different approaches to determining origin	104
2	Rules of origin in existing free trade and preferential trade agreements	106
3	Structure of Philippine exports to Japan per tariff bracket of Japan in 2001	113
4	Cumulative distribution of Philippine exports to Japan per tariff bracket in 2001	114
5	Structure of Japanese exports to the Philippines per tariff bracket	115

6	Cumulative distribution of Japanese exports to the Philippines per tariff bracket	116
7	Top 30 export items of the Philippines to Japan, 2001	116
8	Top 30 export items of Japan to the Philippines, 2001	118
9	Proportion of Philippine exports to Japan in 2001 in categories of value added (39%) and tariff brackets (%)	124
10	Proportion of Philippine exports to Japan in 2001 in categories of value added (59%) and tariff brackets (%)	124
11	Proportion of Philippine exports under ROO classification of JSEPA	127
12	Proportion of Japanese exports under ROO classification of JSEPA	127

Figure

1	ROO design: tradeoff between probability of trade deflection and cost of compliance	108
2	Structure of Philippine exports to Japan per tariff bracket of Japan, 2001	115
3	Quadrants representing different potential gains through market access in the PJEPA	123
4	Proportion of Philippine exports under ROO classification of JSEPA	126

Box

1	Cumulation	129
---	------------	-----

Chapter 7

Table

1	Deployed new hires by sex and skills, 1992–2000	147
2	Level of remittances: selected Asian countries (in USD million)	150
3	OFW remittances from various destination countries (in USD '000)	151
4	Overseas Filipino workers' remittances from Japan, 1997–2002	151
5	Entry permits to foreign workers	157
6	Population and labor force projections (in million people)	159
7	Population forecast for Japan, 1995–2050	160
8	Deployment of nurses (new hires), 1998–1 st semester 2003	163

9	Deployment of caregivers and caretakers (new hires)	165
---	---	-----

Figure

1	Framework providing the rationale for the movement of natural persons (health care providers) to Japan	161
2	Ratio of bedridden elderly by bedridden duration	169

Chapter 8

Table

1	Human Development Indices, Japan and the Philippines, 1975–2000	178
2	Selected human development indicators, Japan and the Philippines, 2000	178
3	Adequacy of energy and nutrient intake, per capita per day, Philippines, various years (as % of RDA)	182
4	Prevalence of Vitamin A deficiency and iron-deficiency anemia among various groups, Philippines, 1993 and 1998 (%)	182
5	Intake of national nutrition, Japan, 1970–2000	183
6	International comparison of life expectancy at birth, in years	184
7	Number of medical professionals, Japan, 1984–2000	185
8	Comparative mean percentage score in NEAT, 1997–2001 (%)	193
9	Efficiency in performance indicators for the elementary school education system, Philippines, 1997–2003 (in %)	194
10	Efficiency in performance indicators for the secondary school education system, Philippines, 1997–2003 (in %)	194
11	Japan's ODA expenditures as technical cooperation to the Philippines, 1996–2000 (in USD million)	201

Figure

1	Population size, Philippines and Japan, 1990–2000 (in millions)	180
2	Selected mortality trends, Philippines, 1990–1995 (rate per 1,000 live births)	181
3	Change in population by broad age groups, Japan, 1984–2002 (%)	184
4	Health expenditures by source of funds, Japan, 1983–2000 (%)	187

Appendix Table

1	Medical insurance benefits paid to the elderly, Japan, FY 1983, (in hundred million yen)	223
2	Basic national elementary education data, Japan, 1997–2002	224
3	Basic national lower secondary education data, Japan, 1997–2002	224
4	Basic national upper secondary education data, Japan, 1997–2002	224
5	Basic higher education data, Japan, 1997–2002	225
6	Basic national elementary education data, Philippines, 1997–2003	225
7	Basic national secondary education data, Philippines, 1997–2003	226
8	Comparative mean percentage score of fourth year students who took the National Secondary Assessment Test (NSAT), 1997–2001	226
9	Data on higher education, Japan and Philippines, 2002	227
10	Minimum requirements of the Japanese Language Certification Test (JLPT) by certification level	227
11	Partial list of schools and institutions related to Japanese language education and Japanese studies	227
12	Per capita food intake per day (in Ap, gm), Philippines, various years	229

Appendix Figure

1	Crude birth rate and crude death rate, Philippines, 1981–1998	230
2	Selected demographic indicators, Japan, 1983–2001	230
3	Health human resources, Philippines, 1995–2000	231
4	Health expenditures by source of funds, Japan, 1983–2000	231
5	Health expenditures by use of funds, Philippines, 1991–2000	232
6	Health expenditures by source of funds, Philippines, 1991–2000	232
7	Organization of the Philippine education system	233
8	Organization of the Japanese education system	233
9	Undergraduate courses by major fields of study, Japan, 2001	234

Chapter 9

Table

1	Phases of Japan's ODA in the Philippines	239
---	--	-----

2	Ten largest recipient countries of bilateral ODA (net disbursement, in USD million)	241
3	Amount of ODA disbursements to the Philippines from DAC member-countries (net disbursement, USD million)	242
4	Japan's ODA disbursement to the Philippines, 1988–2000 (USD million)	243
5	Impact of Japan's ODA loans (in percent)	245
6	Per capita ODA of DAC member-countries (USD)	248
7	Grant share of ODA provided by DAC member-countries	250
8	Sector allocation of Japan's ODA to the Philippines (% of total)	252
9	Distribution of ODA loan commitment, population share, poverty incidence, and HDI by region	254

Figure

1	Geographical distribution of Japan's bilateral ODA (%)	240
2	ODA commitment to the Philippines by source, 1992–1999	242
3	Percentage distribution of ODA loans by source	244
4	Trends of Japan's ODA/GNP ratio	249
5	ODA/GNI ratios of DAC member-countries, 2000	249
6	ODA loans availment rate, 2002	251
7	Japan's ODA loan commitments to the Philippines by sector, 2001	253
8	Distribution of total loans by implementing agency	255

Foreword

Recognized as one of the most dynamic regions in the world, East Asia has been at the crossroads of international trade and investments. Economic gains, however, have been unequal, within and across borders. The good news is that regional integration through trade agreements and cooperation in recent years, and especially in East Asia, is evolving to help address development gaps and attain sustainable growth.

Japan and the Philippines have been economic partners for decades. Japan is the Philippines' second largest trading partner, a major official development assistance (ODA) donor, and a steady source of foreign direct investments. It was only a matter of time for the relationship to go to the next level. Because the two economies share a high degree of complementarity and intraindustry linkages, there is expected significant potential gains from an enhanced partnership. Japan excels in capital- and technology-intensive products while the Philippines possesses an advantage in labor-intensive activities among other things. The Philippines-Japan Economic Partnership Agreement (PJEPA) was seen as the next step to broaden and develop this bilateral cooperation.

The Institute is pleased to present the first of a two-volume publication, *PJEPA: Strengthening the Foundation for Regional Cooperation and Economic Integration*, which is a collaboration between the Philippine Institute for Development Studies and the Philippine APEC Study Center Network with leading universities and research institutions in the Philippines. The book is composed of 17 studies covering an overall impact assessment, issues, and concerns on trade in goods, services, investment, movement of natural persons, and other related areas such as rules of origin (ROOs), small and medium enterprises (SMEs), human resource development (HRD), and ODAs among others.

Research activities were undertaken in 2003 under the PJEPA Research Project which was commissioned by the Department of Trade and Industry, with the aim of understanding how a bilateral agreement would affect the domestic economy, as well as identifying the sectors that would benefit and would be disadvantaged by an economic partnership with Japan. These studies aided the Philippine panel during the negotiations for the Economic Partnership Agreement with Japan from 2004 to 2006.

The PJEPA encompasses more than trade liberalization and facilitation. Belonging to the breed of "New Age FTAs", it includes areas of cooperation crucial for the Philippines to address the challenges and pressures of globalization, regionalism, and technological progress. The PJEPA ratification was concluded on October 8, 2008, after two years of grueling Senate hearings.

As the first bilateral free trade agreement (FTA) forged by the Philippines, PJEPA's ratification was a historic event marking the readiness of the country to embark on more binding international economic agreements. It provided a positive signal to the international community of the Philippine government's commitment to improve the economy, as well as take part in initiatives toward East Asian regional economic integration and greater economic openness.

This year marks the fifth year of the PJEPA's ratification. While it is too early to assess the benefits of the agreement, some of the gains can already be felt in the form of higher levels of trade and investments coming from Japan in the past four years. However, this does not mean that we can now just sit back and wait for the benefits to come. A recurring theme in the studies was that the government needs to do a lot of things for the country to genuinely benefit from the agreement. The authors emphasized the need to improve the country's competitiveness and productivity by investing in the necessary physical and social infrastructure. Moreover, the studies highlighted the role of a more supportive government in addressing the needs of key players, and in maximizing the technical cooperation provisions of the PJEPA to benefit target sectors. This book seeks to send the message that PJEPA is a good chance for the Philippines to take advantage of the opportunities provided by freer trade and closer regional economic cooperation to achieve sustainable growth and development.

In publishing these studies, it is hoped that there will be greater understanding of the challenges and pressures facing the trade and industry sectors as well as how to seize opportunities available for economic expansion.

This book is a tribute to all those involved in completing the project, in particular the authors and staff who had unselfishly devoted their professional expertise. This book is also dedicated to individuals and institutions that had provided support to the PJEPA Research Project.



Gilberto M. Llanto

President

Philippine Institute for Development Studies

Preface

The entry into force of the Philippines-Japan Economic Partnership Agreement (PJEPA) is a milestone in Philippine trade policy. PJEPA is the country's first-ever bilateral free trade agreement. Its significance is enhanced by the importance of Japan as a major trade and official development assistance partner. The successful negotiation and subsequent ratification of the PJEPA is an achievement amid the evolving East Asian regional integration.

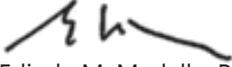
This book is a documentation of the spadework conducted by the PIDS PJEPA research team that led to the ratification of the agreement in 2008. A total of 18 studies were conducted in a bid to estimate the impacts of the PJEPA on the economy, assess the opportunities and challenges, and identify critical sectors and concerns. Using a computable general equilibrium model, the PIDS PJEPA research project found modest gains in the gross domestic product and poverty reduction, if one looks at (goods) market access alone. The more substantial gains are expected to come from the improved investment climate arising from an agreement such as PJEPA which is more than a free trade deal.

PJEPA should be viewed in the context of the growing regional current of increasing economic interdependence, characterized by the growth in global production networks and supply chains. PJEPA is not just a tariff-cutting free trade deal: it is a comprehensive economic partnership covering goods, services, and investments. The inclusion of services and investments was allowed by Philippine negotiators taking into account the need to improve the country's business environment through improvements in the governance framework and legal support structures. In addition, PJEPA contains areas for cooperation not found in ordinary free trade agreements, for example, in investment promotion, human resource development, and standards and conformance, among others. These would help create a more conducive investment climate in the Philippines.

But as the researchers have noted, "solid reforms and actions" are needed to maximize gains and spread the benefits to as many sectors as possible, in particular small and medium enterprises. I echo the view that such trade agreements should not be looked at as a substitute to a development strategy. Rather, it is an embodiment of a development objective.

It took five years from the start of formal negotiations between Manila and Tokyo in 2003 for the PJEPA to come into force due to expected resistance from some sectors and even controversy. At any rate, PJEPA has provided the Philippines with valuable lessons and the necessary experience to engage its trade partners in greater cooperation in trade and investments. Indeed,

PJEPA has given the country a measure of confidence in approaching efforts to integrate the regional economy and pursue policies that foster inclusive growth.



Erlinda M. Medalla, Ph.D.
Project Leader,
PIDS JPEPA Research Team
and Senior Research Fellow, PIDS

Acknowledgment

In 2003, the Department of Trade and Industry (DTI), through then Undersecretary Thomas G. Aquino, approached the Philippine Institute for Development Studies (PIDS) to provide research support and come up with studies that would help the Philippine government identify negotiating points for the Philippines-Japan Economic Partnership Agreement (PJEPA). Considering that PJEPA was to be the first bilateral free trade agreement to be signed by the Philippines, both DTI and PIDS agreed to tap researchers from different institutions and disciplines to come up with a more objective assessment of the PJEPA. After a series of meetings and consultations, it was agreed that this huge task would be undertaken by the Philippine APEC Study Center Network (PASCN), which is based in PIDS. PASCN was deemed the ideal institution to conduct the studies given its network of top public and private universities and research institutions in the Philippines, and therefore able to provide an independent and scholarly assessment of the benefits and costs of an economic partnership agreement with Japan.

Immediately, PIDS Senior Research Fellow and PASCN Project Director Erlinda Medalla came up with an overall framework and presented the same to a group of researchers from the following institutions and network members of PASCN: the University of the Philippines, Ateneo de Manila University, De La Salle University, the University of Asia and the Pacific, University of San Carlos, the Foreign Service Institute, and the Asian Institute of Management. A series of brainstorming sessions followed to identify research areas and the researchers who will conduct the studies.

The researchers were given six to nine months to finish their research. Outputs at various stages were closely reviewed by PASCN's Review, Evaluation, and Dissemination Committee (REDC), with the PASCN project director as chairman, and REDC members coming from Silliman University, De La Salle University, the Foreign Service Institute, and Ateneo de Manila University as members. After the research outputs passed the review, they were submitted to the PASCN Steering Committee, chaired by then President Dr. Mario Lamberte, for approval. Copies of the research outputs were then submitted to the DTI. Meanwhile, the PIDS and PASCN embarked on a public information campaign to disseminate the results of the studies to as many audiences as possible. Conferences and seminars were held to present the studies and collect feedback, not just in Metro Manila, but also in the Visayas and Mindanao. Members of the research team were invited to present the studies personally and to answer questions from the audience. The studies were published online and in various formats.

These volumes are the result of hard work and collaboration among various individuals and institutions that contributed to and participated in all stages of the PJEPA research, information dissemination, and publication. Gratitude is extended to the following: the researchers, who bravely answered the call to do rigorous research despite time and budget constraints; the PASCN REDC and Steering Committee, which reviewed all 17 outputs meticulously to make sure that the researchers were able to answer the pressing issues of the PJEPA; the PIDS Management for unconditional support to the project; former and current PASCN staff: Atty. Dorothea Lazaro for providing excellent research assistance, Ms. Jenny Balboa, Mr. Michael Diza, and Ms. Eloisa Pamatmat-Isip, as well as Ms. Melalyn Mantaring, Ms. Mildred Belizario, and Ms. Susan Pizarro for the excellent administrative support; and the PIDS Research and Information Staff for helping with information dissemination and publication. Last but not the least, special thanks go to former PIDS President Josef Yap and Senior Research Fellow and Acting Vice-President Rafaelita Aldaba for their brilliant inputs in answering questions during the public debates that ensued amid Senate hearings on the PJEPA.

List of Acronyms

3D	-	dirty, difficult, and dangerous jobs
ACP	-	African, Caribbean, and Pacific Countries
ADB	-	Asian Development Bank
AFAS	-	ASEAN Framework Agreement on Services
AFTA	-	ASEAN Free Trade Area
AHIP	-	Association-managed Health Insurance Plan
AJCEPEG	-	ASEAN-Japan Closer Economic Partnership Expert Group
APEC	-	Asia-Pacific Economic Cooperation
AMF	-	Asian Monetary Fund
ANZCERTA	-	Australia-New Zealand Closer Economic Relations Trade Agreement
ARF	-	ASEAN Regional Forum
ASEAN	-	Association of Southeast Asian Nations
ASEM	-	Asia-Europe Meeting
AY	-	academic year
BHS	-	barangay health station
BSP	-	Bangko Sentral ng Pilipinas
CAB	-	conformity assessment body
CACM	-	Central American Common Market
CCP	-	Cultural Center of the Philippines
CEP	-	closer economic partnership
CEPA	-	Comprehensive Economic Partnership Agreement
CES	-	constant elasticity substitution
CET	-	constant elasticity of transformation
CGA	-	Computer Graphics Arts Society of Japan
CGE	-	computable general equilibrium
CHED	-	Commission on Higher Education
CRTA	-	Committee on Regional Trading Agreements
CSI	-	CHED-supervised institution
CSU	-	Cagayan State University
CTC	-	change in tariff classification
DAC	-	Development Assistance Committee
DepEd	-	Department of Education
DFA	-	Department of Foreign Affairs
DILG	-	Department of Interior and Local Government
DOST	-	Department of Science and Technology

DOT	- Department of Tourism
DTI	- Department of Trade and Industry
EAFTA	- East Asian Free Trade Area
EC	- European Community
EFTA	- European Free Trade Association
ENT	- economic needs test
EPA	- economic partnership agreement
ESCAP	- United Nations Economic and Social Commission for Asia and the Pacific
EU	- European Union
FDI	- foreign direct investment
FIES	- Family Income and Expenditure Survey
FINL	- Foreign Investment Negative List
FNRI	- Food and Nutrition Research Institute
FTA	- free trade area
FTAs	- free trade agreements
GATS	- General Agreement on Trade in Services
GATT	- General Agreement on Tariffs and Trade
GDP	- gross domestic product
GHIP	- Government-managed Health Insurance Plan
GNI	- gross national income
GNP	- gross national product
GSP	- Generalized System of Preferences
HDI	- Human Development Index
HEI	- higher education institution
HEKASI	- Heograpiya, Kasaysayan, at Sibika
HRD	- human resource development
HS	- Harmonized System
ICT	- information and communication technology
IDA	- International Development Association
IMF	- International Monetary Fund
IO	- Input-Output
IP	- intellectual property
IPRs	- intellectual property rights
ISCO	- International Standards Classification of Occupations
ISI	- Integrated Sourcing Initiative
ISIC	- International Standard Industrial Classification
IT	- information technology
ITA	- Information Technology Agreement

JBIC	- Japan Bank for International Cooperation
JETRO	- Japan External Trade Organization
JFMO	- Japan Foundation-Manila Office
JICA	- Japan International Cooperation Agency
JIPDEC	- Japan Information Processing Development Corporation
JITCO	- Japanese International Training Cooperation Organization
JITEC	- Japan Information Technology Engineers Exam Center
JITSE	- Japan Information Technology Standards Examination
JLCC	- Japanese Language and Cultural Center
JLPT	- Japanese Language Proficiency Test
JOCVs	- Japan Overseas Cooperation Volunteers
JPEPA	- Japan-Philippines Economic Partnership Agreement
JSEPA	- Japan-Singapore Economic Partnership Agreement
JSPS	- Japan Society for the Promotion of Science
JST	- Japan Science and Technology Corporation
KCFTA	- Korea-Chile Free Trade Agreement
LDC	- least-developed country
LGU	- local government unit
LUCs	- local universities and colleges
METI	- Ministry of Economics, Trade, and Industry
MEXT	- Ministry of Education, Culture, Sports, Science, and Technology
MFN	- most favored nation
MOFA	- Ministry of Foreign Affairs
MPS	- mean percentage score
MRA	- mutual recognition arrangement
MSU	- Mindanao State University
NAFTA	- North America Free Trade Area
NCR	- National Capital Region
NEAT	- National Elementary Assessment Test
NGA	- national government agencies
NGO	- nongovernment organization
NHI	- National Historical Institute
NHIP	- National Health Insurance Plan

NHS	- National Health Service
NIHN	- National Institute of Health and Nutrition
NNS	- national nutrition survey
NSAT	- National Secondary Assessment Test
NSCB	- National Statistical Coordination Board
NSDB	- National Science Development Board
NSO	- National Statistics Office
NSTA	- National Science Technology Authority
NTB	- nontariff barrier
NTM	- nontariff measure
NZSCEP	- New Zealand-Singapore Closer Economic Partnership
ODA	- official development assistance
ODCs	- other duties and charges
OECD	- Organisation for Economic Co-operation and Development
OECF	- Overseas Economic Cooperation Fund
OFW	- overseas Filipino worker
OPA	- overseas performing artist
OPASC	- Office of the Presidential Adviser for Special Concerns
OWWA	- Overseas Workers' Welfare Administration
PASCN	- Philippine APEC Study Center Network
PCC	- Philippine Coordinating Committee
PEFT	- Practical English Proficiency Test
PHSA	- Philippine High School for the Arts
PIDS	- Philippine Institute for Development Studies
PJEPA	- Philippines-Japan Economic Partnership Agreement
PNA	- Philippine Nurses Association
POEA	- Philippine Overseas Employment Administration
PRC	- People's Republic of China
PRC	- Professional Regulation Commission
PSIC	- Philippine Standard Industrial Classification
PTA	- preferential trade agreement
PTTC	- Project-Type Technical Cooperation
QVC	- qualifying value content
R&D	- research and development
RA	- Republic Act

RDA	- recommended daily allowance
REX	- Regional and Educational Exchanges for Mutual Understanding Program
RHU	- rural health unit
RIETI	- Research Institute of Economy, Trade, and Industry
ROO	- rules of origin
RTA	- regional trade arrangement
S&T	- science and technology
SAFTA	- Singapore-Australia Free Trade Agreement
SAM	- social accounting matrix
SDR	- Special Drawing Rights
SMEs	- small and medium enterprises
SPARTECA	- South Pacific Regional Trade and Economic Cooperation Agreement
SPS	- sanitary and phytosanitary
SUCs	- state universities and colleges
SY	- school year
TCP	- Technical Cooperation Project
TESDA	- Technical Education and Skills Development Authority
TOEFL	- Test of English as Foreign Language
TRQ	- tariff rate quota
TVET	- technical vocational education and training
UK	- United Kingdom
UN	- United Nations
UNDP	- United Nations Development Programme
UNESCO	- <i>United Nations Educational, Scientific, and Cultural Organization</i>
UNICEF	- United Nations Children's Fund
UNU	- United Nations University
UP	- University of the Philippines
UPITTC	- University of the Philippines Information Technology Training Center
US	- United States
USSFTA	- United States-Singapore Free Trade Agreement
WB	- World Bank
WCT	- WIPO Copyright Treaty
WHO	- World Health Organization
WIPO	- World Intellectual Property Organization

- WPPT
 - WTO
 - WTO-GPA
- WIPO Performances and Phonograms Treaty
 - World Trade Organization
 - World Trade Organization-Government Procurement Agreement

1 Philippines-Japan Economic Partnership Agreement: Toward a Framework for Regional Economic Integration

Erlinda M. Medalla, Catherine Vidar-Vale, and Jenny D. Balboa

Context for Enhanced Regionalism

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

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

Forging the PJEPA

The Philippines-Japan Economic Partnership Agreement (PJEPA) was built on the long-standing relationship between Japan and the Philippines. Japan plays an important role in the economic development of the Philippines. For several decades, Japan has been the second largest trading partner of the Philippines, even without the benefit of a trade or economic agreement between the two countries. Japan has also been the major source of official development assistance (ODA), foreign direct investments (FDIs), and remittances from over 200,000 overseas Filipino workers in Japan. The Philippines, on the other hand, remains an important potential market and partner for Japan. Hence, PJEPA was seen as the next best step toward further expanding and developing this economic partnership.

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

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

The approval of PJEPA was underpinned by the following principles:

- (i) **Consistency with Philippine agenda and objectives of reforms**
Trading arrangements are mechanisms through which the Philippine

government can advance its own reform objectives. PJEPA is seen to contribute in the promotion of global competitiveness, sustainable growth, efficiency allocation, and poverty allocation, which provided the Philippine government adequate motivation to set the agreement in place.

(ii) **Promotion of balance between multilateralism and bilateralism**

There are questions regarding the consistency between multilateral and bilateral trade arrangements that are being negotiated at the country level. There are perceptions that bilateral trade arrangements tend to divert trading, resources (especially in the form of government resources that can be utilized for multilateral negotiations), and political efforts (that could deplete political capital in undertaking domestic reforms).

Indeed, it is ideal to put in place multilateral framework where trading rules and practices are transparent, resulting in optimum welfare, competitiveness, and specialization. However, developing countries are constrained by their limited capacities, which undermine their active and proactive participation in global trading negotiations. Thus, it is recognized that bilateral arrangements are equally important in moving forward the agenda of liberalization. Pursuing bilateral arrangements has become the more practical and feasible approach that allows member-countries to undertake the following:

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

PJEPA and its Implications

To determine the full range of PJEPA's impacts on the macroeconomy, 18 studies were undertaken that identified critical sectors and cross-cutting concerns. These studies were undertaken by reputable learning and research institutions and managed by the Philippine Institute for Development Studies

(PIDS). Results of these studies aimed to inform the policy and political process that eventually resulted in the ratification and establishment of PJEPA. Table 1 enumerates the coverage of PJEPA that became the subjects of the 18 studies.

Table 1. Coverage of PJEPA

Coverage of PJEPA
Trade in goods - Elimination or reduction of tariffs of industrial and agricultural products
Emergency measures - Provides the rules for addressing serious injury or threat thereof caused by increased imports
Rules of origin - Determines originating goods for which preferential treatment will be accorded
Customs procedures - Provides information exchange and cooperation to facilitate trade through simplified and harmonized customs procedures, including maximizing the use of ICT
Paperless trading - To enable exchange of information on best practices and to encourage cooperation among private entities
Mutual recognition - To facilitate trade in electrical and other products such that both sides shall accept results of conformity assessment procedures as conducted by another party
Trade in services - Provides standstill obligation of the services sector such as outsourcing, air transport, health-related and social services, tourism and travel-related services, maritime transport services, telecommunications, and banking
Investment - Includes provisions concerning national treatment, MFN treatment, and performance requirements prohibition for the liberalization of investment, and enhances transparency by specifying all exceptions to these provisions
Movement of natural persons - Assures easier entry of qualified Filipino nurses and certified caregivers through language training, with clear guidelines on the exercise of profession/occupation
Intellectual property - To enhance understanding of protecting intellectual property, given Japanese practices. This also includes cooperation and appropriate protection and enforcement elements
Government procurement - To increase transparency of government procurement laws, regulations, and procedures and possible liberalization of government procurement activities taking into account the development, financial, and trade needs of both parties
Competition - To promote increased vigilance and increased attention to the protection of fair competition. It also includes measures to promote competition by addressing anticompetitive activities and cooperation in the field of competition
Improvement of the business environment - To encourage cooperation to improve the business environment of both countries. A framework of consultations will be set up to ensure more efficient and timely resolution of issues affecting Japanese and Filipino enterprises in both countries

Table 1. (continued)

Coverage of PJEPA
Cooperation in ten fields within the ODA context
Dispute avoidance and settlement - To provide a mechanism for addressing government disputes in the interpretation of implementation procedures while relying on the primacy of consultations
Source: Primer on the Japan-Philippines Economic Partnership Agreement (PJEPA) ICT = information and communication technology; MFN = most favored nation; ODA = official development assistance

Impacts on the macroeconomy

Studies showed that PJEPA is mutually beneficial for both the Philippine and Japanese economies. The marginal impact on the Philippine economy is expected to range between 0.09 percent (Cororaton 2004)¹ and 3.03 percent (Kawasaki 2003) change in real gross domestic product (GDP). The low range is based on a static model; it is assumed here that all forms of protection on Philippine goods are eliminated, gains to markets are not achieved, and investments and employment failed to materialize. The modest gains are primarily derived from better allocation of resources. In this scenario, PJEPA is projected to lift around 227,377 individuals out of poverty, especially those who are living in Metro Manila, where most of the industries are located.

On the other hand, the high-case scenario of PJEPA benefits range from 1.7 percent to 3.03 percent, based on a more dynamic model depicting intercountry response. These benefits may be achieved if all potential foreign investment inflows and productivity gains from PJEPA would materialize. Improvements are driven by the increase in incomes arising from (i) trade liberalization and its corresponding effect on investment and capital stock, (ii) entry of foreign capital, and (iii) productivity improvements. The projected impact on the Japanese economy, on the other hand, is a modest increase of 0.03 percent in GDP; expected gains in trade are 0.19 percent increase in export and 0.33 percent in import volume.

Caution should be taken as these two simulations are meant to provide the possible extent of impacts of PJEPA on the economy. The 0.09 percent scenario is considered to be on the extremely low side because of its very limiting assumptions. However, 3 percent seems too high, considering that productivity gains are difficult to achieve. In the long run, it would be

¹ This estimate was generated from a Computable General Equilibrium (CGE) model prepared by Dr. Caesar Cororaton of PIDS. The CGE model is not meant to provide forecasts, but to simulate impacts arising from policy shock or changes that are introduced in a "benchmark economy." The impact effects, measured in percentage changes, represent the differences between the economy with trade liberalization and the benchmark economy captured at a certain static state.

unrealistic to expect benefits to be closer to the 1.7 percent estimate. By then, the benefits from the 'cooperation' aspects of the agreement would be more apparent, especially due to its positive impact on investments. However, in the short run, possibly within two years after taking into effect, the impact of PJEPA on the economy would be closer to this low-scenario estimate.

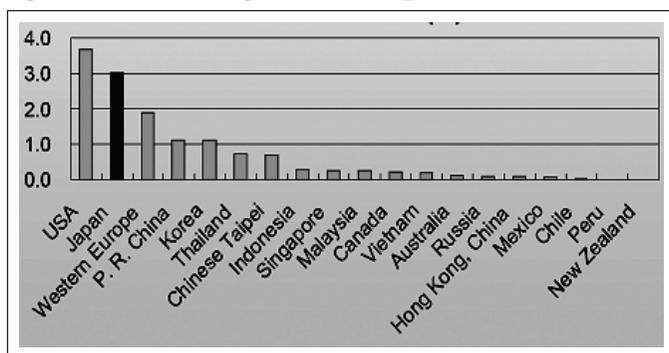
Related studies undertaken (Zhai 2006), using a static Computable General Equilibrium (CGE) model, showed that the Philippines would experience a -0.1 percent effect on real GDP with the possible creation of bilateral PTAs in Asia, with Japan as hub. The inclusion of services liberalization and trade facilitation in the model would result in substantial impact on the economy estimated to be around 2 percent of real GDP.

The Department of Trade and Industry (DTI) estimated the full cost of implementing the provisions in PJEPA to be around PHP 3–PHP 4 billion. While the figure seems huge, DTI projects that the costs would be outweighed by the projected gains from tax revenue improvements arising from robust economic activities.

Figure 1. Results of CGE analysis conducted by Kawasaki

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

Figure 2. Gains in real gross domestic product (%)



Source: Research Institute of Economy, Trade, and Industry (RIETI)

Impacts on specific sectors

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

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

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

Trade in goods

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

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

PJEPA covers 5,968 tariff lines of Philippine imports, of which 66 percent (3,947) of these imported Japanese goods given an "A" classification, implying an immediate removal of tariff (Table 2). The rest would be subjected to gradual tariff reduction. Among the goods subjected to gradual tariff reduction are automotive, iron, and steel, in line with the Philippine commitment to the ASEAN Free Trade Area (AFTA) to eliminate tariffs by 2010 for the ASEAN-6.

Of the goods subject to immediate tariff elimination, 91.6 percent are industrial goods while 8.4 percent are agriculture goods (Table 3). Among the products included for immediate tariff elimination are machinery and equipment, clothing and textiles, organic chemicals and pharmaceutical products, and other miscellaneous manufactured products.

Table 2. Philippine tariff schedule under PJEPA

Legend	Category	Number of Lines	Percent of Total Lines
A	Immediate tariff elimination	3,947	66.14
B4	Equal annual tariff reduction starting 2006, final reduction in 2010	97	1.63
B4**	Tariff elimination on the 1st day of the 5th year (2011)	2	0.03
B5	5 years or 6 annual installments	230	3.85
B5*	5 years, 1 year grace period, 5 equal annual installments	220	3.69
B5**	One single installment at the beginning of the 6th year	14	0.23
B7	7 years or 8 equal annual installments	2	0.03
B10	10 years or 11 equal annual installments	1,077	18.05
B10*	10 years, 1 year grace period, 6 equal annual installments	154	2.58
B10**	10 years, 5 years grace period, 6 equal annual installments	103	1.73
R	Renegotiation	24	0.40
S	Special tariff treatment	92	1.54
X	Excluded from any commitment of preferential treatment or renegotiation	6	0.10
	Total	5,968	100.00

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

Table 3. Analysis of “A” classified products by sector

Sector	Share to Total “A” Lines (%)	2005 RP Imports from Japan (in thousand USD)
Agriculture	8.41	3,121.00
Industrial	91.59	2,271,702.00
Total	100.00	2,274,823.00

Source: Philippine Tariff Commission

Table 4. Japan’s tariff schedule under PJEPA

Legend	Category	Number of Lines	Percent of Total Lines
A	Immediate tariff elimination	5,994	80.17
B3	3 years or 4 equal annual installments	3	0.04
B5	5 years or 6 annual installments	148	1.98
B7	7 years or 8 equal annual installments	140	1.87
B10	10 years or 11 equal annual installments	368	4.92
B15	15 years or 16 equal annual installments	48	0.64
P	Special tariff treatment	26	0.35
Q	Tariff rate quota	11	0.15
R	Renegotiation	215	2.88
X	Excluded from any commitment of preferential treatment or renegotiation	522	6.98
Total		7,476	100.00

Note: Numbers do not add up due to rounding off.

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

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

PJEPA also covers 7,476 tariff lines of Philippine exports of which 93 percent is composed of industrial goods, while the rest are agricultural products. Around 80 percent (5,994 product lines) of these goods are scheduled for immediate tariff elimination (Table 4).

Table 5. Analysis of “A” classified products by sector

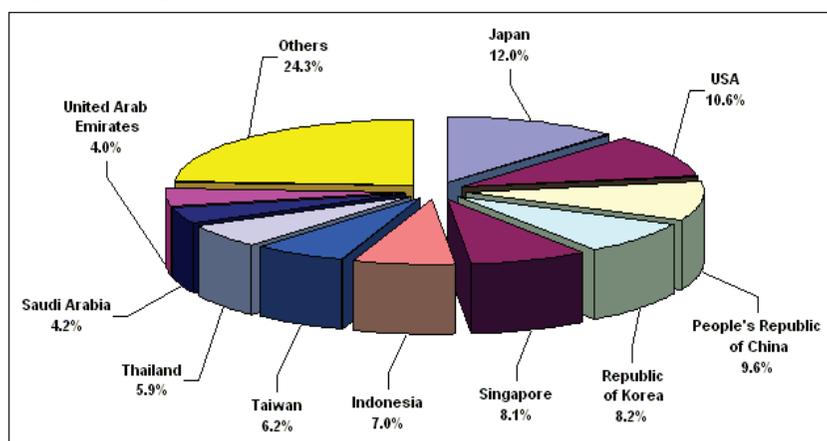
Sector	Share to Total “A” Lines (%)	2005 Philippine Exports from Japan (in USD '000)
Agriculture	6.68	144,539.00
Industrial	93.32	575,205.00
Total	100.00	719,744.00

Over 90 percent of imported Japanese products are subject to immediate removal of tariffs, most of which are industrial in nature (Table 5). The rest of the tariff lines are either excluded from any commitments or are subject to renegotiations. Among the products excluded are agricultural products such as boneless meat of bovine animals, fresh Pacific salmon, frozen red and Atlantic salmon, trout, herring, cod, sardines, mackerel, frozen bluefin tuna fillet, scallops, milk and cream, whey, butter and dairy spreads, wheat and meslin, barley, rice, wheat starch, animal and vegetable oils, and pineapples weighing more than 900 grams. Meanwhile, products subjected to renegotiations are agricultural goods such as meat of bovine, meat of swine, big-eye tuna, bluefin tuna, long-finned tuna, tanner crab, certain dairy products, maize flour, and starch.

Government figures (Figure 3) showed that Japan is the biggest source of imports for the Philippines, accounting for 12 percent of the total in FY 2009. Recorded import payments from Japan amounted to USD 465.34 million in 2009, compared to that of the United States at USD 394 million in 2009. Moreover, revenue from the country’s exports to Japan reached USD 507.58 million, generating a total trade value of USD 973.01 million and USD 42.34 million trade surplus for the Philippines.

However, in terms of trade share in Japan, the Philippines lagged behind other middle-income countries in ASEAN in 2009. Japan’s imports from the Philippines represent only 1.2 percent of its total import volume (Table 6). This figure tails behind Japan’s imports from Indonesia, Malaysia, Thailand, and Viet Nam.

Figure 3. Philippine imports by country of origin, 2009



Source: National Statistics Office (NSO)

Table 6. Japan's trade with ASEAN (USD million, 2009)

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

Source: Japan External Trade Organization (JETRO)

Box 1. Rules of origin (ROO)

Rules of origin (ROO) refer to the manner by which origin or “nationality” of goods is determined to be eligible for preferential tariff treatment under PJEPA. This is to ensure that only products originating from either the Philippines or Japan can enjoy the preferred tariff negotiated under PJEPA. The criteria for determining the origin and the equivalent procedures for establishing such are stipulated under Chapter 3 of PJEPA.

There are two ways to determine the eligibility of the origin of goods.

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

For purposes of quantifying QVC, PJEPA prescribes this formula:

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

where:

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

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

VNM = value of the nonoriginating materials used in the production of a good.

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

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

Source: Details taken from PJEPA briefer.

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

As Japan remains largely protective of its agriculture and fishery sectors, many of these products were excluded from tariff elimination under PJEPA. More than half of Japan’s agricultural products are subject to deferred tariff elimination. Tariff rate quotas (TRQs) have been applied to a limited number of products, while many others are for renegotiation and reduction for a period ranging from 3 to 15 years.

The list of products excluded from tariff elimination includes cigarettes containing tobacco, rice, and rice-related products (e.g., rice flour). On the other hand, Japan agreed to the tariff elimination of products such as yellowfin tuna and skipjack on the fifth year, and for small bananas only on the 10th year. Tariffs for coffee, beer, fertilizer, fresh or dried mangoes, and fermented beverages were to be immediately eliminated.

For the Philippines, it committed to eliminate tariffs for a number of products such as lobster, shrimp, crab, cashew nut, almond, walnut, hazel nut, grape, apple, and pear. It also agreed to reduce tariff, over the next 10 years, for the rest of agricultural products. For rice, all tariff lines have been excluded from any tariff elimination, reduction, or renegotiation. Further, the Philippines did not make any commitments related to TRQs, renegotiation, and tariff reduction schedule in a period less than or more than 10 years.

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

Other gainers for Philippine agriculture include shrimp, crab, prawn, mango, cane molasses, chicken, and tuna where the Philippines had established an advantage as a major exporter. Japan also agreed to grant a favorable treatment to Philippine sugar, chicken, fishery products, pineapple, and banana.

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

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

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

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

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

Trade in services

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

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

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

As a result, PJEPA has opened up various opportunities for the Filipino labor to tap into the Japanese market. The liberalization of the Japanese health care industry for the Filipino caregiver and the creation of a new visa category for Filipino caregivers are among the benefits derived from PJEPA. These workers are permitted to work for a limited time, while working on the acquisition of Japanese qualifications, which includes a level of proficiency in the Japanese language. Prior to PJEPA, Filipino nurses who acquired relevant Japanese qualifications were allowed to work for a maximum of seven-year stay in training but were not officially permitted to work.

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

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

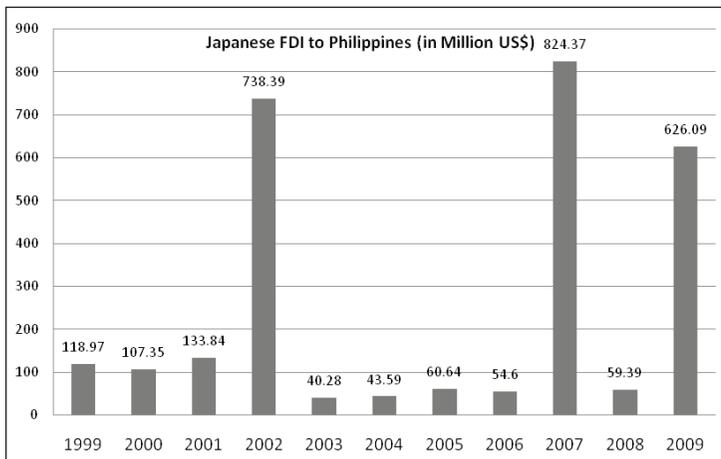
Investments

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

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

Japan has been one of the major sources of FDI in the Philippines. The year 2007 posted the highest investment growth for the past 10 years. Investment figure dipped in 2008 as a result of the global economic slump, and picked up again in 2009 as more Japanese investments poured in following the signing of PJEPA (Figure 4).

Figure 4. Japan’s foreign direct investment to the Philippines (in USD M)



Source: Bangko Sentral ng Pilipinas (BSP)
 Note: 2009 figures are from January to October only.

Cross-cutting concerns

Trade facilitation and cooperation

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

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

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

Table 7. Ten areas of cooperation under PJEPA

	Fields of Cooperation	Possible Areas/Forms of Cooperation
1	Human resource development	Education and training Harmonization of competency standards
2	Financial services	Promotion of regulatory cooperation in financial services Improvement of financial market structure
3	Information and communications	Human resource development in the ICT sector Development of ICT infrastructure, ICT-related services, and digital content
4	Energy and environment	Improvement of utilization of energy Protection and management of the environment

Table 7. (continued)

	Fields of Cooperation	Possible Areas/Forms of Cooperation
5	Science and technology	Advance science and technology, agriculture, forestry, fisheries, and management of natural resources Human health and nutrition
6	Trade and investment promotion	Trade and investment activities, including those conducted by private enterprises
7	Small and medium enterprises	Strengthening of management and competitiveness of SMEs Human resource development
8	Tourism	Promotion and development of tourism Human resource development
9	Transportation	Improvement of the technology of transportation Human resource development
10	Road development	Improvement of the technology of road development Human resource development

Source: Primer on PJEPA

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

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

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

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

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

Dispute avoidance and settlement

Chapter 15 of PJEPA creates a system to avoid and settle disputes arising from the implementation and interpretation of PJEPA. It also spells out the obligations of the two parties to ensure that the issues/concerns are brought to the fore to trigger discussion, conciliation, and mediation. PJEPA encourages the establishment of an arbitral tribunal that will deliberate, investigate, and decide on the issues presented by the partners. The decision of the tribunal is final and executory.

Moreover, PJEPA contains provisions that seek to safeguard both parties from serious injury or threat arising from increased importation under PJEPA.

Under such circumstance, the aggrieved party may choose to suspend or increase the customs duty/apply quota limits on the originating good, subject to prevailing MFN conditions and TRQ schedules annexed to the agreement. Article 3 (Investigation) and Article 4 (Determination of Serious Injury or Threat) are reflected in the agreement to provide clarity on these procedures.

Issues against PJEPA

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

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

The Singapore issues, which include investment, competition, government procurement, and trade facilitation, were first raised during the 1996 WTO negotiations. They were subsequently taken off the track during the 2003 Cancun Conference due to protests from developing countries. Inclusion of these issues was opposed by G77, a coalition of developing countries, including the Philippines, because of the potential negative implications on developing countries. In PJEPA, these Singapore issues are included in Chapter 8 (Investments), Chapter 11 (Government Procurement), Chapter 12 (Competition), and Chapter 14 (Cooperation).

There were initial fears that inclusion of these provisions would eventually undermine the negotiating position of the Philippines in the realm of multilateral and regional trade agreements. However, the Philippines permitted the inclusion of the Singapore issues since they are linked with the overall necessity for improving the governance framework crucial in strengthening the domestic market and in supporting legal structures. These reforms are equally necessary in developing the country's business environment.

Environmental concerns. One of the reasons that resulted in the delay of PJEPA ratification was the allegation from the public of a possible environmental

violation arising from PJEPA. Critics feared that PJEPA would lead to the free-flow entry of toxic and hazardous waste products to the Philippine shores, with the adoption of a zero-rating scheme for waste products.

Fears have been allayed by the fact that both Japan and the Philippines are signatories to the Basel Convention² on the Transboundary Movement of Hazardous Wastes. The convention requires signatory countries to make prior notice and consent before any act of exportation or importation of hazardous wastes. Existing environmental policies in the Philippines reinforce the prohibition of hazardous wastes and products in the country. For example, the Toxic Substances and Hazardous and Nuclear Wastes Control (Republic Act No. 6969) prohibits the entry, transit, storage, and disposal of hazardous and nuclear wastes into the country. Prevailing import controls and regulations that are more binding protection than tariffs also help deter transboundary environmental irregularities.

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

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

Table 8. Waste products that are specifically given 0 percent tariff in PJEPA

-
- Ash and residues (other than the manufacture of iron or steel), containing arsenic, mercury, thallium, or their mixtures, of a kind used for the extraction of arsenic or those metals or for the manufacture of their chemical compounds
 - Waste and residues from the incineration of municipal waste
 - Waste pharmaceuticals
 - Municipal waste
 - Sewage sludge
 - Clinical waste—adhesive dressings and other articles having adhesive layer, wadding gauge bandages, and surgical gloves
 - Other clinical waste
 - Waste organic solvents—halogenated and others
 - Other wastes from other chemical or allied industries containing organic constituents
 - Waste of metal pickling liquors, hydraulic fluids, brake fluids, and antifreeze fluids
 - Worn clothing and other worn articles
 - Used or new rags, crap twine, cordage, rope and cables, and worn-out articles of twine, cordage, rope, or cables, of textile materials
-

Source: PIDS

² The Basel Convention is an international treaty that was designed to reduce the movement of hazardous waste between nations, especially the movement of hazardous waste from developed countries to least-developed countries (LDCs). The convention was opened for signature on March 22, 1989 and entered into force on May 5, 1992.

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

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

Recent Developments and Challenges to Moving Forward

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

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

To support the work of the joint committee, subcommittees will also be created to monitor actions and issues related to specific themes of PJEPA

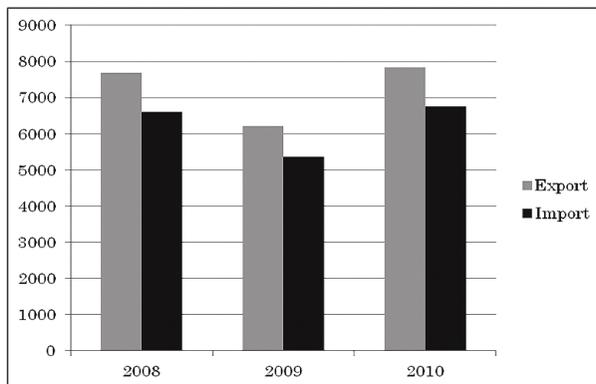
implementation. At least 11 subcommittees are supposed to be created once PJEPA is set in place. Based on themes, these are Trade in Goods, Trade in Services, ROO, Customs Procedures, Mutual Recognition, Investment, Movement of Natural Persons, Intellectual Property, Government Procurement, Improvement of the Business Environment, and Cooperation.

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

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

The good news is that two years after implementation, PJEPA showed no significant adjustment costs for the government. No sector also showed signs of displacement and dislocation. Even the auto industry, which feared PJEPA's adverse impact, posted positive growth despite the global crisis. Trade flows with Japan also improved since 2008, showing only a small dip in figures in 2009 following the global financial crisis, but bouncing back in 2010 with total exports at USD 7.8 million and total imports at USD 6.7 million (Figure 5).

Figure 5. Philippine trade with Japan (in USD million)



Source: 2008 figures, National Statistical Coordination Board (NSCB); 2009–2010 figures, BSP

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

Japanese investors in the Philippines, along with other foreign investors, complain about inadequate infrastructure, which impedes the efficient flow of goods from the place of production to the market. Poorly maintained road networks and incomplete infrastructure networks, compounded by heavy traffic congestion, severely limit the movement of goods and undermine the productivity of industries particularly those located inside economic zones. Electricity tariffs in the Philippines are much higher than its neighbor countries in the ASEAN. Any looming energy crisis in the Philippines sends jitters to the investors who fear the sustainability of their operations in the country and dampens the interest of prospective investors who are considering the Philippines in their investment decisions.

Fiscal constraints faced by the Philippines further undermine the ability of the government to beef up investments in these sectors. With infrastructure and capital spending in the Philippines that is considered rather low at a rate of 3.3 percent of GDP, compared to the average of 5 percent in the region, it is alarming for many investors that the poor physical environment in the country will take time to be substantially addressed. To illustrate, vehicle operating costs and intercity freights in the country are estimated to be 50 percent higher than those in Indonesia and Thailand. Power tariffs are also high at 20 percent–80 percent more than in other ASEAN countries, according to the Asian Development Bank (2005).

Investors also complain of the high transaction cost of doing business in the Philippines. This observation is reinforced by the results of 2009 Doing Business Report, an assessment that ranked the Philippines in a survey of 184 countries: rank 144 in ease of doing business, 162 in starting a business, 111 in dealing with construction permits, 132 in protecting investors, and 118 in enforcing contracts (Doing Business Report 2009, see <http://www.doingbusiness.org/>).

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

³ <http://www.weforum.org/issues/global-competitiveness>

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

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

Immediate and satisfactory resolution of the manner by which Japanese ODA is utilized will be necessary. Japan remains the largest provider of ODA to the Philippines with over USD 24.5 billion⁴ during the last four decades. This makes the Philippines among the top 10 recipients of Japanese ODA, in the form of technical assistance, concessional loans, and contributions to programs and project of multilateral institutions. While the country has long been a major recipient of Japanese ODA, much needs to be improved so that the impact of Japanese ODA contributes to the long-term development of the Philippines.

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

Conclusion

The Philippines could not afford to delay PJEPA implementation as its neighbors in the ASEAN are investing heavily on their human resources and have built the necessary environments in the name of global competitiveness

⁴ Ministry of Foreign Affairs (<http://www.mofa.go.jp/mofaj/>)

and sustainable development. ODA is one of the many instruments to advance this goal.

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

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

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

Being the first FTA to be signed by the Philippines, the experience and performance under PJEPA will be subject to close scrutiny, which could consequently influence the future EPAs to be entered into by the Philippines. It also signals the seriousness and readiness of the Philippines to take a more active part in promoting free trade based on cooperation. The opposite signals otherwise.

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

It is equally challenging to ensure that the benefits of PJEPA spread through as many sectors and segments of the society as possible. For example, SMEs need to be placed in a position to capture gains in a globalizing world. It is necessary to demonstrate that PJEPA has positive impacts on ordinary lives in the form of improved incomes and productivity, increased employment opportunities, and greater market access, among others. It is also necessary for the public and private sectors in the Philippines to gear up to ensure that

the agreed reforms are implemented. Key agencies, such as the Departments of Trade and Industry, Foreign Affairs, Finance, and Labor and Employment, should ideally possess capacities to pursue country-level actions related to PJEPA.

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

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

Box 2. Revisiting the PJEPA process: outlining a protocol for FTA

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

- a) *Creation of a special committee composed of multiple stakeholders from the public and private sectors.* No less than the president issued Executive Order 213 creating the Philippine Coordinating Committee (PCC) to determine the feasibility of the proposed PJEPA. The PCC was tasked to shepherd the PJEPA through the technical and political process including the negotiations for PJEPA. The DTI and the Department of Foreign Affairs were appointed to chair jointly the committee.
- b) *Organization of a Research Project Team.* The Philippine APEC Study Center Network, a regular project component of the Philippine Institute for Development Studies, was appointed as the Research Project Team for PJEPA. The team was tasked to undertake studies to determine the impacts of PJEPA on the macroeconomy and on identified sectors. The studies were used as important inputs into the deliberations of PJEPA. Leading universities, colleges, and research institutes were tapped to undertake directly the specific studies.
- c) *Extensive multisectoral consultation.* Following the conduct of the studies, extensive consultations were undertaken among different sectors of the society. The results were subjected to technical and policy-level debates that helped articulate and refine the arguments in favor of PJEPA.

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2 The Effects of Tariff Reduction in the Philippines-Japan Bilateral Agreements

Caesar B. Cororaton

Foreign trade is a major sector in the Philippine economy. The average export/GDP ratio in 2008–2009 was 34.3 percent, while the average import/GDP ratio was 34.6 percent. Since the mid-1980s, the Philippines has implemented several trade reform policies (Cororaton and Cockburn 2007). The reform included a series of tariff reduction program that resulted in significantly reduced nominal tariff rates and in lower tariff rate differential across sectors and tariff lines.

Japan is a major trading partner of the Philippines. It is a key market destination of Philippine exports and an important supplier of Philippine imports. In the Philippines-Japan bilateral agreements, FTA, zero tariffs is a major component.

This paper examines the Philippines-Japan FTA within the overall tariff reduction program in the Philippines. Using a CGE model, the paper analyzes the effects of the Philippines-Japan FTA on income distribution and poverty in the Philippines.

Table 1 shows the Philippines' trade link with Japan. The Philippines sells more than 50 percent of its agricultural crop exports to Japan. About one-fourth of its marine product exports and other agricultural commodities exports are also sold in Japan. More than half of Philippine mining exports and 14 percent of Philippine nonfood manufacture exports are marketed in Japan. Of the nonfood manufacturing import requirements of the Philippines, almost 23 percent is supplied by Japan.

Table 2 shows the tariff reduction in the Philippines during the period 1994–2000. On the average, the nominal Philippine tariff rate fell by 46.5 percent.

In the analysis, the actual tariff reduction in Table 2, excluding the tariff reduction in the FTA, was simulated. This case is called *without FTA*. In the Philippines-Japan FTA analysis, the actual tariff rates reduction on imports of crops, livestock, fishing and marine products, other agriculture, and mining were applied. However, the tariff rates on Philippine imports of food manufacturing and nonfood manufacturing from Japan were reduced by 100 percent. Furthermore, the price of food and nonfood manufacturing exports of the Philippines to Japan was increased by 5 percent to capture the increased demand for Philippine products under the FTA. This case is called *with FTA*.

Table 1. Philippine exports and imports with Japan and the rest of the world, average, 2000–2002

Sectors	Exports (% share)		Imports (% share)	
	Japan	ROW	Japan	ROW
Crops	56.4	43.7	0.0	100.0
Livestock	0.0	100.0	0.0	100.0
Fishing and marine products	25.3	74.7	6.8	93.2
Other agriculture	26.6	73.4	1.1	98.9
Mining	50.6	49.4	3.4	96.6
Food manufacturing	5.9	94.1	0.5	99.5
Nonfood manufacturing	14.1	85.9	22.7	77.3

ROW - rest of the world

Source: DTI Tradeline Philippine Statistics/Foreign Trade Statistics

Table 2. Tariffs, 1994–2000

Sectors	Period	% Change in Tariff Rates		
		Actual	With FTA ^a	
			Japan	ROW
Crops	1994-2000	-45.6	-45.6	-45.6
Livestock	1994-2000	-57.6	-57.6	-57.6
Fishing and marine products	1994-2000	-76.4	-76.4	-76.4
Other agriculture	1994-2000	-19.9	-19.9	-19.9
Mining	1994-2000	-88.9	-88.9	-88.9
Food manufacturing	1994-1998	-16.3	-100.0	-16.3
Nonfood manufacturing	1994-1998	-51.5	-100.0	-51.5
Average		-46.5	-99.0	-45.4

ROW - rest of the world

^a Philippines-Japan FTA

Source: Manasan and Querubin (1997)

Model Description

The model has 12 production sectors—4 agriculture, 5 industrial, and 3 service sectors (Cororaton and Cockburn 2007). The model has two primary factors: labor and capital. The model incorporates four types of labor: skilled agriculture labor, unskilled agriculture labor, skilled nonagricultural labor, and unskilled nonagricultural labor. Skilled nonagricultural workers have at least high school diploma. Agriculture labor is employed to agriculture sector only. Nonagricultural labor is mobile across all sectors. Sectoral capital is fixed. Value added—together with sectoral intermediate input, which is determined using fixed coefficients—determine the total sectoral output. In both product and factor market, prices adjust to clear the markets. Import prices in the model are in domestic currency. It is affected by several factors including world price of imports, nominal exchange rate, tariff rates, and indirect tax rates. The reduction in tariff rates reduces import prices.

Consumer demand is based on Cobb-Douglas utility function. Locally produced and imported goods are imperfect substitutes and are specified using a constant elasticity substitution (CES) function. Supply of exports and supply to domestic market is specified using constant elasticity of transformation (CET) function.

Unemployment is incorporated into the model using the wage curve equations for each labor type (Blanchflower and Oswald 1995). It is based on the relationship between unemployment rate and wages, that is,

$$\frac{w_l}{pvaind_j} = kt_wage_j \cdot unemp_l^{elas_wge}$$

where

w_l is wage rate of labor type l ,

$pvaind_j$ is weighted index of value-added price in major sector j ,

kt_wage_l is scale parameter,

$unemp_l$ is unemployment rate in labor type l , and

$elas_wge$ is wage curve elasticity, which is assumed as -0.1.

Government consumption is held fixed. The tariff change is revenue-neutral. Any change in the tariff revenue as a result of tariff reduction is compensated by a compensatory tax on household income. The compensatory tax is applied uniformly across household groups paying income taxes. The current account balance is held fixed. The nominal exchange rate is also held fixed (the numeraire). The real exchange rate, which is defined as the ratio of the nominal exchange rate and local prices, is endogenous and is the clearing

variable in the external sector. Total savings is composed of government savings, foreign savings (both of which are held fixed), and private savings. Total savings is reinvested. World prices of commodities are fixed in the model.

The structure of both Philippine exports and imports, based on the 1994 social accounting matrix (SAM), is dominated by the nonfood manufacturing sector. In particular, the sector captures 48 percent of total exports and 76.1 percent of total imports (Table 3). In terms of export intensity, defined as the ratio of export value and total value of production, it is also significant for the nonfood manufacturing sector, with a ratio of 34.7 percent. The same thing is observed for the import intensity. The ratio for the sector is 45.3 percent. Table 3 also shows the trade elasticities used in the model.

Table 3. Elasticities

Sectors	Trade Elasticities		Exports (%) ^a		Imports (%) ^a		Lab-Cap Ratio ^a
	Armington	CET	Share	Intensities	Share	Intensities	
Crops	1.95	1.27	3.1	7.5	0.7	1.7	0.98
Livestock	1.40	0.40	0.0	0.1	0.6	2.6	0.99
Fishing	1.10	1.50	3.3	20.8	0.0	0.2	1.79
Other agriculture	0.85	0.40			0.1	2.6	1.00
Agriculture			6.4	7.5	1.5	1.8	0.91
Mining	1.10	1.50	2.4	43.1	6.5	66.3	1.15
Food manufacturing	1.08	1.20	9.0	10.2	5.4	6.3	1.74
Nonfood manufacturing	0.92	1.37	48.0	34.7	76.1	45.3	1.23
Construction	1.20	1.20	0.3	0.8	0.9	2.6	1.28
Electricity, gas, and water	1.20	1.20	0.2	1.2			2.97
Industry			59.9	21.3	88.8	28.4	0.68
Wholesale trade and retail	1.20	1.20	14.2	20.9			1.95
Other services	1.20	1.20	19.4	14.6	9.7	7.8	1.64
Government services	-	-					
Services			33.7	14.3	9.7	7.8	0.58
Total			100.0	16.6	100.0	17.4	0.68

Lab-Cap - labor-capital ratio, CET - constant elasticity of transformation

^a 1994 Social Accounting Matrix

Source: Cororaton and Cockburn (2007)

Simulation Results

The simulation effects of tariff reduction under the case *without FTA* are analyzed. These results are then compared with the results generated under the case *with FTA*.

Without FTA

The macro effects are presented in Table 4. During the tariff reduction program in 1994–2000, the average nominal tariff rate in the Philippines drops by 46.5 percent. The fall in tariffs decreases prices. Import prices fall by 8.7 percent while consumer prices by 2.4 percent. The producer price decreases by 2.1 percent. The reduction in tariffs increases imports by 4.9 percent. The real exchange rate depreciates by 3.4 percent, which increases exports by 4.6 percent and output by 0.4 percent. The exchange rate depreciation reduces the supply to the domestic market by 0.5 percent. However, the increase in imports is higher than the reduction in the supply to the domestic market, thus overall consumption improves by 0.6 percent.

The sectoral effects are presented in Table 5. The reduction in the sectoral tariff rates decreases sectoral import prices and increases imports of

Table 4. Macro effects, with and without FTA

Macro Variables	Actual Tariff	
	Without FTA	With FTA
	% Change from Base	
Overall nominal tariff rate, average, 1994-2000	-46.51	-55.38
Prices:		
Import prices in local currency	-8.66	-10.17
Consumer prices	-2.36	-2.60
Local cost of production	-2.06	-2.19
Real exchange rate	3.40	3.73
Imports	4.88	6.14
Exports	4.62	5.61
Domestic sales ^a	-0.46	-0.55
Consumption	0.56	0.72
Overall output	0.44	0.52

Source: Author's calculations

^a Local production sold to Philippine domestic market

agricultural products by 6.2 percent and industrial products by 5.8 percent. Imports of nonfood manufacturing expand by 5.3 percent. However, it has the largest impact on the overall imports because the sector has the highest import share as shown in Table 3. Producer prices fall, making the sectoral exports competitive in the international market. The sector that registers the highest increase in exports of 8.9 percent is nonfood manufacturing. Since the sector has the highest export share, it contributes significantly to the total industrial export growth of 7.2 percent and to the overall export growth of 4.6 percent. Exports of crops and livestock decline. There is a slight increase in exports of fishing. Total agricultural exports increase marginally by 0.2 percent.

Table 5. Effects on prices and volumes, without FTA

Sectors	Price, % Change Relative to Base					Volume, % Change Relative to Base				
	Imports	Domestic ^c	Composite ^b	Output	Producer	Imports	Exports	Domestic ^c	Composite ^d	Output
Crops	-5.9	-0.6	-0.7	-0.5	-0.6	10.0	-0.4	-1.2	-1.0	-1.1
Livestock	-3.2	-0.7	-0.8	-0.7	-0.7	2.5	-0.7	-1.0	-0.9	-1.0
Fishing	-18.8	-1.3	-1.3	-1.0	-1.3	22.9	0.8	-1.1	-1.0	-0.7
Other agricul- ture	-1.2	0.6	0.6	0.6	0.6	1.8		0.3	0.3	0.3
Agriculture	-4.5	-0.7	-0.7	-0.6	-0.7	6.2	0.2	-1.0	-0.9	-0.9
Mining	-26.0	-9.1	-21.9	-5.0	-9.1	10.7	1.8	-11.7	4.3	-5.7
Food manufact- uring	-9.5	-1.4	-2.1	-1.3	-1.4	8.4	0.5	-1.2	-0.4	-1.0
Nonfood manufacturing	-8.4	-4.9	-6.7	-3.1	-4.9	5.3	8.9	1.7	3.5	4.2
Construction	0.0	-1.2	-1.1	-1.2	-1.2	-0.2	2.7	1.2	1.2	1.2
Electricity, gas, and water		-1.6	-1.6	-1.6	-1.6	-4.0	2.1	0.1	0.1	0.2
Industry	-9.7	-2.9	-5.0	-2.3	-2.9	5.8	7.3	0.3	2.0	1.8
Wholesale trade and retail		-0.6	-0.6	-0.5	-0.6		0.3	-0.4	-0.4	-0.3
Other services		-2.1	-1.9	-1.8	-2.1	-4.0	1.0	-1.5	-1.7	-1.1
Government services				-0.2						0.2
Services		-1.6	-1.5	-1.3	-1.6	-4.0	0.7	-1.2	-0.9	-0.9
Total	-8.7	-2.1	-3.3	-1.6	-2.1	4.9	4.6	-0.5	0.6	0.4

^a Producer prices with indirect taxes

^b Composite of imports and domestic prices

^c Local production sold in the Philippines

^d Composite of imports and local production

Source: Author's calculations

The increase in imports of agricultural products displaces local agricultural production. Total output of agriculture declines by 0.9 percent. Similarly, the increase in imports of mining and food manufacturing displaces local production. However, the increase in imports of nonfood manufacturing does not displace local production. In fact, output of nonfood manufacturing expands by 4.2 percent. Output of the construction and the utilities sectors increases slightly. The whole output of the industrial sector improves by 1.8 percent. However, the output of the services sector declines by 0.9 percent.

The effects on the factor market and value added are presented in Table 6. The drop in output of the agriculture sector results in lower value added and demand for labor. Factor returns also decline. The returns to capital in agriculture decline by 0.7 percent. The average wage of skilled agricultural labor decreases by 0.6 percent. The average wage of unskilled agricultural labor decreases by 0.4 percent. Total employment in the agriculture sector declines by 1.9 percent.

Table 6. Effects on the factor market, without FTA

Sectors	Value Added	Returns to Capital	Total Labor	Agricultural		Nonagricultural	
				Skilled	Unskilled	Skilled	Unskilled
% Change Relative to Base							
Crops	-1.1	-1.0	-2.2	-0.8	-0.7	-2.1	-3.3
Livestock	-1.0	-0.9	-2.0	-0.6	-0.5	-1.9	-3.2
Fishing	-0.7	-0.7	-1.9	-0.5	-0.4	-1.8	-3.0
Other agriculture	0.3	1.7	0.5	1.9	2.1	0.6	-0.7
Agriculture	-0.9	-0.7	-1.9	-0.6	-0.4	-1.8	-3.1
Mining	-5.7	-10.9	-11.9			-11.8	-13.0
Food manufacturing	-1.0	-1.6	-2.7			-2.6	-3.8
Nonfood manufacturing	4.2	11.0	9.7			9.8	8.4
Construction	1.2	4.1	2.9			3.0	1.7
Electricity, gas, and water	0.2	1.8	0.7			0.8	-0.5
Industry	1.6	4.4	4.0			4.0	2.9
Wholesale trade and retail	-0.3	0.3	-0.8			-0.7	-2.0
Other services	-1.1	-1.9	-3.0			-2.9	-4.1
Government services	0.2		0.2			0.3	
Services	-0.8	-1.1	-1.5			-1.3	-4.0
Total	-0.02	0.9	-0.03	-0.6	-0.4	0.1	0.9
Change in average wage			1.2	-0.2	-0.4	1.1	2.4
Change in unemployment rate				3.9	6.2	-1.4	-13.4

Source: Author's calculations

The fall in the output of the mining and food manufacturing sectors also decreases the sectors' value added and demand for labor. Returns to factors also decline. However, the increase in the output of the nonfood manufacturing sector increases its value added by 4.2 percent and demand for labor by 9.7 percent. Returns to factors in the sector also improve. Similar effects are observed in the construction sector. The demand for skilled nonagricultural labor in the industrial sector increases by 4 percent, while the demand for unskilled labor by 2.9 percent. Except for government services, the demand for labor in the services sector falls. The total demand for skilled nonagricultural labor increases by 0.1 while for unskilled labor by 0.9 percent. Overall wages of these labor increases by 1.1 percent and 2.4 percent, respectively. The results for unemployment indicate higher unemployment rates for both skilled and unskilled agricultural labor, but lower unemployment rates in skilled and unskilled nonagricultural labor.

Thus, the sectoral effects of tariff reduction indicate favorable outcomes for industry (output and factors) but negative outcomes for both agricultural and services sectors.

With FTA

This case involves higher reduction in the overall tariff rates because of the 100 percent reduction in the tariff rates for food and nonfood manufacturing sector on imports from Japan (Table 2). This case also incorporates higher demand for Philippine food and nonfood manufacturing products in Japan. The macro results are presented in Table 4.

The overall reduction in tariff rate is 55.4 percent, slightly higher compared to the earlier case. Thus, the impacts on the macro variables are slightly higher also. The sectoral effects are presented in Table 7 while the effects on the sectoral value added and factors are shown in Table 8.

Without going through the results in detail, one can observe that the impacts are generally similar to the results generated in the previous case. However, in the present case, the effects are relatively larger. Thus, the FTA generates slightly higher favorable effects on the industry sector and negative effects on agriculture and services sectors.

Effects on income, distribution, and poverty

The effects on household income in both cases are presented in Table 9. Overall, household income improves in both cases. The improvement in income is higher under FTA. However, in both cases, income of agricultural households falls while income of nonagricultural households improves. This is because in both cases, agricultural sector is negatively affected while industry

benefits. Thus, income distribution deteriorates as indicated in Table 10 with higher Gini coefficient in both cases. The Gini is higher in the case with FTA.

Table 7. Effects on prices and volumes, with FTA

Sectors	Price, % Change Relative to Base					Volume, % Change Relative to Base				
	Imports	Domestic	Composite	Output	Producer	Imports	Exports	Domestic	Composite	Output
Crops	-5.9	-0.4	-0.5	-0.4	-0.4	10.2	-0.8	-1.3	-1.1	-1.3
Livestock	-3.2	-0.6	-0.7	-0.6	-0.6	2.5	-1.0	-1.2	-1.1	-1.2
Fishing	-18.8	-1.3	-1.4	-1.0	-1.3	22.6	0.7	-1.3	-1.2	-0.9
Other agriculture	-1.2	1.0	0.9	1.0	1.0	2.2		0.3	0.4	0.3
Agriculture	-4.5	-0.5	-0.6	-0.5	-0.5	6.3	0.0	-1.2	-1.0	-1.1
Mining	-26.0	-8.8	-21.8	-4.9	-8.8	11.6	1.9	-11.3	5.1	-5.4
Food manufacturing	-10.6	-1.4	-2.2	-1.2	-1.4	9.7	0.7	-1.4	-0.5	-1.2
Nonfood manufacturing	-10.3	-5.5	-7.9	-3.3	-5.5	6.8	11.0	1.8	4.3	5.1
Construction	0.0	-1.1	-1.1	-1.1	-1.1	0.1	2.9	1.5	1.4	1.5
Electricity, gas, and water		-1.7	-1.7	-1.7	-1.7	-4.4	2.3	0.2	0.2	0.2
Industry	-11.4	-3.2	-5.7	-2.3	-3.2	7.3	9.0	0.3	2.5	2.2
Wholesale trade and retail		-0.5	-0.5	-0.4	-0.5		0.1	-0.5	-0.5	-0.4
Other services		-2.2	-2.1	-1.9	-2.2	-4.4	0.9	-1.8	-2.0	-1.4
Government services				0.0						0.0
Services		-1.7	-1.6	-1.4	-1.7	-4.4	0.6	-1.4	-1.1	-1.0
Total	-10.2	-2.2	-3.7	-1.6	-2.2	6.1	5.6	-0.5	0.7	0.5

Source: Author's calculations

Table 8. Effects on the factor market, with FTA

Sectors	Value Added	Returns to Capital	Total Labor	Agricultural		Nonagricultural		
				Skilled	Unskilled	Skilled	Unskilled	
% Change Relative to Base								
Crops		-1.3	-0.9	-2.6	-1.0	-0.8	-2.4	-4.0
Livestock		-1.2	-0.7	-2.4	-0.7	-0.6	-2.2	-3.8
Fishing		-0.9	-0.7	-2.4	-0.7	-0.6	-2.2	-3.8
Other agriculture		0.3	2.3	0.7	2.3	2.5	0.8	-0.8
Agriculture		-1.1	-0.6	-2.4	-0.7	-0.5	-2.1	-4.3
Mining		-5.4	-9.8	-11.3			-11.2	-12.6
Food manufacturing		-1.2	-1.5	-3.2			-3.0	-4.6

Table 8. (continued)

Sectors	Value Added	Returns to Capital	Total Labor	Agricultural		Nonagricultural	
				Skilled	Unskilled	Skilled	Unskilled
% Change Relative to Base							
Nonfood manufacturing	5.1	13.5	11.7			11.8	10.0
Construction	1.5	5.1	3.4			3.5	1.9
Electricity, gas, and water	0.2	2.5	0.9			1.0	-0.6
Industry	1.9	5.7	5.9			5.9	4.1
Wholesale trade and retail	-0.4	0.5	-1.1			-1.0	-2.6
Other services	-1.4	-2.0	-3.6			-3.5	-5.0
Government services	0.0		0.0			0.1	
Services	-1.0	-1.0	-2.3			-2.1	-5.5
Total	-0.03	1.3	0.2	-0.7	-0.5	0.2	1.3
Change in average wage			1.7	-0.0	-0.2	1.5	3.2
Change in unemployment rate				4.8	7.8	-1.4	-16.7

Source: Author's calculations

Table 9. Effects on nominal household factor incomes

All Households	Labor and Capital Income in Agriculture	Labor and Capital Income in Nonagriculture	Total
	% Change from Base		
Without FTA	-0.50	1.40	1.05
With FTA	-0.30	1.80	1.41

Source: Author's calculations

In both cases, the consumer prices fall: 2.06 percent in the first case and 2.6 percent in the second case (Table 4). This price decline is higher than the reduction in the nominal income of agricultural households in Table 9. Thus, real income of all households actually increases because of the drop in consumer prices. These have favorable effects on poverty. All poverty indices fall as shown in Table 11. The decline in the poverty indices is higher in the case with FTA. However, there are differential effects across household types. Households in the National Capital Region (NCR) where poverty incidence is smallest benefit the most in terms of poverty reduction. Poverty incidence in rural areas is significantly higher. Although poverty incidence also falls in rural households, the reduction is smaller when compared to the NCR and urban areas.

Table 10. Gini coefficient

Income Distribution	Base	Without FTA	With FTA
Gini coefficient	0.46443	0.46507	0.46511
Percent difference from base		0.136	0.145
Difference, without and with FTA			0.009

Source: Author's calculations

Table 11. Poverty indices, with and without FTA

Poverty Index	1994 FIES	Without FTA	With FTA	% Change Relative to 1994 FIES	
				Without FTA	With FTA
<i>All Philippines</i>					
Poverty headcount	40.59	38.94	38.60	-4.08	-4.91
Poverty gap	13.52	12.80	12.66	-5.30	-6.32
Poverty severity	6.10	5.73	5.66	-6.08	-7.22
<i>National Capital Region</i>					
Poverty headcount	10.40	9.23	8.88	-11.21	-14.58
Poverty gap	2.01	1.72	1.66	-14.56	-17.30
Poverty severity	0.60	0.50	0.49	-16.31	-19.13
<i>Urban</i>					
Poverty headcount	34.70	32.99	32.53	-4.95	-6.26
Poverty gap	11.43	10.75	10.62	-6.01	-7.15
Poverty severity	5.16	4.81	4.74	-6.75	-8.01
<i>Rural</i>					
Poverty headcount	53.12	51.38	51.13	-3.28	-3.75
Poverty gap	18.18	17.32	17.16	-4.70	-5.61
Poverty severity	8.30	7.84	7.75	-5.57	-6.64

Sources: 1994 Family Income and Expenditure Survey (FIES) and author's calculations

Conclusion

The Philippines has implemented several trade reform programs since the mid-1980s. Tariff reduction is a major component of the trade reform. Overtime, the nominal tariff rates in the Philippines have dropped. Tariff differential across sectors and across tariff lines have narrowed down substantially. On top of this tariff reduction, the Philippines has signed an FTA with Japan. Using a CGE model, this paper examines the effects of the FTA within the context of the tariff reform program of the Philippines.

The tariff reduction program of the Philippines increases imports and decreases prices. The reduction in prices improves the export competitiveness of the Philippines. Thus, exports and output increase. However, there are differential sectoral effects. Agriculture is negatively affected while industry benefits. Thus, the nominal income of rural households declines, while the income of urban households improves. Income distribution deteriorates. However, the fall in consumer prices as a result of lower tariffs dominate. Thus, poverty incidence declines across all household groups. However, the fall in poverty rates is higher in the NCR where poverty incidence is smallest. The drop in poverty rates is smaller in rural households where poverty incidence is significantly higher.

The FTA with Japan involves further reduction in tariff. Therefore, the effects are similar but slightly higher. The agriculture sector is negatively affected while the industry sector benefits by a relatively higher degree compared to the case without FTA. All poverty indicators also drop. Poverty reduction in the NCR is higher compared to the poverty decline in rural areas.

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3 Understanding the Political Motivations Behind Japan's Pursuit of an Economic Partnership Agreement with the Philippines: Considerations for the Philippine Side

Ronald A. Rodriguez¹

Introduction

Philippine President Gloria Macapagal-Arroyo's visit to Japan in 2002 resulted in the two countries' taking bold but pragmatic steps to craft jointly a partnership that goes beyond conventional FTAs. Dubbed as the Philippines-Japan Economic Partnership Agreement (PJEPA),² the initiative is distinguished from the usual FTAs by its comprehensive scope. The proposed PJEPA includes other forms of cooperation covering services, investment, and human resource development, among other areas. Due to its scope, many officials in the DTI and the Department of Foreign Affairs (DFA) of the Philippines oftentimes labeled the envisioned PJEPA as an "FTA plus."

This paper attempts to examine the implications of the PJEPA in the context of Japan's regional position and overall bilateral relations with the Philippines. It seeks to define PJEPA's contribution to Japan's regional foreign policy interests, in general, and to Japan-Philippines relations, in particular. This paper posits that the greater value of the PJEPA can only be appreciated if the political ramifications surrounding Japan's foray into bilateral FTAs are clearly understood. It also asserts that a sound Philippine position in the PJEPA

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The views and opinion expressed in this paper do not necessarily reflect the official position of the Foreign Service Institute (FSI), the Department of Foreign Affairs (DFA), or the Office of the Presidential Adviser for Special Concerns (OPASC).

² In the earlier version of the study, the partnership with Japan was referred to as Japan-Philippines Economic Partnership Agreement (PJEPA), being part of the larger ASEAN context of Japan's bilateral agreements (i.e., with Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam). In this volume, we refer to PJEPA as PJEPA to emphasize the Philippine context of the study.

negotiations should be guided by an unambiguous understanding of the political motivations behind Japan's pursuit of an EPA with the Philippines.

The rationale of the study pulls strength from the statement made by DTI Undersecretary Thomas Aquino during the opening session of the PJEPA Forum Series on 29 August 2003 that states, "The PJEPA is an economic exercise which will be decided in the political context." This statement encapsulates the significance and relevance of this research undertaking.

This research is being undertaken alongside several other PJEPA-related studies, which are mostly guided by economic analyses and impact assessments. This paper, on the other hand, offers an alternative starting point in understanding the possible implications and impact of the proposed PJEPA through the authoritative opinion of a number of sources, both in the Philippines and Japan.

In the Philippines, the research team has interviewed Trade and Commercial Attaché Ken Saito and Political Attaché Hirotake Satoh of the Embassy of Japan in Manila, Director Kaoru Shiraishi of the JETRO Manila Office, Secretary-General Tetsuya Matsuoka of The Japanese Chamber of Commerce and Industry of the Philippines, Inc., Assistant Director Angelo Salvador M. Benedictos of the DTI's Bureau of International Trade Relations, Senior Special Assistant Laura del Rosario of the DFA's Office of the Undersecretary for International Economic Relations, and scholars like Dr. Gwendolyn Tecson of the University of the Philippines and Prof. Benito Lim of the Ateneo de Manila University. The team is also particularly grateful to former Philippine Prime Minister Cesar E.A. Virata and Employers Confederation of the Philippines' President Donald Dee for sharing their views on the envisioned PJEPA from the perspective of the Philippine business sector.

In Japan, the team has also benefited from the inputs and insights of Domingo L. Siazon, Jr., former secretary of Foreign Affairs and currently Philippine Ambassador to Japan; Hidetaka Saeki, vice president and senior fellow of Japan's RIETI; and Akira Kawaguchi, manager of the Nippon Keidanren's (Japan Business Federation) Asia and Oceania Group, International Economic Affairs Bureau.³

The study takes off from a brief historical review of Japan's regional foreign policy thrusts starting from the period before World War II. It then shifts its focus to the dynamics of Japan's relations with selected countries in East Asia, particularly with the Philippines, before it proceeds to the main task of examining the political motivations behind Japan's foray into bilateralism and regional trade arrangements (RTAs). It concludes by attempting to provide

³ The assistance of Kiyoshi Tanigawa, especially in arranging the meetings with the officials of the Nippon Keidanren and the Nikkei in Tokyo, is also acknowledged.

a guide on how to analyze Japan's probable policy direction by way of its actions in the past and by presenting the challenges and opportunities that are likely to come the Philippines' way on the road to forging an EPA with Japan.

The Evolution of Japan's Regional Interests: an Overview of Japan's Asian Policy

According to Wolf Mendl (1995), author of the book *Japan's Asia policy*, the emergence of Japan as a modern nation went through at least three remarkable phases:

- (1) the years of struggle to ward off Western domination and at the same time assert its equality with the other imperial powers in Korea and China;
- (2) the period of expansionism and adventurism, which took place side by side with a protracted Japanese pursuit of international recognition as a world-class nation;⁴ and
- (3) Japan's rise to global economic power status and its pragmatic recourse to multilateralism.⁵

It is against this backdrop of three historical stages that this paper attempts to examine the evolution of Japan's interests in Asia.

Pan-Asianism and the rise of Japan

The sensitivities that are seemingly attached to the infamous "Greater East Asia Co-Prosperity Sphere," espoused by Japan before World War II, discourage many scholars from even attempting to bring out the issue in front of any Japanese audience. This paper braves to depart from the norm if only to allow the readers a better appreciation of how Japan's rise to power, its subsequent decline, and reemergence into economic preeminence have molded Japan's image in the region across time.

Japan's rise to power has been emphatically associated by many Japanologists with the emergence of the Pan-Asianist Movement sometime between the late 19th and early 20th centuries, following Japan's victories in the Sino-Japanese War of 1895 and the Russo-Japanese War of 1905. Advocates of the movement saw Japan as a leader in Asia because of its status as the first non-Western country to modernize, do away with colonialism, and triumph over the then global power next door, Russia. Given that, pan-Asianists also believed that Japan was obligated to assist in the development

⁴ In his book, Mendel writes that this was carried out through the alliance with the United Kingdom (1902), particularly in World War I on the allied side, membership of the "Big Five" in the Peace Settlement of Versailles, participation in the founding of the League of Nations, and later through association with the Axis Powers in the 1930s and 1940s.

⁵ Wolf Mendl (1995), *Japan's Asia policy*. London: Routledge, pp. 37–38.

of its poorer and less fortunate neighbors, and protect Asian cultural ideas against colonialism.⁶

In spite of the seemingly noble message of Pan-Asianism, many in Asia did not look at the movement as favorably as the Japanese would have desired. The apparent dissonance between the movement's rhetorical fixation with "Asian Brotherhood," on the one hand, and its wanting to liberate their Asian brothers from their colonial masters, on the other, made Japan's neighbors more cautious and wary of the underlying intentions of the pan-Asianists.⁷ Historians say that even the Japanese government remained lukewarm to the ideas espoused by the Pan-Asianists. In fact, Pan-Asianism did not become a part of official Japanese government policy until the 1930s and 1940s, when Japan started to pursue Asia in a more aggressive manner.

Historians further argue that Japan's determined pursuit of gaining a leadership position in Asia in the early 20th century was but Japan's reaction to the unfavorable treatment it had been getting from the Western countries throughout the 1920s. Political analyst Bill Gordon, for instance, cites three particular instances of discriminate practices against the Japanese at that point in history:

- (1) the rejection of Japan's request for a racial equality clause in the Covenant of the League of Nations during the 1919 Paris Peace Conference;
- (2) the imposition of a 5:5:3 battleship ratios on the United States (US), Britain, and Japan—with Japan given the least of the three countries—in the naval treaties of the 1922 Washington Conference; and
- (3) the passage of the Japanese Exclusion Act in 1924, which literally "shut off" Japanese immigration into the United States.⁸

For many historians, it was this type of treatment that made the Japanese seriously consider looking toward the development of the Asian region, with Japan as the leader.

Further bolstered by its continued victories, especially in Manchuria in 1931, Japan began to see itself more and more as the true leader in Asia. The "Asia for Asians" theme, adopted into Japanese foreign policy in 1940, addressed "Asian brotherhood," the liberation of other Asian countries from the Western colonizers, and economic co-prosperity. In the same year, Japanese Prime Minister Yosuke Matsuoka announced plans for the establishment of

⁶ Peter Duus, ed. (1988), *The Cambridge history of Japan Vol. 6: the twentieth century*. Cambridge: Cambridge University Press.

⁷ Lydia N. Yu-Jose (1998), Philippines-Japan relations: the revolutionary years and a century hence. In *Philippine external relations: a centennial vista*, edited by Aileen S.P. Baviera and Lydia N. Yu-Jose. Manila: Foreign Service Institute. p.297.

⁸ Bill Gordon (2000), Greater East Asia co-prosperity sphere [online], <http://wgrodon.web.wesleyan.edu/papers/coprospr.htm> [Accessed on 5 September 2003].

the *Greater East Asia Co-Prosperity Sphere*, an organization made up of Asian countries that would act in accordance with the “Asia for Asians” principle. The organization was to be led, naturally, by Japan.

Historical accounts tell us that the *Greater East Asia Co-Prosperity Sphere* was established to serve mostly economic functions. In essence, it was a way for Japan to have access to the land and natural resources of its neighboring countries, including the Philippines. Bill Gordon explains that by allowing Japan to obtain raw materials from its neighboring countries, namely Indochina [for rubber] and the Dutch East Indies [for oil], the *Greater East Asia Co-Prosperity Sphere* was able to reduce the effects of a US oil and steel embargo on Japan at that time.

But Japan’s political ambitions for the region eventually took precedence as the world would later on witness the local governments established by the Japanese become puppet governments and the *Greater East Asia Co-Prosperity Sphere* turn into a tool for Japanese imperialism.⁹ Japan’s imperial ambitions, however, perished in the aftermath of its defeat in World War II and its subsequent surrender to, and alliance with, the United States by way of the San Francisco Peace Treaty in 1951.

Japanese post-war regional foreign policy interests

It was long believed that as a consequence of its wartime defeat, Japan had had little room for maneuver in the conduct of its foreign policy from the end of World War II to the end of the Cold War. Wolf Mendl (1995) argues, however, that Japan has actually managed to work quietly for its own regional policy—one that is based on its own national interests—toward Asia.¹⁰ In other words, while it is true that much of Japan’s reintegration in East Asia was largely due to Washington’s prodding, Japan had always known what it wanted for itself in the region. Asia, particularly the Southeast, has always been strategically important for Japan.

In the premodern period, much of Japan’s interest in the region lay in trade, piracy, and the freedom of navigation.¹¹ Mendl (1995) traces how the ports of what are now known as the Ryukyu Islands (formerly Luchu) became gateways for sea-based trading among Japanese, Southeast, and Northeast Asian merchants. He also notes the extensive operations of the Japanese pirates who preyed on ships traversing the seas to the south and the west. However, what proves to be Mendl’s most important observation is his point that the Japanese involvement in the Pacific War was essentially driven by its desire to buttress its primary interest of controlling the exploitation of the

⁹ Gordon, *Greater East Asia co-prosperity sphere*.

¹⁰ Mendl, see Introduction to his *Japan’s Asia policy*.

¹¹ Mendl, p.96.

resources in the Southeast Asian region. Mendl (1995) even underscores how the then critics of the Japanese government blamed the Tokugawa regime for its failure to employ a forward policy in Asia amid increasing European presence and influence in the region.¹²

Japan's efforts to rebuild immediately its ties with the Southeast Asians after the war magnified the Japanese appreciation of the region's strategic value. However, the Southeast Asians' lingering animosities for Japan's wartime atrocities made Japan's objective of reintegrating itself into the region too difficult that it had to call upon US diplomatic intervention to make headway.

Clearly, Japan and the rest of the region have benefited from the solid US-Japan alliance over the years. Such alliance has significantly contributed to enabling Japan to regain access back into the region years after the Pacific War. As some of the countries in East Asia behaved negatively against Japanese overtures to resume diplomatic relations, the United States played its part as Japan's guarantor and paved the way for Japan's gradual acceptance in the region.¹³ Scholars recall, for instance, that the Philippines was one of the first to resume trade with Japan in Southeast Asia mainly because of the persistent lobbying of US General Douglas MacArthur in 1947.

Clearly, Japan used the negotiations for reparations, albeit protracted and arduous, as an entry point to Southeast Asia. Japan concluded reparation agreements with Burma now known as Myanmar (1954), the Philippines (1956), Indonesia (1958), and South Viet Nam (1959).¹⁴ Japan also gave cash grants to Laos and Cambodia in 1959 and signed agreements with Malaysia and Singapore in 1967, after the latter two nations declared independence from British colonial rule.¹⁵

Apart from enabling Japan to cultivate ties with its East Asian neighbors, the payment of reparations also laid the groundwork for subsequent aid programs and Japan's economic expansion in the region through investments. The Japanese ODA sustained Japan's presence and willfully increased its clout in the region, as it fast became an "aid superpower." In the 1970s, only 10 developing countries recognized Japan as top aid donor, but the list grew to 30 in 1989 and 55 in 1995.¹⁶ In 1991, Japan's ODA disbursements amounted to over USD 10 billion—roughly three times larger than it was in the early 1980s—making Japan not only the region's but the world's leading aid donor.

¹² Mendl, p.97.

¹³ This indifference was but an expected consequence of Japan's wartime atrocities that resulted in widespread historical animosities against Japan in many parts of East Asia. For many Southeast Asians, Japan's post-World War II gestures were but an attempt to pursue anew an expansionist ambition in the region.

¹⁴ Mendl, pp.97–98.

¹⁵ Ibid.

¹⁶ Ichiro Ozawa (1994), *Blueprint for a new Japan: the rethinking of a nation*. Japan: Kodansha International Ltd., p.138. See also Japan's ODA Summary (1998), Ministry of Foreign Affairs, Japan, p.50.

As regards investments, one should note that the Japanese investments, which were originally designed to extract raw materials for Japan's domestic market in the late 1950s, eventually metamorphosed into an export strategy for Japan in the mid-1980s.¹⁷ Three factors are said to have created a fresh wave of export-oriented investments in Asia: "(1) the deliberate effort by a number of Southeast Asian states to jumpstart their sluggish economies by adopting policies to attract foreign investments and stimulate exports; (2) the equally deliberate effort by some of Japan's most important trading partners, principally the United States, to erect new barriers to Japanese exports;¹⁸ and (3) the Plaza Accord, which triggered a chain reaction that ultimately led to an eruption of Japanese capital."¹⁹

Japan's FDI and ODA, which in many ways translated into provision of capital, technology, infrastructure, and managerial know-how for Southeast Asia, paved the way for Japan's emergence as the lead goose in the so-called "flying geese" development model. Japan took advantage of its rise as a "technology superpower" and the popularity of the "flying geese" development concept to justify its aggressive industrial policy then. Japan found a way to underscore its assumption of a lead role in a synergetic pattern of economic development and regional integration at that point. In addition, Japan also showed to a handful of Southeast Asian countries the way to a state-led economic development—something that attracted widespread international attention to the region, in general, and to Japan, in particular. Japan and the rest of East Asia became the nucleus of economic activity from the mid-1980s to the early 1990s.

Japan's leadership role in the region (mainly by way of ODA and investments), however, was not without criticisms. For instance, many accused the Japanese government of conspiring with Japanese companies in using ODA to serve the latter's business interests abroad. Some regarded Japan's ODA program as a scheme designed to cause the recipients to develop a sense of reliance on Japan by way of tied loans.²⁰ A few others spoke strongly against the lack of transparency in Japan's ODA decisionmaking process. The most tightfisted would label Japan's ODA as "faceless" and a perfect makeup for a "milking cow."

However, these criticisms were manifestations of Japan's diminishing luster and prestige, especially in the aftermath of the Asian financial crisis that

¹⁷ Walter Hatch and Kozo Yamamura (1996), *Asia in Japan's embrace: building a regional production alliance*. Cambridge: Cambridge University Press, p.20.

¹⁸ Hatch and Yamamura (1996) noted that Japanese firms resorted to constructing export platforms in Asia apart from investing heavily in the United States and Europe to circumvent the barriers erected by the United States.

¹⁹ Hatch and Yamamura, pp.20–21.

²⁰ Interview with Prof. Benito Lim on 4 September 2003 at the Ateneo de Manila University.

swept the region in 1997. Efforts on the part of the Japanese government to help resuscitate the region's ailing economy did little to save Japan from whippings that radically eroded its regional image and standing.²¹ To many observers, it is very unlikely for Japan to lead the region out of an economic malaise if it cannot even pull itself out of its own economic slump. What is worse for Japan is that its decline comes at a time when China's economy is growing very rapidly. Even Japanese companies are increasingly turning their attention to China and, therefore, Japan cannot help but express concern over the possibility of losing some of its long-held grounds to China. Hence, the need for Japan to come up with a strategy to safeguard Japanese interests especially in Southeast Asian markets.²²

From strict multilateralism to "dual approach:" Japan's foray into FTAs and EPAs

Another important feature of Japan's postwar foreign policy was its conscious embrace of a generally multilateralist orientation. According to the Japan Economic Foundation, such policy line manifested the Japanese people's desire to see their country reintegrated back into the international community and achieve normalcy as a nation after World War II. However, others see Japan's increasing involvement and participation in various multilateral institutions and frameworks as a strategic approach to cope with the threats and uncertainties in the post-Cold War era.

Consider that politically, Japan has consistently placed its external priorities within the ambit of the United Nations (UN). It stood at the forefront of promoting multilayered regional cooperation frameworks in the Asia-Pacific such as in the ASEAN+1, ASEAN+3, ASEAN Regional Forum (ARF), Asia-Pacific Economic Cooperation (APEC), and the Asia-Europe Meeting (ASEM). Similarly, Japan has also positioned itself well within the WTO and the Organisation for Economic Co-operation and Development (OECD) as far as economic multilateralism is concerned.

Japan's resort to a unilaterally low-risk and low-profile, but multilaterally proactive demeanor worked well, both for Japan's regional and international position. In Southeast Asia, for instance, many felt comfortable about the idea of having Japan play key regional and global roles so long as such Japanese

²¹ At the height of the Asian financial crisis, Tokyo was poised to exercise leadership by proposing the establishment of an Asian Monetary Fund (AMF) to assist regional countries in distress. Tokyo, however, caved in to the objections of the United States, as Washington was concerned that the AMF would undermine the International Monetary Fund (IMF) and the role of the US dollar as the global currency, if a yen bloc were to emerge. Nevertheless, in May 1998, when then Foreign Minister Obuchi Keizo was in Singapore, he promised an unprecedented financial aid package of \$43 billion for East Asia. In October of the same year, then Finance Minister Miyazawa Kiichi unveiled another aid package of \$30 billion.

²² Based on an interview with Prof. Benito Lim.

leadership is pursued within the domain of multilateralism. This was why Japan popularly figured in various multilateral institutions, on the one hand, and lagged behind in terms of unilateral political and economic roles, on the other.

It was in fact against this same milieu that Japan opted to avoid intentionally, as a matter of international trade policy, engaging itself in FTA-like bilateral or multilateral agreements concluded by a small number of countries.²³ It is important to note that Japan had neither joined any regional agreement nor concluded a bilateral FTA with any country until it signed with Singapore an EPA in January 2002.²⁴ Before its EPA with Singapore, Japan had always maintained that FTAs violate the spirit of the General Agreement on Tariffs and Trade (GATT) since it discriminates against nonmembers.²⁵

It was in October 1998, however, when Japan opted to change its exclusively *multilateralist* policy. As if inspired by the positive prospects brought about by the late Prime Minister Keizo Obuchi's successful bilateral summit with then South Korean President Kim Dae Jung, Japan subsequently embarked on a similar bilateral meeting with Singapore's Prime Minister Go Chok Tong and agreed to have their governments explore the possibility of concluding a bilateral FTA. Incidentally, the meeting between Japan's and Singapore's prime ministers took place in December 1999 in Tokyo, shortly after the collapse of the WTO's Ministerial Meeting in Seattle. As a result, many analysts are tempted to interpret Japan's move into regionalism as a manifestation of its lack of confidence on the WTO regime.

The Japanese Embassy in Manila, the Japan External Trade Organization (JETRO), and the Japan Chamber of Commerce, however, have all clarified that Japan's move to regionalism should not be interpreted as an indication of Japan's discontent on the WTO nor should it be taken as a signal of Japan's veering away from multilateralism.²⁶ On the issue of the timing of Japan's and Singapore's mutual decision to study the prospects of bilateral free trade agreement, they clarified that talks of considering regionalism, including free trade agreements, had already been going on in the Japanese government, the business sector, and academic circles even before the bilateral meeting in Tokyo.²⁷

The same Japanese officials also pointed out that contrary to the lingering speculations, Japan has no plans of shelving its multilateralist orientation. They

²³ Ibid.

²⁴ See Japan-Singapore Economic Partnership Agreement (JSEPA).

²⁵ Hatakeyama Noboru (2002), Short history of Japan's movement to FTAs, Japan Economic Foundation's *Journal of Japanese Trade and Industry*. [online] http://www.jef.or.jp/en/jti/200211_007.html [Accessed on 30 August 2003].

²⁶ Interviews with Trade and Commercial Attaché Ken Saito, JETRO Manila Director for Research; Kauru Shiraishi; and Japan Chamber of Commerce Secretary-General Matsuoka.

²⁷ See also *Free trade agreements as constructive regionalism*.

argue that regionalism is actually complementary to multilateralism, noting that regional trading agreements and FTAs, in fact, reinforce the still immature multilateralism. This argument is consistent with the conclusion of the 1995 study of the WTO Secretariat that states: "...To a much greater extent than is often acknowledged, regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open trade."²⁸

Hatakeyama Noburo, chairman and chief operation officer of the Japan Economic Foundation, attributes the change in Japan's policy posture to at least four major developments in the international situation from the early 1990s. These are the

- (1) failure of the ministerial negotiations to reach a conclusion at the GATT Uruguay Round in December 1990;
- (2) launching of the so-called "EC 92" in 1992, apparently to strengthen the then European Community's (EC, now European Union or EU) FTAs;
- (3) formulation of the AFTA in 1992; and
- (4) the creation of the North America Free Trade Area (NAFTA) in 1994.²⁹

With these movements, Japan became increasingly anxious about the possibility of ending up in isolation since as of 1 October 2002, the WTO reported that only five of the top 10 economies in the world were not members of FTAs.³⁰

The WTO is of the observation that the surge in RTAs has continued unabated since the early 1990s, noting at least over 170 RTAs that are currently in force apart from approximately 70 other arrangements in operation but not yet notified to the GATT/WTO.³¹ The WTO forecast further states that the total number of RTAs might increase from 170 to 300 if those reportedly planned or already under negotiation are concluded by the end of 2005.³²

In addition, the Japanese also realized that entering into FTAs might augur well for the country's structural reform agenda. For the Japanese government, it can use its FTA commitments to justify its pursuit of vigorous structural reforms and to pressure relevant domestic sectors to carry out needed reforms at the soonest time possible. The Japanese government is also convinced that

²⁸ World Trade Organization, *Beyond the agreements: regionalism—friends or rivals?* See WTO official website, http://www.wto.org/english/thewto_e/whatis_e/tif_e/bey1_e.htm.

²⁹ *Ibid.*

³⁰ These five economies were Japan, China, Korea, Taiwan, and Hong Kong.

³¹ For regional trade agreements, WTO Regional Trade Agreements Gateway, see WTO's official website, http://www.wto.org/english/thewto_e/whatis_e/tif_e/bey1_e.htm.

³² The phenomenon of free trade areas can be traced to as early as the 1950s when the six-member European Economic Community began. But even with the conclusion of the GATT in 1947, the trend toward regionalism has continued. Analysts say this is largely because the founding members of the multilateral platform for free trade carved out an exception for free trade areas. Note that "Article XXIV of the GATT allows customs union or free trade agreements between members, recognizing the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries which are parties to such agreements.

FTAs can produce results much faster than the WTO since it is easier to forge consensus with a country or two than with at least 144 parties, as in the WTO.

Finally, Japan has actually started feeling the disadvantage of not being a part of an FTA as exemplified by Japan's experience with Mexico relative to the latter's membership in NAFTA. Japan finds it difficult to compete with the United States and Canada for the Mexican market since the North American countries have the enormous advantage of exporting their produce to Mexico free of duties via NAFTA. Similarly, EU companies edge out Japan in the Mexican market since EU and Mexico have bilaterally signed an FTA in July 2000.

However, many believe it was China's move to forge an FTA with the ASEAN, which somehow poured cold water on Japan's reluctant position on FTAs. According to Domingo L. Siazon, Jr., former Secretary of Foreign Affairs and currently Philippine Ambassador to Japan, China's initiatives on FTA with ASEAN and the continuing rapid economic growth of China have started to worry Japan of the possibility of having its leadership role in East Asia eventually challenged.³³ He argues that Japan would not have been as aggressive as it is now in forging FTAs without the new sense of insecurity generated by China's regional advances. Even Japanese observers themselves share this particular view.³⁴

For many Japanese businesspersons, the China-ASEAN FTA came as a wake-up call for Japan, which has long been encouraged by its business circles to consider seriously FTAs. Japan's Federation of Economic Organizations, popularly known as the Keidanren, for instance, has consistently "urged the Japanese government to strengthen its efforts toward a New Round of WTO Negotiations and to consider concrete ways to realize free trade agreements" since July 2000.³⁵

This is clearly why Japan is moving ahead on multiple fronts to explore with its trading partners the possibility of concluding bilateral economic partnerships or FTAs. Apart from the agreement concluded with Singapore, Japan is pursuing earnest negotiations with Thailand, Malaysia, South Korea, Mexico, the Philippines, and the ASEAN member countries. Except for Japan's FTA with Mexico, which concerns more of Japan's competing interests with North American and European countries, the majority of Japan's EPA and FTA prospects are driven by Japan's recognition of the need to safeguard its interests in Asia, which the Japanese could possibly lose to China.

³³ See transcript of the author's interview with Ambassador Domingo L. Siazon, Jr. in Japan. (Transmitted from the Embassy of the Philippines in Tokyo on 8 October 2003.)

³⁴ Hidetaka Saeki admits that when it comes to ASEAN, Japan is more on the defensive side compared to China's position.

³⁵ Keidanren (Japan Federation of Economic Organizations), 2000, *Urgent call for active promotion of free trade agreements—toward a new dimension in trade policy*, 18 July. Courtesy of Mr. Akira Kawaguchi, Manager of the Nippon Keidanren's Asia and Oceania Group, International Economic Affairs Bureau.

Against the backdrop of "China rising; Japan stagnating," Prime Minister Junichiro Koizumi's visit to the Philippines, Thailand, Malaysia, Indonesia, and Singapore in January 2002 came as a clear manifestation of Japan's perception not only of the need to preserve Japan's close ties with the original members of the ASEAN, but also to ensure Japan's leading position in the region. Note that Koizumi's visit took place amid declining Japanese capability to extend ODA to many receiving countries, let alone the mounting pressure from the Japanese agriculture sector against any form of agricultural liberalization.

In the meantime, Hidetaka Saeki, vice president and senior fellow of Japan's RIETI, identifies Japan's potential agreements with Mexico, ASEAN member-countries, and the Republic of Korea as the three most important items in the Japanese Ministry of Economics, Trade and Industry's (METI) FTA and RTA agenda.³⁶ He adds that although Japan is actively pursuing bilateral talks with a number of countries in Southeast Asia, it is in a fully integrated ASEAN-10 where the real Japanese interest is really aimed at.

Japan's own flurry of bilateralism, therefore, is both a response and a reaction. If viewed in the context of the "dual approach," it is a response to WTO's recommendation for economies to complement their multilateral efforts with regional or bilateral approaches. Yet, it could also be perceived as a reaction if seen in the light of Japan's increasing wariness of China's assertive regional positioning. Whatever the case may be, it does not change the fact that Japan has graduated from an "exclusively" multilateralist orientation by way of its "dual approach" policy.

Japan's FTA Strategy

The Economic Affairs Bureau of the Japanese Ministry of Foreign Affairs (MOFA) came up with a summary of Japan's FTA strategy in October 2002. According to the summary, "FTAs offer a means of strengthening partnerships in areas not covered by the WTO and achieving liberalization beyond levels attainable under the WTO."³⁷ For Japan, therefore, FTAs may well provide a constructive way of broadening the scope of Japan's economic ties with other countries in both Asia and elsewhere.³⁸

MOFA has identified specific political and economic advantages in engaging in FTAs. On the political and diplomatic front, Japan perceives that FTAs increase Japan's bargaining power in the WTO negotiations. It also believes

³⁶ Author's interview with Hidetaka Saeki at the METI in Tokyo, Japan on 7 October 2003. Prior to Saeki's secondment to the RIETI, he was deputy director-general of the METI's Trade Policy Bureau. He has had an extensive involvement in negotiations within the ASEAN and APEC frameworks.

³⁷ See Japan's FTA strategy, The Ministry of Foreign Affairs of Japan, October 2002 [online] <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html> [Last accessed on 21 February 2003].

³⁸ Ibid.

that achievements in FTA negotiations may well provide precedents that could help influence and speed up negotiations within the WTO framework. The same FTAs could also open new opportunities for Japan to reassert its position in the region and in other parts of the world. As economic interdependence between and among countries deepens because of FTAs, Japan could seize the opportunity not only to expand its diplomatic influence but also to spread out its various interests.³⁹

In the economic front, Japan banks on FTAs as a possible catalyst for domestic economic reform and a locomotive for greater regional economic activity. Specifically, Japan expects FTAs to perk up not only its own, but also its economic partners' economies as FTAs push for the expansion of import and export markets, the conversion to more efficient industrial structures, and the improvement of the competitive environment.

Japan's position on FTA negotiations is particularly guided by the latter's need to adhere with WTO-established rules and consider the possible impact of any particular FTA on Japan's domestic industries.⁴⁰ Japan takes the view that some difficult decisions will have to be made inevitably and that Japan's position should yield to the long-term prospect of improving Japan's industrial structures and raising the industries' competitiveness. A responsible framework on Japan's FTA strategy, however, lies on Japan's cognizance of the need to pay attention to securing political and economic stability within the larger context of a regional system.

Toward an EPA Between Japan and the Philippines

In our interview with the Keidanren, the Japan-Philippines Chamber of Commerce, JETRO, METI, and the Embassy of Japan in Manila, we asked whether Japan's choice of the Philippines as one of the first countries to negotiate with for a possible EPA after Singapore is indicative of Japan's priorities in Southeast Asia. The interviewees had the common view that the decision was largely based on the enduring positive diplomatic ties between the two countries and the perception that negotiating with the Philippines would be less problematic. According to Ken Saito, Japan sees it fit to negotiate first with countries that have little issues to contend with Japan within a possible FTA or EPA framework. It was in this context, he said, that Japan has opted to deal with the Philippines ahead of the other Southeast Asian countries. Cesar E.A. Virata and Donald Dee of the Philippine business community, Laura del Rosario of the DFA, and Butch Benedictos of the DTI all shared Saito's opinion.

³⁹ Philippine Ambassador to Japan Domingo L. Siazon, Jr. sees Japan's recent shift to FTAs and regionalism as due to its perception that FTAs and regionalism would serve Japan's commercial and security interests in the future.

⁴⁰ See Summary of Japan's FTA strategy, The Ministry of Foreign Affairs of Japan, October 2002.

But are there other reasons that can better satisfy one's search for the motivations behind Japan's pursuit of an EPA with the Philippines? To answer this question, one has to examine the overall bilateral relations between Japan and the Philippines.

The state of Philippines-Japan bilateral relations

Philippine Ambassador to Japan Domingo L. Siazon, Jr. describes the current state of bilateral relations between the Philippines and Japan as excellent.⁴¹ His characterization of the Philippines-Japan relations was based on the following generalizations:⁴²

- (1) Japan is a major ODA donor to the Philippines;
- (2) Japan is the Philippines' second-largest trading partner;
- (3) Japan is the Philippines' second-largest investor and the biggest investor in the Philippines' special economic zones;
- (4) Japan is an important partner of the Philippines in cultural, educational, technical, and other exchanges;
- (5) Japan is a significant single-country source of tourists;
- (6) Japan is increasingly becoming a major destination for overseas Filipino workers (OFWs), hence, a significant source of foreign currency remittances;
- (7) Japan and the Philippines are active partners in the multilateral arena;
- (8) Japan and the Philippines both adhere to a democratic form of government and are committed to the promotion of human rights and free market system;
- (9) The Philippines finds continuing usefulness of the US-Japan Security Alliance for deterrence of security threats in the region;
- (10) Both countries strongly support the international campaign against terrorism; and
- (11) There are no territorial disputes between Japan and the Philippines.

Similarly, the Philippine business sector also rates the Philippines-Japan relations as generally good and Filipino businesspersons all share the common view that Japan still has a very important role to play both regionally and globally. Filipino businesspersons, however, think that much still needs to be done to reflect the fruits of good diplomatic relations between the two

⁴¹ Ambassador Siazon is of the view that the only problems that sometimes impact on relations between the two countries are the difficulties faced by overseas Filipino workers in Japan without valid documentation and the growing number of Filipino children born out of wedlock. Another problem that periodically comes up is the individual claims of some of the comfort women against the Japanese government.

⁴² See also Ronald A. Rodriguez's *The state of RP-Japan relations*, FSI Policy Paper on China, Japan, and the United States, 13 July 2001.

countries in the way they do business or maintain confidence on each other. The same is true in bringing Japan's ODA down to specific sectors of the Philippine economy as many businesspersons continue to believe that the Philippines is not utilizing Japan's ODA effectively. Donald Dee argues, for instance, that Japan's ODA should be used to unlock bottlenecks in the supply chain, spur economic activity, and create jobs if it were to have concrete benefits.

Figure 1. Business sentiment survey in Asia, October 2003

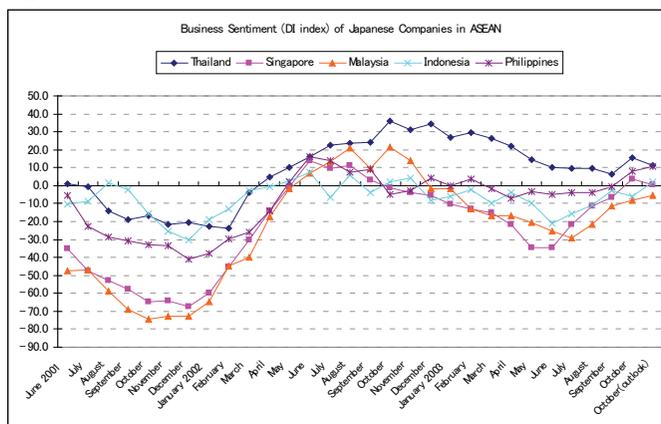


Table 1. General business sentiment

Q1: General business sentiment [at present]				
Ratio (%)	Better	Same	Worse	DI
Thailand	38.1	39.2	22.7	15.4
Singapore	29.4	45.0	25.6	3.8
Malaysia	26.0	39.6	34.3	-8.3
Indonesia	24.2	45.6	30.2	-6.0
Philippines	29.1	50.0	20.9	8.2
Q2: General business sentiment [outlook]				
Ratio (%)	Better	Same	Worse	DI
Thailand	31.8	47.7	20.5	11.3
Singapore	23.9	52.8	23.3	0.6
Malaysia	23.1	48.5	28.4	-5.3
Indonesia	25.5	51.0	23.5	2.0
Philippines	27.8	55.1	17.1	10.7

DI = diffusion index

Source: Data and graph courtesy of JETRO Manila Office

Meanwhile despite Japanese apprehensions over a host of constraints in doing business in the Philippines, many of them remain generally optimistic about the future business outlook of the country. In the October 2003 Business Sentiment Survey in Asia (Figure 1 and Table 1) conducted by JETRO, the Japanese companies' business sentiment has moved into a positive figure for the first time in eight months. This positive rating comes as a surprise amid increasing perceptions of instability in the country at that time.

Why an EPA with the Philippines?

Preparations for the planned conclusion of an EPA between Japan and the Philippines officially kicked off when President Gloria Macapagal-Arroyo proposed the establishment of a working committee for the conclusion of an EPA during the bilateral summit talks when she visited Japan in May 2002. Her initiative was in response to Prime Minister Junichiro Koizumi's proposal to Asian nations that they study the prospects of forging a Closer Economic Partnership made during a session of the Japan-ASEAN summit talks held in Singapore in January 2002.

In November 2002, Japan has privately established the Japan-Philippines Economic Partnership Task Force under the Japan-Philippines Economic Cooperation Committee. The task force is composed of about 20 enterprises that have close relations with the Philippines. The members of the task force brainstormed on Japan's request priorities, which will be submitted to the Philippine side for consideration. The task force identified important issues to discuss with the Philippines such as lowering of tariffs, trade facilitation, liberalization in the field of services and investment, improvement of the business environment, and facilitation of the movement of people.⁴³

In a speech made by Makoto Ebina, chairman of the Japan-Philippines Economic Partnership Task Force, he said that the conclusion of an EPA with the Philippines will not be as difficult as the conclusion of an FTA with Mexico, the Republic of Korea, or Thailand—all currently under consideration by Japan. He noted that the average tariff rate of the Philippines has already been lowered to 6.7 percent, and because the proportion of agricultural produce in the country's total exports to Japan is currently 9.9 percent, a tariff reduction consistent with the WTO requirements may be considered relatively easy.

He noted, however, that difficulties might arise in the future when negotiations proceed beyond FTA items, especially since the Japanese requests are considerably different from those on the Philippine side. Japan strongly requests that the Philippines improve its business environment—specifically

⁴³ Proposals for the Japan-Philippines Economic Partnership Agreement—To the Fifth Meeting of the Working Group, prepared by The Japan-Philippines Economic Cooperation Committee on 4 July 2003.

in the efficiency of customs procedures, speed of return of price-added tax, relaxation of regulations on the entry of foreign capital, abolition of regulations on foreign capital enterprises' acquisition of land, maintenance of security, and the like. Meanwhile, the Philippines strongly requests that Japan ease regulations on the movement of persons such as allowing work permits for nursing staff, long-term care personnel, and household help in Japan. Despite these anticipated difficulties, Japan is poised to pursue with the Philippines the envisioned PJEPA.

For Japan, the greater value of a possible PJEPA rests on the greater objective of forging a closer economic partnership with a single ASEAN market. Its objective is to inject in its bilateral EPA negotiations the need to accelerate the completion of AFTA to provide a core base for new investments. Japan's EPA with a long-time strategic ally like the Philippines is an important piece of the whole strategic puzzle.

Conclusion

Turning painful realities into new opportunities

It is undeniable that Southeast Asia is a critical factor in determining Japan's positions—both in the regional and international scene. We have at least seen in history how Japan had benefited from Southeast Asia as a refuge in trying times. It turned to Southeast Asia when the West increasingly discriminated Japan in the early 1920s; it banked on the Southeast Asian market at a time when Japan's major trading partners, principally the United States, deliberately erected barriers to Japanese exports; and it is turning to Southeast Asia anew now that the WTO framework seems unpromising and at the same time China is increasingly posing a challenge to Japan's regional interests.

Nevertheless, for all the assumptions that Southeast Asia has always been strategically important for Japan, little has been proven about the real depth of the relationship. It is even unfortunate that the Southeast Asian countries have failed miserably in taking advantage of Japan's value for its strategic interests in the region. Little has also prospered in whatever effort was pursued to consolidate Southeast Asia's collective interest and make an external stakeholder, such as Japan has treated the region as an "indispensable" global partner.

Over the years, Southeast Asian countries have been preoccupied with their own interests when it comes to dealing with Japan. For its part, Japan has found greater ease and benefit in dealing with Southeast Asian countries bilaterally than approaching them collectively. In many cases, Japan has successfully played one Southeast Asian country with another to achieve its

own goals—a classic demonstration of how competition benefits whom and how. The same is bound to happen now as individual countries race to conclude bilateral EPAs with Japan if only to gain the upper hand in negotiating their wish lists with their Japanese counterparts.

Meanwhile, it is interesting to note that Japan had long regarded Southeast Asia as an alternative market to the China market. Such posture was in large part a result of Washington's conscious effort to dissuade the Japanese from being overly focused on its giant neighbor in the height of the Cold War. Today's Japanese stance is precipitated by its increasing wariness of the rise of China. Regardless of the US position, Japan is watchful of the prospects of China's emergence becoming a prelude to an intense Sino-Japanese rivalry for regional leadership. This is why some analysts say that the China factor also determines the strategic value of Southeast Asia for Japan.

Ambassador Domingo L. Siazon, Jr. warns, however, against any imprudent attempt of either the ASEAN or the Philippines to play the China card with Japan. It is certainly not to the region's or the Philippines' advantage to antagonize the Japanese considering that Japan is by far still more important to both the ASEAN and the Philippine economies. Siazon advises the Philippines to negotiate with Japan objectively and emphasizes the need for Japan-Philippines solidarity in working for an East Asian Free Trade Area (EAFTA). Moreover, considering that Japan's main interest in the region lies on the completion of the AFTA, the Philippines could increase its leverage with Japan, not by flirting with China but by playing a lead role in the region's pursuit of AFTA.

On the question of whether the Philippines should enter into an EPA with Japan, there seems to be a consensus among Filipino interviewees that there is no other way to go but work for the EPA's realization. From the standpoint of Philippine diplomacy, Filipino diplomats believe that the EPA offers an opportunity for the two countries to deepen their relationship. They are of the view that an EPA with the Philippines will also prove that Japan is serious in its proposal to have a Comprehensive Economic Partnership Agreement (CEPA) with ASEAN and that Japan is working closely with Southeast Asian countries, just like China, in establishing the foundation of an EAFTA. Japan's conclusion of an EPA with the Philippines will also encourage other ASEAN countries to conclude a similar agreement with Japan at the soonest time possible.

The Philippine business sector is equally supportive of the efforts, but businesspersons maintain a more cautious position than those of the Filipino diplomats. Although they are for the EPA between Japan and the Philippines, they also warn that the Philippines should be serious in consolidating its domestic industries and in preparing them for a bigger competition. For the

Filipino businesspersons, what is important is for the Philippine government to come up with a basic framework that is workable, realistic, and promising—something that may even guide the country's position in similar FTAs or EPAs with other countries in the future. They believe that the long-term success of this EPA is contingent upon the ability of the Philippine government to ensure that the liberalization process will not kill our own industries and consequently awaken anti-Japanese sentiments that could ruin the prevailing amicable diplomatic ties between the two countries.

Finally, businesspersons also underscore the importance of knowing the interests behind Japan's pursuit of an EPA with the Philippines. They suggest that it is in knowing who will negotiate for Japan and what interests they have to advance or protect, that the Philippine negotiators could position themselves better vis-à-vis their Japanese counterparts. They also agree with this paper's view that much can be learned from looking back to the history of Japan's dealings with the region and that many of the same historical accounts could, in fact, still have bearing on the analysis of Japan's current behavior.

Corollary to this, the paper notes two significant features that stand out from Japan's foray into regionalism:

- (1) the considerable involvement of the big Japanese business interests in the negotiations; and
- (2) the audible linkage between the Japanese government-initiated reforms for national economic recovery and the direction of the FTAs and EPAs.

These features are reminiscent of Japan's strategy during the period of reparations in the region.

In closing, it is perhaps important to note how our examination of the possible EPA between Japan and the Philippines has led us to some painful realizations. If Southeast Asia were to draw fully Japan's attention, much needs to be done to consolidate the region's strengths and interests. Similarly, if the Philippines were to reap maximum benefit from its harmonious diplomatic relations with Japan, much needs to be done domestically to make the Philippines an object of interest for the Japanese investors and businesspersons. Clearly, we are now faced with the daunting challenge of making regionalism and bilateralism work for the region and the Philippines. Yet, for all the difficulties that we anticipate in the process, one can only expect to benefit from any attempt to transform such painful realities into new opportunities.

"Building a friendship is a process, like building blocks. Sometimes the pieces fall into place, sometimes they chip and fall away. Many have thought it significant that when Jose Rizal visited Japan for the first and last time in 1888, he mentioned in one of his letters: "We shall have much contact and relations with Japan in the future."

-A Friendship of Two Suns,
Philippines-Japan Relations, Philippine Centennial
Publication, Philippine Embassy, Tokyo, 1998

4 Dealing with Japan in the Age of Globalization

Lydia N. Yu Jose

The Philippines and Japan are in the threshold of signing an FTA known as the PJEPA. The Japanese Embassy in the Philippines already describes the two countries as heading “toward a new partnership,” obviously referring to the PJEPA.¹ And with the coming golden anniversary of the restoration of diplomatic relations between the Philippines and Japan in 2006, it would not be surprising if the two countries formally sign the PJEPA in that year to dramatize the event and to celebrate the anniversary.

The Philippines would become the third country to sign a bilateral FTA with Japan, the first one being Singapore in 2002 and the second one being Mexico in 2004. The PJEPA would be recorded in the history of Philippines-Japan relations as the first for the Philippines, the first of the Japanese FTAs with a Southeast Asian country that includes agricultural imports, and Japan’s first-ever that includes entry of nurses and caregivers.

Philippine Priorities

Removing, or at least, reducing tariff barriers to trade is to be expected in a free trade agreement. The Philippines naturally pushes for the easing of restrictions on its exports to Japan, especially agricultural exports. But more than trade liberalization, the Philippines is interested both in the opening of the Japanese labor market to Filipino caregivers, nurses, and information technology experts, and in attracting Japanese investors.

¹ “Philippines-Japan Toward a New Partnership in the Regional and Global Context” is the subtitle of a Symposium on Japanese Studies in the Philippines that the Japanese Embassy held in cooperation with the Japan Foundation Manila and Yuchengco Center on 10–11 March 2005 in Manila.

President Gloria Macapagal Arroyo pointed out on the day of her departure for a visit to Japan in May 2002 that Japan is “host to a large number of overseas Filipinos.”² In Japan, she said to an audience of Japanese industrialists, investors, and traders:

“There is also a human component to investments, and I am proud to inform you that the Philippines is brimming with skilled workers. The number of Japanese firms doing ICT work in the Philippines is a quiet but strong acknowledgement of the abundance of Filipino talent.

We aim to use our advantage in people to propel us into the frontiers of the knowledge society.”³

Back in Manila, the president proudly reported the plan to conclude a free trade agreement with Japan that “will encompass not just trade, [but also] mutual recognition of professions and skills, human resources development, and technology transfers. It will facilitate the access of our IT professionals and our health care professionals in the Japanese market.”⁴

Meanwhile, the current ambassador of the Philippines to Japan, Ambassador Domingo Siazon, admits that the Philippine government is keen at including the sending of Filipino workers to Japan in the FTA because the Philippines “simply does not have the capability to create jobs domestically at the moment.”⁵

And in the face of inadequate investment amidst a growing population, the Philippines has adopted the strategy of capitalizing on what it has in abundance—human resources.

Still along the line of capitalizing on its human resources, the Philippine government is trying to develop tourism-cum-health care.⁶ It has launched a program of attracting investors to develop vacation and retirement villages that offer leisure and sports as well as medical care. Filipino and foreign investors have distributed pamphlets and brochures to Filipino residents abroad as well as to foreign nationals, including Japanese, inviting them to set up residence in these villages upon their retirement. For some, they do not have to live in these retirement villages permanently. The Japanese, for example, may choose to visit only during the winter months in Japan to escape from the cold weather and enjoy the tropical climate of the Philippines.

² GMA Speech [online], 20 May 2002, Ninoy Aquino International Airport Terminal 1, http://www.dfa.gov.ph/archive/speech/gma/wv_japan.htm.

³ GMA Speech [online], 22 May 2002, Keidanren Building, Tokyo, http://www.dfa.gov.ph/archive/speech/gma/wv_japan.htm.

⁴ GMA Speech [online], 24 May 2002, Ninoy Aquino International Airport, Terminal 2, http://www.dfa.gov.ph/archive/speech/gma/wv_japan.htm.

⁵ Interview with Ambassador Domingo Siazon on 15 July 2002 at the Philippine Embassy in Tokyo.

⁶ GMA Speech, 24 May 2002, Ninoy Aquino International Airport, Terminal 2.

Understanding Japan's Foreign Policy

Bilateral free trade agreements that Japan have signed and will sign in the future, as far as Japan is concerned, are only stepping stones toward a more comprehensive free trade agreement with the ASEAN. The free trade agreement with ASEAN, on the other hand, is only a step toward a more institutionalized East Asian community under Japan's leadership. To quote from the Task Force on Foreign Relations for the Prime Minister:

"The highest priority for the Japanese economy is East Asia, which is the growth center for the world economy. Japan should accelerate the integration of East Asia and should take the lead in this area, seeking to become the core country in a community that advances together. Japan should make strategic use of economic partnership agreements in order to achieve this. The goal should be the creation of a borderless East Asian economic sphere. When complete, the integrated East Asian economy will be a partnership that includes Japan, China, South Korea, ASEAN, Taiwan, Hong Kong, and furthermore Australia and New Zealand. Japan should pursue economic partnerships that should also serve to balance China's expanding sphere of influence. At the heart of this will be FTAs, first with the ASEAN where Japan has strong trade and investment ties, and then with South Korea and Taiwan."⁷

Moreover, the Japanese government professes that its ultimate goal is not bilateralism nor regionalism but multilateralism. This is the commitment to a general economic liberalization through the WTO. It hopes that a series of bilateral FTAs would speed up negotiations in the WTO.⁸

In other words, Japan pursues a foreign policy with three layers. At the bottom is a series of bilateral agreements, on top is multilateralism through the WTO, and in the middle is regionalism. East Asia is in the middle. It is here where Japan hopes to exert leadership. In its aspiration for regional leadership, Japan currently faces a challenge from China, with India not far behind.

While economic goals are obvious in Japan's foreign policy, cultural goals are not necessarily neglected. Japan has in fact had a history of exporting its culture, particularly the Japanese language. This was before and during the Second World War. In the decades after World War II, Japan prioritized economic goals over cultural ones. Since the late 1990s, however, the Japanese government has shown vigor again in promoting Japanese culture abroad. In

⁷ Office of the Prime Minister of Japan, Task Force on Foreign Relations for the Prime Minister, Basic strategies for Japan's foreign policy in the 21st century: new era, new vision, new diplomacy [online], http://www.kantei.go.jp/foreign/policy/2002/1128tf_e.html.

⁸ Ministry of Foreign Affairs of Japan, Economic Affairs Bureau, Japan's FTA strategy (summary) [online], <http://www.mofa.go.jp>, October 2002.

the PJEPA, the Philippine desire to send caregivers, nurses, and IT workers to Japan provides an opportunity for Japan to promote the Japanese language in the Philippines.

Just like any state, Japan's foreign policy is part of its response not only to foreign challenges but also to domestic conditions and problems. Domestically, Japan has to address the problems of an aging population and the shortage of nurses to care for the old people. It also has to upgrade its higher education, particularly the ability of the Japanese to speak English. In the area of information technology (IT), Japan has to catch up with the rest of the First World. Structural reforms in the areas of industry and finance are likewise needed to make the Japanese economy stronger and more competitive.

Japan recognizes that FTAs that include liberalization of services and mutual recognition of standards and qualifications may help Japan meet these domestic needs. Japan also realizes that this would mean opening more widely its doors to foreign nurses, foreign students and faculty, foreign IT experts, and foreign investors. The question is what kind of workers would be admitted. And to what extent will Japan relax its traditionally strict immigration policy?

Japan's Priorities

Because of the importance of East Asia to Japan, and because the ASEAN already exists as a tangible regional organization, it would be instructive to look into the 2002 interim report of the Initiative Toward Japan-ASEAN Comprehensive Economic Partnership Discussion Group. The interim report offered several recommendations, a number of which fit Philippine priorities mentioned above.

First, the discussion group recommended the inclusion of agricultural and fishery sectors in FTAs, with proper safeguards "in case of actual damages inflicted by unexpected increase in imports after tariff elimination."⁹ Second, recognizing the shortage of nurses to cope with the needs of an aging population, the group recommended a review of the strict restrictions the government imposes on foreign nurses who want to work in Japan.¹⁰ Third, in order to make Japan more competitive in the area of information technology, it recommended technical cooperation between Japan and ASEAN countries, without forgetting to address "potential problems created by the entry of foreign labor into Japan."¹¹

The subsequent joint report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG) in 2003, however, highlighted different

⁹ Initiative Toward Japan-ASEAN Comprehensive Economic Partnership Discussion Group (2002), Interim Report [online], http://www.kantei.go.jp/foreign/policy/2002/021016asean_ehtml, accessed 16 October.

¹⁰ Initiative Toward Japan-ASEAN Comprehensive Economic Partnership Discussion Group (2002).

¹¹ Initiative Toward Japan-ASEAN Comprehensive Economic Partnership Discussion Group (2002).

priorities. For instance, according to the report, Japan is primarily interested in the reduction of tariffs on Japanese manufactured products, acceleration in customs clearance procedures, prevention of smuggling, more transparent procedures for foreign contractors engaged in public works projects, improvement of services especially in construction projects, and protection of its agricultural products.¹²

Japan's action in the Fifth WTO Conference held in Cancun in September 2003 confirmed these priorities. Japan aggressively campaigned for the full-fledged launching of a set of trading rules concerning cross-border investment, competition, trade facilitation, and government procurements. And it continued to join the ranks of the developed countries which refused to deregulate the subsidies they give to the agricultural sector.

To put Japan's immediate goals in simple terms, therefore, these would be to create a favorable environment for Japanese investment abroad, to promote Japanese trade and make Japanese companies more competitive, and to enable Japanese companies to participate with ease in government procurements.

Information technology, however, has increasingly become important for global competition, and Japan recognizes that in this area, it is behind the rest of the First World. Hence, the METI has prioritized the opening of Japan's labor market to IT workers. Indeed, even before the Philippines and Japan opened the first round of official FTA negotiations, pilot schools giving Japanese language lessons to IT workers had been established through the joint efforts of Japanese and Filipino entrepreneurs. The University of the Philippines Information Technology Training Center (UPITTC), a joint project of the state university and the Japan International Cooperation Agency (JICA), for one, was inaugurated on 3 June 2005. In addition to computer and computer-related courses, the training includes courses on business skills for IT professionals, and Japanese language and culture.

The Prospects of Health Care in PJEPA

Allowing Filipino nurses to work in Japan is not a priority of the Japanese government. Instead of opening the labor market to Filipino nurses, organized Japanese nurses suggested making the profession more attractive by increasing the salary and improving the working conditions of nurses. Nevertheless, Japanese representatives in the FTA negotiations have agreed in principle to accept a limited number of Filipino nurses every year. They have, however, to learn the Japanese language first, train for three years in Japan, and pass

¹² Joint Report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG), 2003 [online], <http://www.aseansec.org>, 20 May.

the Japanese qualifying examinations for nurses. Other requirements and conditions of work and stay in Japan are still to be threshed out. Caregivers, if allowed, would have a different and stricter set of requirements because they have less training than nurses.

Pending official decision to accept nurses and caregivers, a number of Japanese entrepreneurs, some in partnership with Filipinos, have already shown enthusiasm in investing in the business prospects of Nihongo classes and textbooks for caregivers as well as schools for caregivers that include Nihongo training.

The Japanese and Philippine authorities should, however, avoid a situation where the cart would come ahead of the horse. Due to eager private speculators, the presence of Filipino caregivers and nurses in Japan might become a fact even before the two governments are able to conclude an agreement on entry requirements and protection of the Filipino nurses and caregivers.

The other side of health care in the PJEPA is the Philippines' efforts to attract Japanese retirees to stay in the Philippines and senior citizens to visit for leisure and health care. In this endeavor, the Philippines competes with local "silver areas" or "welfare villages" (*fukushi no sato*) in rural Japan. Here, Japanese senior citizens do not have to worry about personal safety, cultural tensions, and language gap. Just like the retirement villages in the Philippines, these Japanese villages offer sophisticated care and health provisions such as visiting nurses and customized welfare facilities to the care migrants (*kaigo ijusha*).¹³

The Philippines, though, has two selling points. One is the excellent reputation Filipino nurses have earned in the United States and Europe for their caring attitude. And two is the fact that service and facilities in the Philippines are cheaper than in Japan. This does not mean, however, that foreigners' anxiety about peace and order in the Philippines can just be set aside. The program of attracting senior citizens to the Philippines should be taken as a challenge to improve the peace and order situation in the country.

Conclusion

Considering Japan's long-range goal of leadership in East Asia which entails winning the good will of the countries in the region, the Philippines is not in a weak bargaining position in the PJEPA negotiations. Preceded by the Japan-Mexico Economic Partnership Agreement that includes agricultural products, Filipino negotiators should strive to bargain for a similar, if not better, arrangement for Philippine agricultural products. More important, since

¹³ John Knight (2003), *Repopulating the village*. In John W. Traphagan and John Knight, eds., *Demographic change and the family in Japan's aging society*. New York: State University of New York Press.

the PJEPA is likely to become Japan's first FTA with a Southeast Asian country that includes agricultural products and the sending of nurses and caregivers, the Filipino negotiators have the moral responsibility of bargaining for the best that can serve as model for the succeeding Japanese FTAs with other Southeast Asian countries.

The Philippines is basically after economic gains, in particular, the alleviation of unemployment. Japan, on the other hand, which also offers economic gains, is concerned about its projection of soft power. It wants to increase the number of foreigners who can speak Japanese; it wants to increase the number of foreigners who understand and appreciate Japan. The PJEPA is thus an opportunity for both Japan and the Philippines to achieve their respective goals.

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5 A Comparative Study of Bilateral Free Trade Agreement and Closer Economic Partnership Arrangements

John Lawrence Avila

Introduction

The growing trend toward preferential trading arrangements, particularly of the bilateral kind, has become a prominent feature of the international trading system. Structural changes in the global economy and the growing interdependence among national economies have induced many countries to establish FTAs. Several countries across the region have concluded bilateral trade deals in the past few years. The recent failure of the WTO meeting in Cancun reinforced this trend. Slow progress in the Doha round of multilateral trade negotiations bolsters the demand for alternative arrangements in order to guarantee access to foreign markets.

The drift in the direction of bilateralism has important consequences for countries involved in such an arrangement and for those who are excluded from it.¹ An FTA between two or more countries fosters greater reciprocal benefits and contributes to economic growth. Parties to an FTA benefit from mutual preferential access that is better than those extended to others. More significantly, lowering trade barriers on merchandise trade can lead to cooperation in other important commercial areas. Market access in services and investment can likewise improve. Exchanges in technology and human resource development are further enhanced. Trade liberalization and facilitation encourages closer economic linkages and leads to deeper integration.

There are concerns about the diversionary effects of preferential trade arrangements. The discriminatory character of free trade areas could potentially harm nonparticipating countries. A bilateral FTA cannot only divert trade but also investment flows away from countries excluded from such a

¹ See Austria and Avila (2001) and Avila (2003). See also Scollay and Gilbert (2001).

deal. The cost of exclusion could be high leading to welfare and efficiency losses for competing countries and for consumers of participating countries. Trade discrimination may bring about higher transaction costs and other opportunity losses.

The calculation of benefit and cost essentially depend on the makeup of a bilateral FTA. The lowering and elimination of tariff barriers are a major part of most bilateral FTAs. The coverage of contemporary agreements now extends beyond the traditional areas of trade policy and typically includes nontariff measures, investment, services, and standards. Investment and services trade liberalization are now common features of many bilateral agreements. Economic and technical cooperation and exchange have also been included. Not a few of the current crop of FTAs have been broadly termed as "closer economic partnerships" or CEPs to reflect the broader scope of collaboration between the participating countries.

This study will undertake a comparative analysis of recently concluded bilateral free trade or closer economic partnership agreements involving Asian countries. The primary aim of this comparative study is to discover a possible template that could serve as a guide for the Philippines as it considers a bilateral FTA.² What framework or model should guide the Philippines' decision to enter into a bilateral FTA? What would be the scope of this bilateral arrangement? What should be the negotiating modalities? This paper intends to fill in this research gap by examining recently concluded preferential pacts. This study will be limited to the following:

- Japan-Singapore Economic Partnership Agreement (JSEPA)
- New Zealand-Singapore Closer Economic Partnership (NZSCEP)
- United States-Singapore Free Trade Agreement (USSFTA)
- Singapore-Australia Free Trade Agreement (SAFTA)
- Korea-Chile Free Trade Agreement (KCFTA)

This sample includes bilateral trade treaties officially entered into by participating countries. Four of these agreements involve Singapore, an economy with relatively low tariff barriers and with no agricultural sector. An FTA with Singapore as a participant, therefore, could have limited significance for larger economies with higher levels of protection. This may limit the comparability of these treaties.

However, the aim of this study is not to evaluate the economic significance of these trade pacts. Rather, the primary objective here is to describe and analyze the structure and institutional aspects of these agreements. The FTAs studied here differ significantly. This paper intends to highlight and compare

² See Avila and Manzano (2002) for a discussion on the considerations for entering into a bilateral free trade area.

the unique characteristics of each of these trade partnerships. This paper draws out the general outlines of these bilateral accords looking into their defined principles, scope of preferences, system of rules, and other regime features. It is hoped that this will help identify certain benchmarks and establish a reference point for other countries seeking to establish preferential trade arrangements.

Guiding Principles

To evaluate these five bilateral agreements, this paper employs some general principles that ideally characterize preferential trade arrangements. First, they are examined against their consistency with WTO, particularly provisions relating to GATT Article XXIV governing free trade areas and customs unions. These agreements are also analyzed for their comprehensiveness defined in terms of the scope and depth of the agreement. It would be significant to determine whether any of these bilateral accords go beyond their commitments under WTO rules. The study will also seek to describe the degree of flexibility defined in terms of coverage of exemptions given to participating countries. Finally, the level of institutionalization—referring to the organizational and implementing aspects of the agreement—will be described here.

Consistency with WTO

By definition, all free trade areas or customs unions violate the principle of nondiscrimination provided in the MFN and National Treatment provisions of the GATT. However, trade rules permit a deviation from this general principle under Article XXIV of GATT and Article V of General Agreement on Trade in Services (GATS). The conditions for the formation of discriminatory trade agreements under GATT Article XXIV call for the reduction of tariffs to zero and the elimination of other restrictive regulations on substantially all trade between the participants. The scheme should also not raise external duties and other regulations against nonparticipating WTO member-countries. It is further provided that the implementation period for the tariff reduction scheme should not exceed 10 years.³

Conditions under Article V of GATS likewise call for substantial sector coverage (in terms of number of sectors, volume of trade affected, and modes of supply with no *a priori* exclusion of any modes); and the elimination of substantially all existing discriminating measures and/or prohibition of new or more discriminatory measures.

Compliance with GATT Article XXIV and GATS Article V guarantees consistency to WTO rules. However, there has been no consensus among WTO members as to how to define the precise meaning of these and other

³ See WTO (2000).

requirements of Article XXIV. The ground rules under these two articles suffer from systemic issues rendering them less effective in imposing discipline in the preferential trade arrangements.⁴ The WTO Committee on Regional Trading Agreements (CRTA) has not been able to perform its task of reviewing and passing decision on the RTAs submitted to it for approval. It is unlikely that there will be consensus on the interpretation of Article XXIV of GATT and Article V of GATS soon. Ways on how to make free trade areas more compatible with multilateral liberalization have yet to be defined.⁵

Comprehensiveness

A free trade area is noteworthy if it broadens the current level of bilateral cooperation and extends beyond its participants' commitments in the WTO. The FTA should be comprehensive in its scope and depth of liberalization. This could be defined in terms of product coverage such as percentage of trade covered and/or sectors included or excluded. In addition, the bilateral agreement should go further than the usual liberalization in goods trade and should make progress into other areas of economic integration. Parties to an FTA should be willing to commit to opening measures over and above their current WTO obligations. Simply, this means that the integration should call for WTO-plus measures.

The term "New Age" has come to characterize modern FTA arrangements. They depart from the traditional focus on tariff reduction in trade in goods. These new FTAs have also included trade facilitation issues such as mutual recognition of standards and sanitary measures and harmonization of customs and licensing procedures. Countries negotiating these CEPs have also included services trade liberalization, intellectual property protection, investment liberalization and facilitation, competition policy, and government procurement. They also contain provisions aimed at deepening economic cooperation in science and technology, human resource development, small and medium enterprises, and electronic commerce. These FTAs complement and extend the goals of the multilateral trading system by hastening the liberalization process and introducing new elements into the trade agenda.

Flexibility

Considering the different development levels of countries that partner in an FTA, flexibility is sometimes featured in the scheme to allow particular countries to adjust their domestic sensitivity to liberalization. Flexibility can refer to the exclusion—whether permanent or temporary—of certain sensitive sectors

⁴ Crawford and Laird (2000).

⁵ Krueger (1999).

such as agriculture or fisheries. Certain industries may also be removed, given constitutional and other legal restrictions on foreign ownership and access. A timetable determining the timing and phasing in of tariff reduction and other market opening measures can also accommodate domestic adjustment concerns.

Institutional features

Finally, it is relevant to examine the extent to which the FTA is institutionalized. This would refer to provisions on trade remedies, safeguards, and dispute avoidance and settlement. It would be relevant to determine whether a system of dispute settlement procedures, including investment disputes, exists. Such a provision will focus on consultations, negotiations, conciliation, and arbitration rather than the application of trade sanctions. This can also refer to the level of harmonization or mutual recognition of customs procedures and product standards.

Usually, a supervisory committee is also established to ensure the proper implementation, conduct reviews, and propose amendments to the agreement. Other functional committees, covering different areas of cooperation, may also be provided. These joint bodies are to serve as channels for bilateral coordination, management, and monitoring of the implementation of the agreement. For the settlement of disputes, arbitral tribunals are to be established to assess and resolve complaints.

Characteristics of Asian FTAs

This study surveys five FTAs or CEPs involving Asian countries. Singapore is party to four of these FTAs. After concluding agreements with Japan, New Zealand, the United States, and Australia, the city-state is still seeking to establish similar treaties with Canada, Chile, South Korea, India, European Free Trade Association (EFTA), and Mexico. Singapore's aggressiveness in pursuing bilateral FTAs stems from its own vulnerability as a small, trade-dependent economy. A bilateral strategy is directed at attracting foreign investors and ensuring access to key markets for Singaporean exports. More significantly, the slow progress toward trade liberalization in the AFTA, particularly after the Asian financial crisis, has compelled Singapore to look outside the region for alternative paths to trade and investment liberalization and facilitation. Moreover, the failure of the Early Voluntary Liberalization scheme stalled the movement toward open trade in the APEC. With the prospect of a deceleration in regional and multilateral liberalization, bilateral FTAs offer Singapore a strategic option as well as an insurance policy.⁶

⁶ For a discussion of Singapore's FTA policy, see Rajan and Sen (2002) and Low (2001).

The government of Singapore pursued an FTA strategy that placed the country at the center or hub of a regional network of bilateral FTAs. The strategy of linking up with countries around the Pacific Rim bolsters the country's position as a hub for the regional operations of transnational firms. The government availed of the first-mover advantage to maximize economic benefits and eventually set itself up as a model for ASEAN liberalization.

Japan signed its first bilateral trade agreement with Singapore in January 2002. Previously, Japanese trade policy was steadfastly supportive of the multilateral framework rejecting the FTA route. As many countries have involved themselves in regional pacts, Japan feared isolation. Tokyo is particularly concerned about conceding its regional position to China, which has moved toward establishing its own FTA with ASEAN. Moreover, Japan has realized the importance of a bilateral trade strategy after the failure to launch a new round of multilateral trade negotiation in Seattle in 1999. Tokyo recognized that FTAs could complement the WTO system as a means of promoting the world trade liberalization.⁷

After 12 rounds of negotiations, Japan and Singapore concluded the JSEPA, which entered into force in November 2002. Singapore was the sixth largest export market for Japanese goods and Japan's 13th largest import source in 1999. Japan is also the second largest investor in Singapore's manufacturing sector. Tokyo chose Singapore for the reason that there are hardly any sensitive areas between these two countries, such as agriculture and forestry and fishery. Singapore was a safe prospect for Japan because the country is already relatively open and posed little threat to its domestic sector.

In November 2000, Singapore and New Zealand concluded a similar agreement. The NZSCEP is part of New Zealand's broader strategic trade and economic interests, which seeks to push forward global trade liberalization. Frustrated with the stalled process at the WTO and APEC, Auckland shared Singapore's concern about trade developments at the regional and global level. A partnership with Singapore, with its comparatively open trade and investment regime, would help accelerate free trade liberalization within APEC and push the WTO forward in global free trade and stimulate interest among other potential partners (such as the United States) to join such an arrangement in a larger FTA.⁸ New Zealand wanted to send a clear signal to international markets of its commitment to global free trade. An agreement with Singapore would represent an overture to other Asian countries of New Zealand's willingness to engage with them.⁹

⁷ For a discussion of Japan's motivations, see Ogita (2003) and Urata (2003).

⁸ In 1998, the Pacific Five or P5 concept of pentagonal free trade area involving Australia, Chile, New Zealand, Singapore, and the United States was proposed. However, the proposal did not prosper beyond discussion stage after getting lukewarm support from Washington, D.C.

⁹ See Hoedley (2003) for an analysis of New Zealand's trade policy regarding FTAs.

After 10 rounds of negotiations, Australia also signed an FTA with Singapore in February 2003. The SAFTA was Australia's first FTA since concluding one with New Zealand. Singapore was Australia's seventh largest trading partner and seventh largest export market in 2002. Australia's objectives for SAFTA were to improve market access for Australian goods and service exporters, and to promote closer economic integration with the East Asian region. Like New Zealand, Canberra pushed its FTA strategy to help stimulate further liberalization in the region and at the multilateral level. Australia chose Singapore given its willingness to pursue bilateral trade liberalization. The most developed country in the Southeast Asian region, Singapore did not have barriers that protect sensitive sectors for trade in goods, which would have made negotiations difficult.

In May 2003, the United States successfully negotiated its first FTA in Asia by concluding an FTA with Singapore. The United States is Singapore's second largest trading and investment partner and its largest foreign direct investor. On the other hand, Singapore is the 11th largest trading partner of the United States. The USSFTA is one of the most far-reaching trade and investment agreements ever concluded by the United States. Washington hopes that the USSFTA will serve as a useful model that would facilitate future bilateral FTAs with other regional economies, particularly from the ASEAN.

The USSFTA forms an integral part of the larger strategy of the United States in opening markets around the world through global, regional, and bilateral trade and investment initiatives. The United States is pursuing a strategy of "competitive liberalization" in which global, regional, and bilateral trade negotiations would complement and reinforce each other. The objective of US trade policy is directed at opening up foreign markets to American traders and investors, support and reward domestic market-oriented reforms, and strengthen strategic partnerships.

However, there are some who view the US approach to bilateral FTA policy as rather passive. According to Feinberg (2003), the United States has been a follower rather than a leader in this area. He observed that the initiative to establish bilateral agreements came from Singapore and not the United States. The United States entered into FTA discussions on an ad hoc basis, generally in response to an insistent external request, not as the considered unfolding of a carefully designed, internally generated strategic plan approved by the cabinet and the president.¹⁰

Three years of negotiations to establish a free trade area between South Korea and Chile was finally completed and signed in February 2003. Chile was already a party to nine other bilateral agreements and partnering with South

¹⁰ See Feinberg (2003) for a discussion of US trade policy.

Korea was a logical step in its overall trade policy. On the other hand, the KCFTA represented a significant change in Seoul's traditional trade policy. Like Japan, South Korea remained one of the few WTO member-countries not taking part in any bilateral or regional FTAs. This shift away from its traditional multilateral approach developed due to the mushrooming regional trade arrangements all over the world. South Korea was worried about the possible trade diversion effects against the country's trade interests. The country's dependence on foreign trade also stressed the need for securing export markets and for an accelerated opening and restructuring of South Korea's economy.

The government of South Korea was particularly interested in forging trade arrangements with Japan and China, which it views as key strategic trade partners. It is exploring the establishment of a free trade region in the East Asian region comprising the three economic powers. Before establishing FTAs with larger trade partners, however, South Korea felt it needed to pursue pacts with smaller partners first to minimize the risk and possible losses and to gain FTA negotiating and operational experience. Seoul chose Chile as its first FTA partner because of Chile's open trade policy. Also, South Korea believed that Chile's accumulated experience in concluding FTAs with other countries would certainly serve as a guide to conducting successful negotiations with other countries. In addition, an FTA with geographically distant Chile is aimed at diversifying its trade relations.¹¹

Trade in goods

These five trade agreements showed a broad coverage of economic cooperation extending beyond tariffs and nontariff measures and included other areas of cooperation such as investment and services. While the traditional approach of preferential tariff elimination in merchandise trade remains a central feature, these FTAs go beyond cross-border goods trade issues and provisions of existing WTO agreements (Table 1). Some of the agreements here are referred to as CEP agreements to describe not only trade liberalization and facilitation but also a broader area of economic and technical cooperation. In one such initiative, there are provisions on labor standards and the environment.

Tariff elimination

The elimination of tariff barriers between bilateral partners entering into an FTA is a central element of all agreements under review. These countries agreed to grant preferential tariff free market access to an extensive range of products, in most cases covering practically the entire range of bilateral merchandise trade. Generally, the concessions made here represent a substantial improvement from the WTO commitments made by the participating countries.

¹¹ See Cheong (2002), Sohn (2001), and Chung (2003) for a discussion on South Korea's FTA policy.

Table 1. Coverage of free trade agreements/closer economic partnerships

	JSEPA	SAFTA	USSFTA	NZSCEP	KCFTA
Tariff and nontariff elimination	●	●	●	●	●
Trade remedies	●	●	●	●	●
Rules of origin	●	●	●	●	●
Customs valuation and administration	●	●	●	●	●
Investment	●	●	●	●	●
Services	●	●	●	●	●
Mutual recognition of standards	●	●	●	●	
Government procurement	●	●	●	●	●
Intellectual property protection	●	●	●	●	●
Competition policy	●	●			●
Dispute settlement	●	●	●	●	●
Electronic commerce/ Information and communication technology	●	●	●		
Science and technology	●				
Human resource development	●	●			
Small and medium enterprises	●				
Tourism development	●				
Labor			●		
Environment			●		

JSEPA – Japan-Singapore Economic Partnership Agreement

SAFTA – Singapore-Australia Free Trade Agreement

USSFTA – United States-Singapore Free Trade Agreement

NZSCEP – New Zealand-Singapore Closer Economic Partnership

KCFTA – Korea-Chile Free Trade Agreement

The JSEPA provides for the elimination of tariffs on goods covering 98.5 percent of current bilateral trade between Japan and Singapore, extending the coverage of zero-tariff concessions beyond the current 65 percent. Under JSEPA, Singapore committed to grant zero-tariff treatment on all imports from Japan after the agreement entered into force, while Japan increased its zero-tariff commitments from the current 34 percent to 77 percent of total tariff lines. SAFTA and NZSCEP, likewise, commit their participant countries to grant immediate duty-free market access to each other's exports. All Australian tariff

lines will be duty free for Singapore products, up from the current 50 percent of duty-free Australian tariff lines. JSEPA, SAFTA, and NZSCEP also eliminated quantitative restrictions. NZSCEP prohibits export subsidies for all goods, including agricultural products.

All US exports to Singapore will enjoy zero tariffs with immediate effect upon entry-into-force of the USSFTA, while the United States agreed to phase out more than 92 percent of its tariff lines immediately and the remaining after eight years. However, the United States also retained tariff rate quotas on beef, dairy products, peanuts, sugar, and cotton, which will be increased and eventually phased out after 10 years, and imposed a condition for textiles and garments imports.

Under the KCFTA, tariffs for 77.5 percent of Chilean exports and 66.7 percent of South Korean exports will face immediate and complete liberalization. The coverage of duty-free goods will be further increased to 88.4 percent of Chilean exports and 83.7 percent of South Korean exports after five years. After seven years, 97 percent of Chilean exports to South Korea will enter the market duty free. South Korean exports such as automobiles, mobile phones, and computers, which accounted for 66 percent of its trade with Chile, particularly benefit from this accord.

However, the agreement between South Korea and Chile allowed for greater liberalization to accommodate each other's domestic interests. KCFTA contains a rather complicated schedule for tariff elimination: Chile maintains five different lists: the first list of products are to be liberalized immediately with the remaining four following a 5, 7, 10, and 13-year phase-out period (Table 2). South Korea had six different lists: the first to be liberalized immediately and the other five following 5, 7, 9, 10, and 16-year timetable (Table 3).

Some of these accords were short of complete liberalization. The JSEPA virtually involved no new tariff liberalization on agricultural products as those included tariff lines already had low rates. Japan only agreed to a 14 percent increase in zero-tariff commitments with regard to agricultural products. Similarly, the tariff adjustment under NZSCEP had very minimal impact as the value of trade between New Zealand and Singapore in protected sectors is relatively low. Given the relatively low trade barriers in Singapore, the USSFTA, JSEPA, SAFTA, and NZSCEP had little significance in the area of tariff elimination.

Tariff liberalization was more significant in the case of the KCFTA. However, South Korea excluded 21 goods from the tariff reduction program, obtaining exemptions for apple, pears, and rice imports to minimize adverse effects on Korean farmers. Exports of grapes from Chile were given 10 years until liberalization. Chile also excluded 54 products from the tariff elimination scheme—sensitive items such as refrigerators, retreated tires, and washing

Table 2. Chile's tariff elimination schedule (10-digit HS code, in percent)

Category	Total	Industrial Products	Farm Products	Forest Products	Marine Products	Main Description
Year 0	2,450 (41.8)	1,478 (30.6)	677 (92.9)	96 (100)	199 (99)	TVs, vehicles, PCs, cellular phones
Year 5	1,994 (34.1)	1,992 (41.3)			2 (1.0)	Polyethylene, vehicle parts
Year 7	14 (0.2)	14 (0.3)				Oil or petrol filters
Year 10	1,190 (20.3)	1,180 (24.4)	10 (1.4)			Electric accumulators, cleaner
Year 13 [*]	152 (2.6)	152 (3.2)				Textiles, clothing
E ^{**}	54 (1)	12 (0.2)	42 (5.7)			Washing machines, refrigerators
Total	5,854	4,828	729	96	201	

^{*} Liberalization over a transitional period of 13 years, with the elimination starting from the sixth year.

^{**} Customs duty applied shall not be eliminated.

Source: Chung (2003)

Table 3. South Korea's tariff elimination schedule (10-digit HS, in percent)

Category	Total	Industrial Products	Farm Products	Forest Products	Marine Products	Main Description
Year 0	9,740 (87.2)	9,101 (99.9)	224 (15.6)	138 (58.2)	277 (69.5)	Mixed feeds, pure-bred breeding animals, silk fabrics, coffee
Year 5	701 (6.3)	-	545 (38.1)	70 (29.5)	86 (21.5)	Bracken, roses, bean curd, wine, almonds
Year 7	41 (0.4)	1 (0.01)	40 (2.8)	-	-	Fruit juice, prepared fruit, meat of poultry or heading, soup, potatoes

Table 3. (continued)

Category	Total	Industrial Products	Farm Products	Forest Products	Marine Products	Main Description
Year 9	1 (0.01)	-	1 (0.07)	-	-	Other fruit juices
Year 10	262 (2.3)	-	197 (13.8)	29 (12.3)	36 (9.0)	Tomatoes, pork, cucumbers, kiwis
10S [*]	1 (0.01)	-	1 (0.07)	-	-	Grapes
Year 16	12 (0.1)	-	12 (0.8)	-	-	Prepared dry milk
TRQ ^{**}	18	-	18	-	-	Beef, chicken, mandarins
DDA ^{***}	(0.15)		(1.26)			
DDA	373 (3.3)	-	373 (26)	-	-	Garlic, onions, red peppers, dairy products
E ^{****}	21 (0.2)	-	21 (1.5)	-	-	Rice, apples, pears
Total	11,170	9,102	1,432	237	399	

^{*} Liberalization over a transitional period of 10 years on a seasonal basis

^{**} Liberalization with tariff quota

^{***} Tariff elimination schedule shall be negotiated after the end of the Doha Development Agendas of the WTO

^{****} Customs duty applied shall not be eliminated.

Source: Chung (2003)

machines. Some textiles, some steel, and new tires have 13 years with 5 years grace period.

Rules of origin

Given that none of the accords under review are customs unions, ROO that determine whether a given product will enjoy preferences were a prominent feature in these agreements. Conventionally, rules require that substantial transformation and value-added work should take place in the originating country. There are three main methods used to establish if sufficient processing or substantial transformation has been undertaken: (i) change of tariff classification, (ii) value added, and (iii) specific manufacturing process.¹² Strict documentation in the form of certificates of origin is also demanded for bilaterally traded goods.

¹² See Brenton (2003).

The FTAs under review had different approaches to ROO. JSEPA, USSFTA, and KCFTA adopted the more technically complicated product-by-product approach to determining origin of products, containing voluminous annexes detailing the rules for each traded product. ROO are negotiated taking into consideration current and future production trends, particularly relevant in the case of Singapore, where most of its production is outsourced and re-exported.

In the case of JSEPA, only exports with 'substantial transformation' and sufficient value added can qualify as a product originating under the agreement. Substantial transformation is deemed to have occurred if there is a change in tariff classification (CTC). Singapore managed to obtain additional flexibility for 264 products, which will qualify for preferential tariff treatment if their Singaporean content is at least 60 percent of the selling price. Other countries producing these products can avail of preferences extended under JSEPA as long as source inputs of up to 60 percent come from either Japan or Singapore.

The USSFTA contained over 240 pages of product-specific ROO. Only exports with substantial transformation and value-added work, including research and development (R&D), design, engineering, and purchasing done in Singapore can qualify as originating products. For textiles and apparel, the United States applies the 'yarn forward rule of origin,' whereby products only made from US- or Singapore-originating yarn will be eligible for immediate tariff elimination. The United States, however, commits to introduce more liberal ROOs for textiles once further liberalization on ROOs is achieved in the WTO.

A distinguishing feature of the USSFTA is the Integrated Sourcing Initiative (ISI). The ISI covers components from nonsensitive sectors already traded freely by both the United States and Singapore, including about 100 IT products and certain medical devices. Under ISI, some IT components are conferred Singapore origin, regardless of where they are made. Nonparticipating countries will have the opportunity to benefit from the initiative.

Chile and South Korea broadly defined the scope of the country of origin to provide preferential tariff treatment to a wide range of exported items. However, strict requirements on agricultural products' country of origin were set to prevent imports via a third country. The KCFTA defines processing requirements that must be conducted by the exporting country to benefit from tariff elimination under the FTA.

SAFTA and NZSCEP adopted the threshold approach, taking into account ease of implementation. Compared to the product-by-product approach, the threshold approach is more simple and flexible. For SAFTA, all products need only fulfill a general rule of a specified threshold of local value content of 50

percent. For a limited number of electronic and electrical goods, the threshold was set at 30 percent. NZSCEP stipulates an area-content threshold of 40 percent to qualify for duty-free entry. This means that two-fifths of a product's value, or post-testing cost, must have been added in New Zealand and/or Singapore. Profit and general costs of doing business are not included in area content. The last process of manufacture must occur in the exporting country—either New Zealand or Singapore—and the process must be substantial.

Trade remedies

Both the NZSCEP and SAFTA agreed not to apply safeguard measures against each other. Safeguard measures are temporary measures designed to lessen import competition and allow domestic industries some room for adjustment. Such a measure take the form of the suspension of tariff reduction and an increase in the rate of customs duty on the good to a level not exceeding the MFN applied rate.

On the other hand, the JSEPA and USSFTA provide for the application of safeguard measures in cases of serious injury to domestic industry and balance-of-payments purposes. The KCFTA contains special reference to emergency measures for agricultural goods. South Korea and Chile agreed that should severe injury or market disruption occurs because of a surge in imports of agricultural products, the parties could impose measures necessary to address the injury by stopping the FTA tariff reduction or increasing tariffs up to the MFN rate.

The KCFTA, SAFTA, and NZSCEP also contain chapters on antidumping and countervailing duties, retaining rights and obligations under WTO agreements. The NZSCEP moved beyond WTO antidumping provisions by raising the threshold at which the level of dumping is seen as *de minimis* and reducing the period for review and/or termination of antidumping duties. New Zealand and Singapore agreed to bring greater discipline to antidumping investigations and to minimize the opportunities to use antidumping in an arbitrary or protectionist manner.

Standards and conformance

Trade facilitation addressed itself to mutual recognition or harmonization of product standards and sanitary and phytosanitary standards. The JSEPA contains an agreement on conformity assessment providing for the mutual recognition of test results and certification by recognized conformity assessment bodies in both countries, particularly for electrical and electronic products, and telecommunications equipment. Avoiding duplication of testing and certification of products reduces potential time lags and cost burdens. Both

countries have also agreed to consider a future mutual recognition agreement on pharmaceuticals. The agreement provides for stringent monitoring and verification procedures by designated authorities to ensure the integrity of the decisions of conformity assessment agencies.

The USSFTA took a step toward eliminating standards, technical regulations, and procedures in trade in telecommunication products and services. The United States and Singapore also agreed to information exchange and joint development of standards and conformity assessments to facilitate compliance.

SAFTA builds on the 2001 Mutual Recognition Agreement on Conformity Assessment between Australia and Singapore. The agreement provides for mutual recognition of test reports and/or certificates issued by the exporting country to testify that they meet with the mandatory requirements of the importing country. This means that products would be already tailored for the destination market upon their arrival there, and removes the need for duplicative testing and/or certification in the importing country before the product can be sold. Australia and Singapore have agreed to develop arrangements for the acceptance of the equivalence of mandatory requirements for specified industry sectors.

Unlike the JSEPA and USSFTA, SAFTA extends the coverage to SPS measures. SAFTA seeks to harmonize all mandatory requirements in all technical measures and SPS measures set out in each other's laws, regulations, and administrative requirements. Negotiations are proceeding in the area of food standards and horticultural products. NZSCEP also seeks to abide by the principles of mutual recognition, unilateral recognition, or harmonization of product standards and sanitary and phytosanitary standards. A mutual recognition conformity assessment agreement, covering electrical and electronic equipment, came into effect with the NZSCEP. Singapore and New Zealand also promise to expand mutual recognition to include telecommunications equipment, pharmaceuticals, chemicals, and food. South Korea and Chile merely reaffirmed WTO's principles on product standards and SPS measures. However, both parties will observe the equivalence of SPS measures.

Customs procedures and administration

With the elimination of tariffs, there is still a need to have good customs procedures to ensure the free movement of goods. Without good customs procedures, it would increase compliance costs and diminish the benefits that are accrued to the tariff elimination. All five FTA/CEP agreements surveyed commit to improve and simplify customs clearance of goods, cooperate through exchange of information, improve transparency, and use communications

technology and modern risk management tools for cargo clearance processes. The main thrust, however, stresses cooperation rather than harmonization.

Trade in services

Contemporary FTAs include a section on services, improving on the traditional orientation on trade in goods. The objective is to build on their GATS commitments and improve preferential market access and national treatment to service providers. All the FTAs surveyed include a section on services (Table 4). The KCFTA, USSFTA, and SAFTA adopted the negative-list approach to its commitments in bilateral services trade with all sectors considered *a priori* liberalized provided an exception was expressly reserved. The KCFTA guarantees mutual market access and right of establishment waiving the requirement of a local presence.

Under the USSFTA, all suppliers are assured of fair and nondiscriminatory treatment and market access covering cross-border services trade, services supplied by an enterprise or a natural person, and overseas consumption of services. Singapore made broad-ranging commitments in the areas of ICT services, express delivery, direct selling, health care, education, and financial services including banking, securities, and insurance. Singapore gave US banks better access to Singapore's retail banking sector, removed quota on qualifying

Table 4. Services commitments

	JSEPA	SAFTA	USSFTA	NZSCEP	KCFTA
Business services	●	●	●	●	●
Professional services	●	●	●	●	●
Computer services	●	●	●	●	●
Communication services	●	●	●	●	●
Construction and engineering services	●	●	●	●	●
Distribution services	●	●	●	●	●
Educational services	●	●	●	●	●
Environmental services		●	●	●	●
Financial services	●	●	●	●	●
Health services		●	●	●	●
Tourism and travel services	●	●	●		●
Recreational, cultural, and sporting services	●	●	●	●	●
Transport services		●	●	●	●

full bank and wholesale bank licenses for US banks. Singapore also promised to further deregulate its professional services in the areas of land surveying, architecture, and engineering. Both countries agreed to observe high standards of openness and transparency including consultations with interested parties, advance notice, reasonable comment period, and publication of regulations.

The agreement on telecommunication and e-commerce services was far reaching. Service suppliers from both sides will have access to respective public telecommunication networks, including submarine cable landing stations, with transparent and effective enforcement by telecommunication regulators. Robust competition safeguards will protect against discriminatory and anticompetitive behavior by incumbent suppliers in areas such as interconnection, collocation, access to rights-of-way, and resale. Both sides also agreed to work toward the implementation of a comprehensive arrangement for mutual recognition of conformity assessment for telecommunication equipment. Both sides commit to the nondiscriminatory treatment of digital products and the permanent duty-free status of products delivered electronically.¹³

Singapore and Australia have significantly improved their market access and national treatment commitments and committed to a wide range of services sectors in SAFTA beyond what has been committed at the WTO including professional services; telecommunications; financial services; transportation services; tourism; distribution services; environmental services; and recreational, cultural, and sporting services. Singapore is extending full market access and national treatment to Australian service providers for university, adult, and vocational and technical education; construction; sporting services; computer and related services; and auxiliary transport services.

NZSCEP and JSEPA adopted the positive-list approach. New Zealand extends no limitations on national treatment and market access for modes 1–3 for courier services, telecommunications, motion picture projection services, construction and related engineering services, distribution, retail, franchising, and environmental services. It also included dental services; computer services; equipment repair services; ICT services; market research services; management consulting services; financial services; manufacturing services; land surveying services; printing services; courier services; environmental services; and maritime, air, and auxiliary transport services. Singapore has in turn committed to liberalize its architecture, financial, and engineering services, and will continue to maintain its open regime in sectors such as nursing services, R&D services, rental services, management consulting services, courier services, telecommunications services, certain health services, distribution services, and university and technical education services. Both New Zealand and Singapore

¹³ See Low (2003).

have also agreed to review regularly their commitments and to expand them progressively.

JSEPA liberalizes trade in services by expanding commitments significantly beyond what both countries committed in the WTO. On sectors covered, Japan expanded its commitments from 103 to 135 services sectors (or 86%) out of a total of 157 sectors. Singapore expanded its commitments to 139 sectors (or 88.5%) from the 61 listed in its WTO commitments. The JSEPA also contains separate chapters on financial services, telecommunications, broadcast services, and tourism services. Japan and Singapore agreed to promote cooperation in the financial sector and capital market development and strengthen financial sector linkages between the two countries.

Exclusions

While aiming for preferential liberalization of services trade, participant countries also sought to exclude certain sectors from the agreement or apply conditions to market access and national treatment. The negative-list approach adopted in KCFTA, USSFTA, and SAFTA produced a list of services sectors exempted from the agreement. For the KCFTA, the provision on services liberalization does not apply to cross-border trade in financial services, air transport services, and services provided in the exercise of governmental authority.

Under the USSFTA, Singapore excluded air and maritime services, broadcasting, social security services, financial institutions extending Singapore dollar credit facilities, public schools, and operation of government hospitals. On the other hand, the United States excluded air and maritime services, patent agencies and customs brokers licensing, broadcasting, mining, registering securities, social services, and atomic energy. The United States also sought strong safeguards to protect against discriminatory and anticompetitive behavior by incumbent suppliers of telecommunication services. For SAFTA, Australia maintains reservations on telecommunications, medicine, postal services, and supply of therapeutic goods. Singapore maintains reservations in architecture, financial auditing, tax-related activities, royalty collecting, land surveying, mailing services, and several restrictions on wholesale banking services.

Singapore excluded telecommunications, air transport, maritime, archive services, and financial services from the NZSCEP. New Zealand placed some limitations to national treatment and market access obligations for transport, including air transport, recreational, and tourism service commitments.

Movement of persons

Most reservations were made for Mode 4 or on movement of natural persons. JSEPA contains a separate chapter on movement of natural persons, which includes (a) business visitors, such as salespersons, will be permitted to enter and operate in Japan for a period of 90 days; (b) intracorporate transferees will be permitted to stay and work in Japan for as long as they are required by their companies; (c) investors will be permitted to stay in Japan to establish and maintain their investments; and d) engineers can enter to service their contracts with companies in Japan. Both countries have also agreed to work toward the mutual recognition of professional qualifications.

Likewise, the KCFTA allows the temporary entry of businesspersons without requiring them to obtain an employment authorization. It also encourages relevant bodies to develop mutually acceptable standards for licensing and certification of professional service providers. The NZSCEP makes it easier for New Zealand nationals to supply service on a temporary basis in Singapore. New Zealand further liberalized its regime for intracorporate transferees, doing away with the residency requirement for some professions and occupations.

The USSFTA improved market access opportunities in the area of professional services. Both sides will engage consultations to develop mutually acceptable standards and criteria for licensing and certification of professional service providers, especially for architects and engineers. Under the agreement, Singapore citizens will be allowed to enter the United States for up to 90 days without labor market test except for professional services requiring government certification or licenses. Singapore, in turn, has agreed to recognize degrees from four US law schools for admission to the Singaporean bar. It also reduced board of director requirements for architectural and engineering firms and phased out capital ownership requirements for land surveying services.

The SAFTA contains a separate chapter covering the movement of businesspersons. The chapter will facilitate the movement of businesspersons directly involved in cross-border trade and investments. In addition, both countries have committed that neither country shall require labor market testing, labor certification tests, or other similar procedures as a condition for temporary entry of businesspersons. SAFTA will also seek to promote mutual recognition agreements of professional qualifications such as in architecture, engineering, law, and medicine.

This chapter is to enhance such trade and investment flows by facilitating easier temporary entry to Australia for Singapore citizens and permanent residents on business through expeditious and streamlined immigration clearance. Intracorporate transferees (i.e., managers, executives, and specialists within organizations) will be permitted to stay and work in Australia for a

committed period of up to 14 years. On the other hand, Australians will now be granted longer periods of stay in Singapore, from previously one month to three months, to facilitate business transactions. Long-term business residents working for Australian companies in Singapore will be granted an initial period of two years. This can be extended on application for periods of up to three years at a time, for a total term not exceeding 14 years. Spouses of long-term business residents in Singapore will now have the right to work in managerial, specialist, and professional occupations and in office administration. In professional services, residency requirements for Australian professionals such as architects, engineers, accountants, and auditors have been abolished or eased by Singapore.

Investment cooperation

Services supplied by an investor or Mode 3 of services trade, together with investments in the manufacturing sector, falls under the chapter on investment in all treaties under review. The general aim is to increase access to each other's markets fostering open environment for cross-border investment, minimize restrictions, and strengthen protection of investment. MFN and national treatment applies to all stages of investment, from pre-establishment to post-establishment phase. For some, this section also contains comprehensive provisions on investment promotion and protection. In addition, an investor dispute resolution mechanism has also been put in place to protect each other's investors.

South Korea and Chile agreed to extend national and MFN treatment to each other's investments. The scope of the KCFTA includes all kinds of investment, direct and indirect. Nationality requirements for senior management in new investment have been removed. Investment protection for financial institutions such as banks, insurance companies, and savings and finance companies are to be given four years after the establishment of the KCFTA.

Under the JSEPA, the chapter on investment strengthens the protection of investments and provides access to each other's markets. Investors from both countries will enjoy the liberal investment regimes covering pre-investment to post-investment stage. The disciplines provided for under this chapter are comprehensive and include the traditional disciplines of investment agreements like national treatment, expropriation, and compensation. Neither party shall expropriate or nationalize investments in its territory, or take "any measure equivalent to expropriation or nationalization" of investments made by investors of the other party, except for public purpose, on a nondiscriminatory basis and upon the payment of compensation. Neither party is to impose or enforce performance requirements as a condition for the establishment,

expansion management, or operation of investments in its territory of an investor of the other party.

The JSEPA also takes a negative-list approach to investment cooperation, making the agreement comprehensive in terms of scope of coverage and depth of disciplines. However, Singapore and Japan listed some reservations limiting the application of the accord on certain industries. Both countries listed a total of 21 reservations (12 for Japan, covering some 20 industries and 9 for Singapore). The JSEPA investment chapter does not apply to government procurement. Each country shall accord the other equal access to the courts of justice—both in pursuit of and in defense of investor rights. An investor state dispute resolution mechanism was established to protect Japanese and Singaporean investors. Temporary safeguard measures are to be applied in the case of serious balance of payments difficulties.

The JSEPA also contains provisions on investment promotion and protection. Japan and Singapore agreed to organize jointly industry-specific missions and seminars for high-growth and other industries, including the ICT, electronics, and logistics sectors. Both countries will also jointly organize study missions to research and gather data on trade and investment environments, and to assess business opportunities in third countries for Japanese and Singapore businesspersons and enterprises.

The SAFTA chapter on investments covers both investments in the manufacturing and service sectors. Its main objective is to improve the investment environment for Australian and Singaporean investors. Ranging from the pre-establishment to post-establishment stage, concessions are premised on the more liberalizing and transparent negative-list approach. Investors are protected against expropriation or 'measures having effect equivalent to nationalization or expropriation' and will be entitled to compensation should expropriation or other loss occur. There is an investor-state disputes settlement mechanism, whereby an investor of one party can seek disputes settlement concerning an alleged breach of an obligation of the party, which causes loss or damage to the investor or its investment. Transfers and remittances shall be freely allowed, however, a balance of payments safeguard article is included.

Interestingly, this privilege is extended to nonnationals who are permanent residents and enterprises under the JSEPA and SAFTA. Foreign investors can benefit from JSEPA and SAFTA as preferences are not limited to only nationals of Singapore or to companies owned by Singaporeans but include permanent residents and enterprises with substantive business operations in Singapore.

Parties to the USSFTA and NZSCEP agreed to extend to the other the better of MFN status or national treatment to each other's investors. Both

agreements allow both parties to repatriate freely all investments and proceeds from investments. The accords do away with unfair performance-related requirements. The USSFTA allows US companies the right to own equity stakes in Singaporean entities that may be created through the privatization of government-owned services. The NZSCEP and USSFTA promised to submit any legal disputes for arbitration or conciliation by the International Center for Settlement of Investment Disputes.

Economic and technical cooperation

The term "New Age" has come to characterize contemporary FTA arrangements spreading throughout the Asian region. The five agreements covered in this study all depart from the conventional focus of free trade areas and has come to include areas aimed at expanded economic and technical cooperation (Table 5). They contain chapters on competition policy, science and technology, human resource development, small and medium enterprises, electronic commerce, tourism development, and broadcast development. In the case of the USSFTA, provisions on labor and environment were included.

Government procurement

The JSEPA opens market access to government procurement, lowering the threshold values above which government procurement would be subject to the World Trade Organization-Government Procurement Agreement (WTO-GPA) discipline. The threshold for goods and services (except construction

Table 5. Other areas of cooperation

	JSEPA	SAFTA	USSFTA	NZSCEP	KCFTA
Competition policy	●	●	●	●	●
Government procurement	●	●	●	●	●
Intellectual property protection	●	●	●	●	●
Science and technology	●				
Human resource development	●	●			
Trade and investment promotion	●				
Small and medium enterprises	●				
Broadcast development	●				
Tourism development	●				
Environmental issues			●		
Labor standards			●		
Electronic commerce		●	●	●	

services) was reduced to Special Drawing Rights (SDR) 100,000, representing a SDR 30,000 reduction for both countries. This gives greater opportunities to Singapore's companies and businesses that would like to participate in Japanese government procurement contracts. Both countries also agreed to cooperate in the exchange of information on government procurement.

The SAFTA is aimed at expanding the scope for the promotion of trade between Australia and Singapore through government procurement. Under the agreement, suppliers from both parties will be treated equally as any locally established supplier. Australian suppliers of goods and services are guaranteed nondiscriminatory national treatment in tendering for procurement business with 47 Singapore ministries, agencies, and statutory authorities. Both countries also agreed to cooperate to ensure that policies and procedures that are adopted will facilitate access to government procurement opportunities by suppliers via electronic means, or e-procurement.

South Korea and Chile agreed to open each other's government procurement markets on a reciprocal basis. The KCFTA gives exporters and producers of each party nondiscriminatory access to opportunities to tender for public procurement contracts. The threshold for services and supplies is SDR 50,000 and SDR 5,000,000 for construction services.

The NZSCEP establishes a single government procurement market and prohibits 'offsets' or measures used to encourage local development or improve balance of payment accounts by requiring domestic content. Suppliers from New Zealand and Singapore will be given equal and nondiscriminatory access to government tenders valued at above SDR 50,000. Procurement will be conducted based on the principles of transparency, value for money, fair dealing, accountability, due process, nondiscrimination, and open and effective competition.

The USSFTA builds on WTO's GPA to ensure transparency, nondiscrimination, predictability, and accountability. It provides reciprocal, competitive government procurement opportunities for both parties. The monetary thresholds for government procurement disciplines have been lowered to USD 56,190 for goods and nonconstruction services, and to USD 6,481,000 for construction contracts, and are adjusted biennially for inflation.

Intellectual property protection

These FTAs also sought to broaden cooperation in intellectual property (IP) protection. The scope of cooperation under the JSEPA includes patents, trade secrets, and related rights and foreign patent laws; IP brokerage or licensing, management, registration, and exploitation; patent mapping; trademarks, unfair competition, and related rights; copyright, designs, and related rights,

particularly in the area of protection in the digital environment and the development of e-commerce; intellectual property databases; technology and market intelligence; and IP public education and awareness programs.

Strong commitments to enhance intellectual protection standards were particularly expressed under the USSFTA. The agreement calls for the extension of the term of protection for copyrighted works, performances, and phonograms. Additional copyright protection standards relevant to the digital environment, such as anticircumvention provisions and secondary liability for internet service providers, are also provided. The agreement also calls for stronger protection for bio-inventions, strengthening of patent protection especially for pharmaceuticals, and stronger protection for well-known marks. The USSFTA calls for the registration of all trademarks, including sound marks. The agreement also emphasizes robust enforcement obligations, such as creating an additional avenue for right owners to opt for statutory damages, and criminalizing corporations that use pirated software.

Australia and Singapore agreed to cooperate on eliminating trade in goods infringing intellectual property rights, including by exchanging information; and agreed to take measures to prevent the export of goods that infringe copyright or trademarks. Australia and Singapore have also agreed to affirm elements of protection to account for the changing nature of media and communication, such as digitization of content and internet communication. Both countries committed to accede to the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty beginning 2005. The WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT) address copyright protection issues raised by the digital revolution by enacting clear and appropriate legal provisions, which are not found in the existing international agreements and conventions on copyright. Australia and Singapore have also committed to adopt a common standard of protection to protect industrial designs by ensuring compliance with the provisions of the 1999 Geneva Act of the Hague Agreement Concerning the International Registration of industrial designs.

The KCFTA provides adequate and effective protection and enforcement of intellectual property rights, including well-known trademarks. South Korea and Chile agreed to protect the geographical indications on products such as Korean ginseng, Korean kimchi, and Boseong tea for South Korea; and Pisco and other related products for Chile.

Competition policy

All the agreements under study also sought to improve cooperation to

promote fair competition and to ensure that anticompetitive business practices are proscribed. Despite the absence of a national competition law in Singapore, the country promised to take necessary action within available resources to control anticompetitive practices under the JSEPA (with respect to the telecommunications and energy sectors) and SAFTA. In its agreement with Australia, Singapore committed to take reasonable measures to ensure that it does not provide any competitive advantage to any government-owned enterprises.

The provision on competition policy only calls for cooperation but does not provide for harmonization of domestic laws and policies. Both parties will maintain their respective competition policy and laws while agreeing to cooperate through information exchange, technical assistance, and others. None had recourse to common dispute settlement in this area.

Other areas of cooperation

The JSEPA is the most wide-ranging of all the FTA agreements under study. It establishes a formal S&T cooperation framework to foster collaboration in research and development in areas of advanced technologies relevant to the development of current and future industries in Japan and Singapore. The JSEPA also includes joint cooperation in human resource development and programs to provide technical assistance to benefit third parties, particularly from developing countries within the region. In addition, Japan and Singapore agreed to work together to promote cooperation between and among small and medium enterprises from both countries.

In the area of e-commerce, Singapore agreed to cooperate with Australia, New Zealand, and the United States in the field of ICT. The NZSCEP seeks to develop an electronic environment that supports electronic applications in customs administration. Under the SAFTA, both parties agreed not to impose customs duties on electronic transmissions between them. Singapore and Australia agreed to work toward the mutual recognition of electronic signatures, encourage the interoperability of digital certificates by businesses, cooperate to enhance the acceptance of paperless trading, and take measures to protect online personal data. The USSFTA extends MFN/national treatment and permanent duty-free status to electronically delivered products.

The USSFTA is the only agreement in this survey that contains provisions pertaining to environmental and labor standards. Singapore and the United States agreed to cooperate on environmental and labor issues and to ensure that standards are not lowered in pursuit of trade. The agreement also commits each government to strive to ensure it does not waive or derogate from its domestic labor laws in a manner that weakens or reduces

its adherence to internationally recognized labor rights as an encouragement for trade or investment with the other party. In addition, the USSFTA requires each government to strive to ensure it does not waive or derogate from its environmental laws in a manner that weakens or reduces protections under those laws to seek investment or encourage trade with the other country. In addition, the FTA includes provisions that will remove barriers to bilateral trade in environmental products and services, with the potential to reduce costs for purchases of pollution-abatement and other environmental equipment. Moreover, each party may make claims under the agreement's dispute settlement mechanism in cases of disputes involving environmental and labor standards. Enforcement in both cases is enacted through monetary penalties.

Institutional issues

Dispute avoidance and settlement

All the agreements reviewed included a provision on dispute avoidance and settlement. Participant countries have agreed to establish a system of dispute settlement procedures, including investment disputes. The provision focuses on consultations, negotiations, conciliation, and arbitration rather than the application of trade sanctions.

A comprehensive set of dispute settlement procedures is detailed in the JSEPA. Singapore and Japan have negotiated to ensure that if differences arise as to the interpretation or the implementation of rights and obligations under the agreement, a predictable, efficient, and effective framework is in place to resolve the dispute as quickly as possible. Under the NZSCEP, disputes will be subject to consultations and if no satisfactory resolution can be reached, the matter will be referred to the ministers involved.

Dispute settlement mechanism under the USSFTA emphasizes cooperation and consultation rather than traditional trade sanctions. Singapore and Australia agreed to subject disputes to consultations, negotiations, conciliation, and arbitration just like the WTO, thereby enhancing the rule of law in international trade. For investment disputes, the submission of the dispute to such conciliation or arbitration must be made within three years of the investor becoming aware of the breach of the SAFTA investment provisions, to the International Center for Settlement of Investment Disputes, for conciliation or arbitration under the rules of the United Nations Commission on International Trade Law.

Under the KCFTA, the parties agreed to establish effective procedures to resolve disputes promptly. For issues that fall under both the KCFTA and the WTO agreement, parties may select either dispute settlement procedure to

resolve the disputes. The agreement established a Free Trade Committee to discuss the monitoring of the implementation of the agreement, evaluation of the FTA effects, and all other matters related to the management of the agreement.

Supervision

A supervisory committee has also been established to oversee the proper implementation, to conduct reviews, and to propose amendments to the agreement. Other functional committees, covering different areas of cooperation, were also established. These joint bodies are to serve as channels for bilateral coordination, management, and monitoring of the implementation of the agreement. For the settlement of disputes, arbitral tribunals are to be established to assess and resolve a complaint. The JSEPA increases economic cooperation on various functional levels between Singapore and Japanese government agencies. JSEPA established the following committees: (a) joint committee on financial services cooperation, (b) joint committee on MRAs, and (c) joint committee on S&T.

Summary Observations

The five bilateral FTA/CEP agreements surveyed in this paper appear consistent with WTO rules and disciplines. In general, the removal of tariff and nontariff barriers is immediate except for the KCFTA, which contains a phase-in tariff elimination timetable. Many initiatives go beyond cross-border goods trade issues. In fact, they may be characterized as WTO-plus arrangements, particularly in services and investment, and many include new issues such as government procurement, competition policy, and in the case of the USSFTA, even labor and environment standards. Relatively, the JSEPA is much wider in scope although the USSFTA is more detailed and stringent. Parties to these agreements allowed certain flexibilities in the provision of trade remedies, negotiated exemptions, and deferred timeframes for tariff elimination. Institutional issues, such as those referring to monitoring and dispute settlement, were also major features of the agreements.

There is also substantial differentiation among the five agreements. There were different approaches in defining the ROO, raising the prospect of overlapping and conflicting trade rules that could complicate regional transactions. These countries also took separate paths to services liberalization with some opting for the negative-list approach while others choosing the positive-list approach. There were also some variation in the degree of harmonization of national standards and policies.

These five agreements were the result of tedious and often difficult and drawn-out negotiations between the countries involved. The outcomes were the result of bargaining and compromises as each country sought to push its national interests in the agenda. Nevertheless, these agreements present varied and innovative approaches and modalities to bilateral trade liberalization. They can be helpful guides for other countries, particularly in the Asian region, intending to enter into their own FTAs.

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6 Preferential Rules of Origin for the Japan-Philippine Economic Partnership

George Manzano

Introduction

Preferential ROO are an integral part of trade agreements and, to a great extent, determine who gets the benefit from the agreements. ROO deal with the very basic issue of identifying the country of origin of an imported product for purposes of reporting and applying trade policy measures such as tariffs, safeguard action, antidumping duties, and the like. As the practice of international division of labor (or subcontracting) becomes more pervasive, the task of identifying the 'nationality' of a product becomes less straightforward. Hence, there is greater need for specifying clearly the ROO that set out the guidelines and framework for ascertaining the origin of traded goods.

Crafting the rules of origin can be a very tedious and a long drawn-out process. Yet ROO are critical in making PTAs such as free trade areas (FTAs) work. Without ROO, trade deflection—where products from other non-FTA partner countries enter one partner's market and from there gets to penetrate the combined markets of the whole FTA while avoiding customs duties—can occur. Therefore, in combating trade deflection, it requires checking the original source and the final country of destination of all imports.

Preferential ROO are employed to assess the eligibility of imports of partner countries for receiving preferential access. Since the proposed PJEPA core is a free trade area and that both countries do not have long traditions of operating bilateral FTAs, it is important to look into the impact of preferential ROO on market access issues.

Rationale and objectives of the study

The PJEPA's potential of enhancing bilateral market access depends on the extent to which exportable goods meet the conditions spelled out in the ROO. The experiences of existing FTAs indicate that the utilization of preferences tends to be substantially less than full. It has been stated that a substantial proportion of actual exports that are eligible for preferences do not enter duty free but actually pay the MFN tariff (Brenton 2003). Therefore, one of the main objectives of this study is to find out the impact of tariff concessions in the context of total Philippine trade with Japan. What proportion of Philippine exports to Japan still face high tariff barriers? To what extent will the formation of an FTA under the PJEPA enhance market access given the structure of Philippine exports?

Secondly, the paper will look into and gather some indications on the supply capability of Philippine industries given enhanced market access to Japan via the PJEPA. Estimates of what proportion of Philippine exports can theoretically satisfy different levels and specifications of ROO will be attempted. An exercise of simulating the extent of Philippine exports to Japan will be conducted given different benchmarks or hurdle rates on ROO.

Lastly, this study will evaluate whether the existing bilateral template on ROO—the JSEPA—provides an appropriate model for the PJEPA, especially from the Philippine perspective.

In the second section, the nature and principles of the ROO will be discussed. This section will also discuss the different types of ROO, highlighting the advantages and disadvantages of each type; the ROO in existing FTAs and PTAs; and the economics of ROO setting. The paper will distinguish the difference between liberal vs. restrictive and between simple vs. complex ROO. It will also show the cost of compliance and the probability of trade deflection with the ROO procedure.

In the third section, the paper will illustrate ROO issues for the proposed PJEPA by examining how critical is the ROO in the proposed PJEPA given the current trade structure between the Philippines and Japan, how restrictive should the ROO be for the PJEPA, and what is the likely impact if the ROO of JSEPA is adapted for the PJEPA. This section will also illustrate the structure of Philippine exports to Japan and the structure of Japanese exports to the Philippines.

In the fourth section, regional dimensions of ROO for PJEPA will be discussed through the 'Spaghetti Regionalism' concept of FTA.

Lastly, conclusions and recommendations of the study will be presented.

Nature and Principles of Rules of Origin

Types of rules of origin

There are three main justifications for setting preferential ROO. These are *authentication* or to ensure that nonpartners to an agreement do not obtain access to regional preferences; *protection* or to encourage regional activities by requiring high local content; and *other social goals*, such as safety standards, to prevent dumping and unfair competition (Kirk 2002). However, the main reason for having a preferential ROO is *authentication* or oftentimes called *preventing trade deflection*. To carry this out, the ROO should define the methods to ascertain whether products emanating from an exporting country have undergone sufficient or substantial transformation. Without these provisions, it is quite easy for nonpartners to engage in trans-shipment strategies, which tend to undermine the effectiveness of RTAs.

Unfortunately, the very same ROO that prevent trade deflection could likewise be used as a nontariff measure. The more restrictive the ROO, the more difficult it is to satisfy. The implication is that depending on the degree of its restrictiveness, the ROO can constrain market access relative to what is required simply to prevent trade deflection (Brenton 2003). The design of the ROO, that is, the degree of complexity and restrictiveness, is a negotiated outcome. Negotiators from two sides usually go through the ROO specifications tariff line by tariff line, that is, product-specific rule setting although there are agreements that have ROO applied across all products.

Where two or more countries have been involved in the manufacture of a product, the general concept applied in formulating an ROO is that the product claims its origin where the last "substantial transformation" took place (Falvey and Reed 1997). Three methods are generally employed in setting up the ROO. These are as follows:

- *Change of tariff classification (CTC)*. Origin is granted if the exported product falls into a different part of the tariff classification to any imported inputs that are used in its production. The logic is that if an imported input undergoes 'substantial' transformation, it is a 'different' product, hence, necessitating a different product classification.
- *Value added*. Origin is granted, depending on the country's level of value added relative to an agreed benchmark percentage value. This rule specifies that the origin of an exported good is conferred on a country if that country has added a minimum level of value to imported inputs. Put another way, a product is eligible for preferential access to a partner country if the import content does not exceed a certain maximum level.

- *Specific manufacturing process.* This rule defines certain manufacturing or processing operations that a product must undergo in the exporting country to confer origin (positive test) or manufacturing or processing procedures that do not confer origin (negative test). For example, neither disassembling products nor changing the packaging are processes that usually do not qualify as conferring ‘substantial’ transformation.

Since economic analysis of ROO is still limited, no ‘optimum’ method of ROO can perform the role of preventing trade deflection. This reflects a view that ROO have been relatively unimportant and at the same time, it reflects the complexity of the structures required for their analysis (Falvey and Reed 1997). Table 1 highlights the advantages, disadvantages, and key issues associated with the different methods of ROO as reported by Brenton (2003).

Oftentimes, negotiators use different methods for ROO or employ combinations of methods for different products. Such practices often lead to very complex ROO. Table 2 presents the ROO of a number of existing FTAs and PTAs. Note that many agreements, especially involving the European Union and the NAFTA, employ all three methods. The AFTA, in which the Philippines is a member, seems to have the simplest rule—a value-added method and does not call for a product-level classification method.¹

Table 1. Summary of the different approaches to determining origin

Rule	Advantages	Disadvantages	Key Issues
Change of tariff classification (in the Harmonized System)	<ul style="list-style-type: none"> ▪ Consistency with nonpreferential rules of origin. ▪ Once defined, the rule is clear, unambiguous, and easy to learn. ▪ Relatively straightforward to implement. 	<ul style="list-style-type: none"> ▪ Harmonized System not designed for conferring origin. As a result there are often many individual product-specific rules, which can be influenced by domestic industries. ▪ Documentary requirements may be difficult to comply. ▪ Conflict over the classification of goods, which can introduce uncertainty over market access. 	<ul style="list-style-type: none"> ▪ Level of classification at which change required—the higher the level, the more restrictive. ▪ Can be positive (which imported inputs can be used) or negative (defining cases where change of classification will not confer origin) test^a – negative test more restrictive.

¹ AFTA ROO involves a change in tariff classification in the textile sector. However, intraregional trade in this sector is not active.

Table 1. (continued)

Rule	Advantages	Disadvantages	Key Issues
Value added	<ul style="list-style-type: none"> ▪ Clear, simple to specify, and unambiguous. ▪ Allows for general rather than product-specific rules. 	<ul style="list-style-type: none"> ▪ Complex to apply—it requires firms to have sophisticated accounting systems. ▪ Uncertainty due to sensitivity to changes in exchange rates, wages, commodity prices, etc. 	<ul style="list-style-type: none"> ▪ The level of value added required to confer origin. ▪ The valuation method for imported materials—methods that assign a higher value (e.g., CIF) will be more restrictive on the use of imported inputs.
Specific manufacturing process	<ul style="list-style-type: none"> ▪ Once defined, clear and unambiguous. ▪ Provides for certainty if rules can be complied. 	<ul style="list-style-type: none"> ▪ Documentary requirements can be burdensome and difficult to comply. Leads to product-specific rules. ▪ Domestic industries can influence the specification of the rules. 	<ul style="list-style-type: none"> ▪ The formulation of the specific processes required—the more procedures required, the more restrictive. ▪ Should test be negative (processes or inputs that cannot be used) or a positive test (what can be used)—negative test more restrictive.

^a A positive determination of origin typically takes the form of 'change from any other heading,' as opposed to a negative determination of origin, such as 'change from any other heading except for the headings of chapter XX.' It is worth noting that change of tariff classification, particularly with a negative determination of origin, can be specified to have an effect identical to that of a specific manufacturing process.

Source: Brenton (2003)

Table 2. Rules of origin in existing free trade and preferential trade agreements

		Change of Tariff Classification (principal, secondary level)	Value Added Domestic or Import Content	Implied Import Content	Specific Manufacturing Process	Cumulation	Tolerance	Absorption
<i>A. Agreements involving the European Union</i>								
EU	PanEuro	Yes (4,2)	Yes – Import (50%–30%)	50%–30%	Yes	Bilateral Diagonal	Yes 10% ^b	Yes
EU	GSP	Yes (4,2)	Yes – Import (50%–30%)	50%–30%	Yes	Bilateral Diagonal ^a	Yes 10% ^b	Yes
EU	Cotonou	Yes (4,2)	Yes – Import (50%–30%)	50%–30%	Yes	Full	Yes 15% ^b	Yes
EU - Chile		Yes (4,2)	Yes – Import (50%–30%)	50%–36%	Yes	Bilateral	Yes 10%	Yes
EU - Mexico		Yes (4,2)	Yes – Import (50%–30%)	50%–30%	Yes	Bilateral	Yes 10%	Yes
EU - South Africa		Yes (4,2)	Yes – Import (50%–30%)	50%–30%	Yes	Bilateral Diagonal (ACP) Full (SACU)	Yes 15%	Yes
<i>B. Agreements in the Americas and with the United States</i>								
NAFTA		Yes (2,4,6)	Yes – Domestic (60%–50%)	50%–40%	Yes	Bilateral	Yes 7% ^b	Yes ^c
Canada - Chile		Yes	Yes – Domestic (35%–25%)	75%–65%	Yes	Bilateral	Yes 9%	Yes
US-Israel			Yes – Domestic (35%)	65%		Bilateral ^c	Not applicable	Yes

Table 2. (continued)

	Change of Tariff Classification (principal, secondary level)	Value Added		Specific Manufacturing Process	Cumulation	Tolerance	Absorption
		Domestic or Import Content	Implied Import Content				
<i>C. Agreements in Asia-Pacific and with Asian countries</i>							
AFTA		Yes – Import (60%) ^d	60%		Full	Not applicable	
ANZCERTA		Yes – Domestic (50%) ^d	50%		Full	Not applicable	
Singapore - Japan	Yes (4,)	Yes – Domestic (60%)	40%	Yes	Bilateral	Yes	No
Singapore - New Zealand (ANZSCEP)		Yes - Domestic (40%) ^d	60%		Bilateral	Not applicable	
Singapore - US	Yes (2,4,6)	Yes – Domestic (55-35%)	65-45%	Yes	Bilateral	Yes 10% ^b	No

^a Within Andean, ASEAN, CACM, SAARC only and subject to a 50 percent value-added requirement in the country of export.

^b Alternative rules for textiles and clothing products, often in terms of weight rather than value.

^c Up to a maximum of 15 percent of the value of the product.

^d With the additional requirement that the last stage of manufacture be performed in the exporting country.

^e Excluding automotive products.

ACP – African, Caribbean, and Pacific Countries

AFTA – ASEAN Free Trade Area

ANZCERTA – Australia New Zealand Closer Economic Relations Trade Agreement

ANZSCEP – Agreement between New Zealand and Singapore on a Closer Economic Partnership

ASEAN – Association of Southeast Asian Nations

CACM – Central American Common Market

NAFTA – North American Free Trade Area

SAARC – South Asian Association for Regional Cooperation

SACU – Southern Africa Customs Union

Sources: WTO (2002) and individual agreements as cited in Brenton (2003).

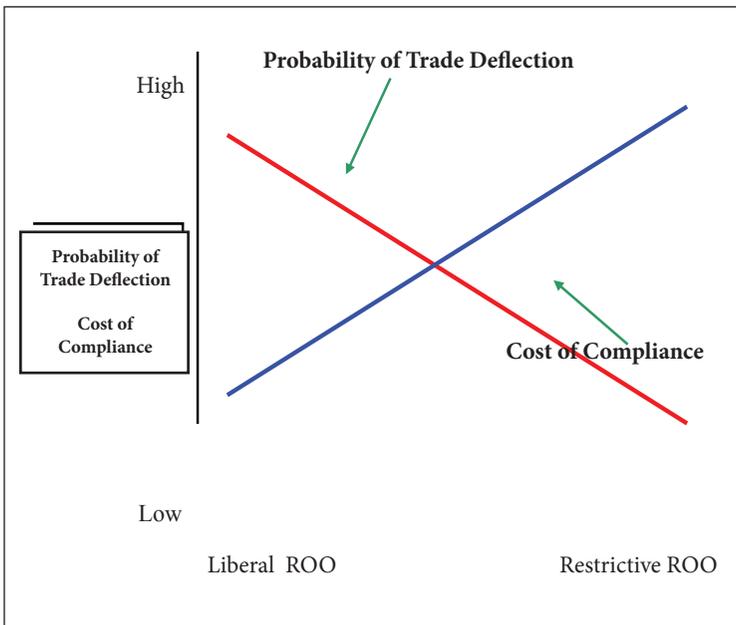
Economics of ROO setting

Liberal vs. restrictive ROO

Crafting the 'right' degree of ROO can be a great balancing act, which can be subject to a great deal of political economic considerations. Too liberal ROO can increase the chances of trade deflection or trans-shipment. As noted earlier, this can undermine the FTAs. Too restrictive ROO, on the other hand, limit the abilities of certain partners, particularly the smaller ones, to avail of the improved market access made possible by preferential schemes. Very restrictive ROO also raise the cost of supplying the markets of preferential partners by requiring changes in production, which lead to the use of higher cost inputs (Brenton 2003).

The restrictiveness of ROO is often cited as a reason for the underutilization of trade preferences. For instance, under the EU's Everything But Arms Agreement, almost all of Cambodia's exports to the European Union are eligible for zero-duty preferences, yet in 2001, only 36 percent of Cambodia's exports to the European Union enjoyed preferences (Brenton 2003). In the EU's Generalized System of Preferences (GSP) arrangement, which grants preferential access to exports of developing countries, only a third of goods that are eligible for GSP actually enter European Union duty free from developing countries.

Figure 1. ROO design: tradeoff between probability of trade deflection and cost of compliance



To explain it further, investment diversion can be the result of too restrictive ROO. For the country to satisfy these rules, it may motivate, or even force, firms to locate their plants producing intermediate goods within certain member-countries of the RTA, even if it is a fact that these may not be the best location from an economic point of view. Furthermore, restrictive preferential ROO act as local content requirements, which force the producer to utilize a certain local input for the product to be considered of home origin and not an import subject to trade penalties. In a way, the outcome of restrictive preferential ROO is comparable to local content as foreign producers substitute local and/or regional inputs for foreign inputs. As a result, there will be consequences in profits, employment, and factor returns requirements for the usual variety of economic and noneconomic reasons, which is not always the first best solution from an economic point of view.

ROO can complicate and worsen the 'hub and spoke' incidence, which is characterized by a large number of contemporary FTAs. In the case of United States, where it has FTAs with Canada and Israel with different ROOs, if additional FTAs are formed by the United States with other countries, and if these FTAs involve separate and different ROOs, the outcome could be complex discriminatory arrangements that have a major distortionary effect on investment allocations (Ghoneim 2003).

Striking the balance is not an easy task because there is no conceivable 'optimum' ROO specification that will prevent trade deflection without unnecessarily prejudicing market access of eligible products from the partner countries. Another reason why ROO may be more strict than warranted is that negotiators tend to use ROO as a protective instrument or a disguised nontariff barrier (NTB). For example, fearing the rush of imports in a certain product category as a result of tariff cuts, negotiators tend to restrict the access by increasing the demands of ROO in those product lines. Because the ROO are oftentimes negotiated in a product-specific or tariff line by tariff line basis, selective 'protection' can be done.

Measuring the degree of restrictiveness of ROO varies with the different methods used or combinations thereof. For the value-added method, the higher the required minimum percentage of the value that must be added in the exporting country or the lower the maximum percentage of imports in the value of the product, the more restrictive the ROO. Rules in cumulation can also affect the restrictiveness of the ROO. In the CTC method, the more tariff lines that is subject to CTC, the more restrictive is the ROO regime. In addition, the change of chapter is more restrictive than the change of heading or subheading. In the method involving specific manufacturing process, the longer the negative list (list of processing procedures that do not confer origin)

or the shorter the positive list (required processing in goods to confer origin), the more restrictive the ROO. In general, the higher the level of working that is required to confer origin, the more restrictive are the rules. In practice, a combination of one or two methodologies is pursued. This can result in more complex rules, since the greater the number of ROO methodologies employed, the more restrictive is the ROO regime.

Simple vs. complex rules origin

Complexity can be a nebulous term for it covers not only the ROO design but also has implications on the implementation of ROO. While there is no standard for measuring 'complexity,' one can come up with a number of guidelines such as the following:

- ROO that are not consistent across products are more complex than those that apply across all products. Thus, product-specific rules such as CTC can be considered more complex compared to value-added methods. The presence of exceptions tends to increase the level of complexity. To illustrate, the Singapore-US FTA has over 240 pages of product-specific rules compared to the AFTA ROO.
- Agreements that combine different methodologies in formulating an ROO are obviously more complex than those that use only one methodology for establishing origin. In this regard, the AFTA, which applies the value-added rule across all products,² is considered a simpler regime than the Singapore-US FTA, which uses a combination of change of tariff heading and value-added methods.
- ROO that vary across agreements are more complex. A country that enters into different ROO for every agreement is likely to incur higher cost in compliance than countries that maintain a similar ROO in all its trade agreements. The 'spaghetti' type of arrangements can arise from the various ROO concluded by a country over a number of trading schemes.

Complex ROO are likely to increase the transaction cost of trade. As Brenton (2003) discussed, the cost affects traders, customs officials, and policymakers alike. Complying with the required degree of processing, obtaining certificates of origin, and delays connected with the procedures increase the cost of traders. Furthermore, a complex ROO puts demands on the record keeping, accounting, and material flow systems of companies to provide the needed documentation. In many cases, exporters in developing countries, particularly SMEs may find these sophisticated systems quite expensive.

² The exception refers to the textile and garments sector where the ROO is of the CTC type.

The more complex the ROO, the greater is the administrative burden for the custom officials. They have to verify the needed documents to prove consistency with the ROO. Considering that resources of customs departments, particularly in developing countries, are quite limited, increasing complexity can strain their capacity.

Brenton (2003) reports that estimates of the additional cost incurred in complying with the documentation requirements to prove origin can be around 3 percent of the value of the export shipment for companies in developed countries. In countries with less developed customs systems, the costs can be higher.

One implication of having very complex ROO is that the higher compliance cost may lessen or even nullify the benefits arising from preferential tariff arrangements. In this sense, the available preferences may be underutilized. This is especially true if the extent of tariff reduction is very little compared to the additional transaction cost of proving origin.

The political economy of setting rules of origin

1. Negotiators use ROO as disguised nontariff barriers. By making ROO too restrictive and complex, negotiators can effectively block market access in products of what they consider as sensitive industries.

2. Negotiators use ROO as a means of stimulating investments. By demanding high levels of local content for products to gain eligibility for trade preferences, they affect the sourcing and investment decisions of companies. According to Ju and Krishna (1998), the presence of ROO will also attract investment flows, while those without ROO result in large trade flows. For example, to gain preferences, exporters would be sourcing supplies from the domestic suppliers even when these inputs have higher cost relative to imports. Therefore, an ROO will, one way or another, distort production because the FTA creates an incentive to have output classified as a member output, and producers will respond accordingly to achieve such aim, thus leading to trade and/or investment diversion (Ghoneim 2003). The relevant question is: Are there better (or less costly) ways of promoting investments other than tweaking the ROO?

3. Negotiations on ROO can oftentimes result in very complex rules. As complexity increases, so does the cost of compliance on the part of exporters. The danger is that the cost increases could offset the extent of tariff preferences.

ROO Issues for the Proposed PJEPA

How critical is an ROO in the PJEPA given the current structure of trade between the Philippines and Japan?

ROO, and by extension, the FTA can be critical if a significant portion of Philippine exports are still subject to very high tariffs in Japan. Note that the value of a trade agreement (in a static sense) in granting enhanced market access depends on initial conditions. Thus, the benefit of the FTA will be greater as

- the higher the general tariff barriers confronting the partners' exports
- the greater the proportion of a partner's exports that are subject to higher tariffs.

Based on the preceding discussion, if a substantial percentage of Philippine exports to Japan already enter the Japanese market at very low tariffs, then ROO issues may not be too critical. This is because even without preferences, Philippine exports can already enter the Japanese market, despite the presence of (albeit low) tariffs. On the other hand, if the bulk of Philippine exports is charged with relatively high tariffs, then a trade agreement would indeed be very important in stimulating more trade.

One may argue that the bulk of Philippine exports to Japan should be expected to fall among the product categories that have relatively lower tariffs. Market access along these areas is possible because tariffs are low in the first place. Since high tariff walls restrict trade, it is expected that Philippine imports are low or nonexistent in the commodities where Japan applies high tariffs. The pattern of Japanese protection influences the pattern of Philippine exports and vice versa.

Nevertheless, since negotiators usually take off from the current 'state of play,' the gains in market access should be evaluated from the current structure of exports and protection.

The profile of exports and protection has implications on the design of ROO. As discussed in earlier sections, the more restrictive and complex the ROO, the higher is the cost of compliance by traders and the greater is the administrative burden on the part of customs. Therefore, it may be possible that a very complex ROO, because it involves higher transaction cost, could well offset the tariff concessions accorded to the partners of an FTA. Thus, when tariffs rate are already low, it is preferable to bat for a simple, easy-to-comply type of ROO.

To illustrate, it has been observed that the cost of compliance by exporters to satisfy the ROO can reach 3 percent of the value of the goods. Thus, if the tariff concession arising from the FTA is only 3 percent or less, then there is very little incentive of utilizing the trade preference.

The implication on the negotiations is that, if a country's bulk of exports to a partner country lie within the 1 percent–3 percent tariff bracket, it would be better to negotiate for a simple than a very complex ROO. By doing so, the cost of compliance can be minimized, enabling the partner country to reap the full benefit of the enhanced market access.

An initial step in assessing how critical an ROO is in a bilateral FTA is to determine the proportion of current Philippine exports to Japan that face different degrees of tariff protection. Table 3 reports the relative proportion and absolute values of Philippine exports to Japan in 2001 that are subjected to different brackets of tariff barriers. Table 4 shows the cumulative distribution of Philippine exports to Japan that is subject to progressively increasing tariffs.

Tables 3 and 4 provide information on the extent of potential benefits arising from tariff reduction efforts due to an FTA. The data show that close to 80 percent of total Philippine exports to Japan for 2001 are already duty free. This observation is borne by the fact that the bulk of Philippine exports to Japan is in the electronics sector. These products—mainly semiconductors—are subject to the provisions of the Information Technology Agreement (ITA).³

Table 3. Structure of Philippine exports to Japan per tariff bracket of Japan in 2001

Tariff Bracket	% of Total Exports	Value (USD '000)
0	79.03	5,064.99
1–3	3.39	217.26
4–5	4.14	265.97
6–10	1.38	88.44
11–15	1.42	91.01
16–20	6.08	389.66
21–25	0.10	6.41
26–30	0.06	3.85
Total	95.59	6,127.59

Note: Tariffs pertain to applied and *ad valorem* associated with specific tariffs, 2001. The sum of proportional Philippine imports does not add up to 100 percent because the exports subject to specific tariffs were not included.

Philippine Exports to Japan in 2001

Source of basic data: *WTO Integrated Database*

³ WTO ITA was concluded at the Singapore Ministerial Conference in December 1996. The declaration provides for the elimination of custom duties and other charges on IT products. Thus, the ITA is solely a tariff-cutting mechanism. While the ITA provides for the review of NTBs, there are no binding commitments concerning NTBs. There are three basic principles that one must abide by to become an ITA participant. These are (1) all products listed in the declaration must be covered, (2) all must be reduced to a zero-tariff level, and (3) all other duties and charges (ODCs) must be bound at zero.

Table 7 shows that of the top 30 Philippine exports to Japan, 87 percent are duty free. Thus, the bilateral preferences with Japan could affect only 20 percent of Philippine exports at most, in the short run. This has implications on determining the relative administrative resources channeled to ROO issues.

Table 3 and Figure 2 report the composition of Philippine exports to Japan that are subject to tariffs. Of this subset of Philippine exports, the largest share falls under products slapped with the 16 percent–20 percent tariff bracket. These export commodities are mostly agricultural commodities, mainly bananas—wholly obtained goods that could easily establish an originating status.

Table 5 shows the proportion of Japanese exports falling within different tariff brackets in the Philippines for 2001. Similar to the earlier analysis, a sizeable portion of Japanese exports (51%) to the Philippines have duty-free status. These products are mainly in the electronics and machinery sectors, which have generally low tariffs due to the ITA. Of the subset of exports that face tariffs, close to a third of total Japanese exports falls within the 1 percent–3 percent tariff. The items that fall within this tariff bracket are mostly manufactured goods.

Table 4. Cumulative distribution of Philippine exports to Japan per tariff bracket in 2001

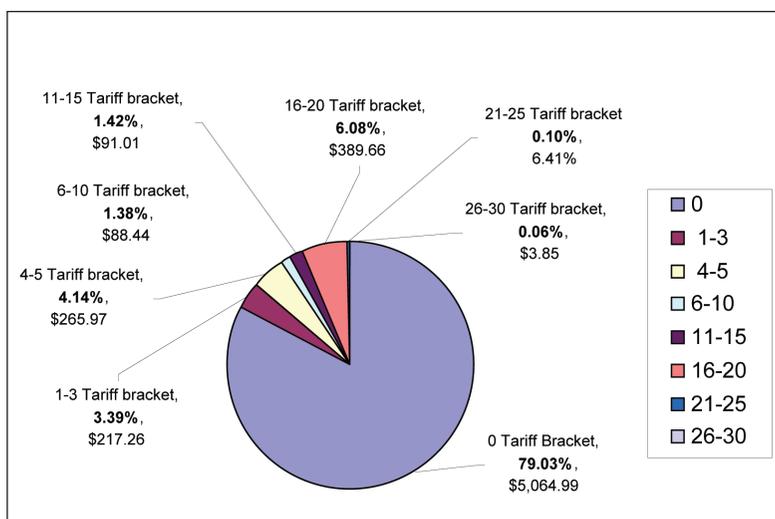
Tariff Bracket	Cumulative Percent of Total Exports	Value (USD '000)
0	79.03	5,064.99
0–3	82.42	5,282.25
0–5	86.56	5,548.22
0–10	87.94	5,636.66
0–15	89.36	5,727.67
0–20	95.44	6,117.33
0–25	95.54	6,123.74
0–30	95.59	6,127.59

Note: Tariffs pertain to applied and ad valorem associated with specific tariffs, 2001. The sum of proportional Philippine imports does not add up to 100 percent because of the exports subject to specific tariffs were not included.

Philippine Exports to Japan in 2001

Source of basic data: *WTO Integrated Database*

Figure 2. Structure of Philippine exports to Japan per tariff bracket of Japan, 2001



Source of basic data: *WTO Integrated database*

Table 5. Structure of Japanese exports to the Philippines per tariff bracket

Tariff Bracket	Percent of Total Exports	Value (USD '000)
0	50.99	3,289.24
1-3	32.54	2,099.06
4-5	2.89	186.26
6-10	10.19	657.12
11-15	1.99	128.66
16-20	0.62	40.07
21-25	0.00	0.00
26-30	0.77	49.89
Total	100.00	6,450.29

Source of basic data: *WTO Integrated Database*

Table 7 shows the top 30 Philippine export items to Japan. The corresponding top 30 export items of Japan to the Philippines are presented in Table 8.

Table 6. Cumulative distribution of Japanese exports to the Philippines per tariff bracket

Tariff Bracket	Cumulative Percent of Total		Value (USD '000)
	Exports		
0	50.99		3,289.24
0-3	83.53		5,388.30
0-5	86.42		5,574.56
0-10	96.61		6,231.68
0-15	98.60		6,360.34
0-20	99.23		6,400.41
0-25	99.23		6,400.41
0-30	100.00		6,450.29

Source of basic data: *WTO Integrated Database***Table 7. Top 30 export items of the Philippines to Japan, 2001**

Tariff Line	Description	Percent of Total Exports	Value (USD '000)	MFN Tariff
854213031	Monolithic digital integrated circuits—Metal oxide semiconductors (MOS technology)	11.802605	724,003.497	0
847170030	Others—storage units	10.8863540	667,798.231	0
847330010	Parts and accessories of the machines of heading No. 84.71	8.3579216	512,697.375	0
80300100	Bananas, including plantains—fresh or dried	5.4202325	332,491.632	20
854430010	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft, or ships	3.8889592	238,559.212	0
854213023	Others—monolithic digital integrated circuits	3.6890797	226,298.066	0
847160090	Others—input or output units, whether or not containing storage units in the same housing	2.8730539	176,240.846	0
854230090	Others—monolithic digital integrated circuits	2.2886504	140,391.969	0
260112000	Iron ores and concentrates, other than roasted iron pyrites—agglomerated	2.2012174	135,028.594	0

Table 7. (continued)

Tariff Line	Description	Percent of Total Exports	Value (USD '000)	MFN Tariff
851790010	Parts—facsimile machines and teleprinters	1.6360391	100,359.039	0
854213033	Others—monolithic digital integrated circuits	1.5678012	96,173.142	0
851750000	Other apparatus, for carrier-current line systems or for digital line systems	1.4450006	88,643.866	0
30613000	Frozen—shrimps and prawns	1.4131680	86,687.526	1
854213090	Others—monolithic digital integrated circuits	1.3276696	81,442.821	0
852721000	Radio-broadcast receivers not capable of operating without an external source of power, of a kind used in motor vehicles, including apparatus capable of receiving also radio-telephony or telegraphy combined with sound recording or reproducing apparatus	1.3112045	80,432.807	0
852290000	Others—pick-up cartridges	1.1643647	71,425.261	0
853400000	Printed circuits	1.1398187	69,919.542	0
850440090	Others—static converters	1.0481212	64,294.569	0
847130000	Portable digital automatic data processing machines, weighing not more than 10 kg, consisting of at least a central processing unit, a keyboard, and a display	0.9725131	59,656.570	0
441890229	Others—doors and their frames and thresholds	0.9546376	58,560.035	3.9
847160010	Input or output units, whether or not containing storage units in the same housing	0.9399691	57,660.232	0
80430010	Pineapples	0.9221116	56,564.807	17
260400000	Nickel ores and concentrates	0.6781380	41,598.807	0
851999000	Other sound-reproducing apparatus—others	0.6343478	38,912.598	0
847170050	Others—storage units	0.5866673	35,987.748	0
870899090	Others—road wheels and parts	0.5556935	34,087.731	0

Table 7. (continued)

Tariff Line	Description	Percent of Total Exports	Value (USD '000)	MFN Tariff
852990000	Others—aerials and aerial reflectors of all kinds	0.5369201	32,936.123	0
900190000	Others—spectacle lenses	0.4884200	29,960.997	0
870829000	Other parts and accessories of bodies (including cabs)—others	0.4672923	28,664.963	0
850450000	Other inductors	0.4663671	28,608.212	0

MFN = most favored nation.

Note: Two specific tariffs have been deleted from the Top 30 list of Philippine exports to Japan. One is a 9999 category, which is almost 3 percent of the total Philippine exports valued at \$188,000. The other is *Petroleum oils and oils obtained from bituminous minerals, other than crude*, under the 2710 category. This item amounts to \$86,000 and comprises 1.35 percent of the total Philippine exports.

Tariff classification follows the harmonized system (HS 1996).

Source of basic data: *WTO Integrated Database*

Table 8. Top 30 export items of Japan to the Philippines, 2001

Tariff Line	Description	Percent of Total Exports	Value (USD '000)	MFN Tariff
84733000	Parts and accessories of the machines of heading No. 84.71	25.06390901	1,616.721	0
85429000	Parts—electronic micro-assemblies	12.15654835	784.145	0
85299090	Others—aerials and aerial reflectors	3.182994030	205.316	1
85421900	Monolithic digital integrated circuits—others, including circuits obtained by a combination of bipolar and MOS technologies (BIMOS technology)	2.568077029	165.651	0
87089990	Other parts and accessories—others	1.965778669	126.800	10
87029010	Others—with compression-ignition internal combustion	1.890102180	121.919	3
87119010	Others—parts	1.278678858	82.480	3
85340000	Printed circuits	1.208950874	77.982	0
85472000	Insulating fittings of plastics	1.130165630	72.900	7
85369090	Other apparatus	1.125273015	72.585	1

Table 8. (continued)

Tariff Line	Description	Percent of Total Exports	Value (USD '000)	MFN Tariff
84798910	Other machines and mechanical appliances—others	1.078221256	69.550	0
84798990	Other machines and mechanical appliances—others	1.078221256	69.550	1
84799010	Parts—evaporative air coolers	1.064074470	68.637	0
84799090	Parts—evaporative air coolers	1.064074470	68.637	1
85179000	Parts—telephone sets	0.905618881	58.416	0
85030000	Parts suitable for use, solely or principally, with the machines of heading No. 85.01 or 85.02.	0.864108784	55.738	1
90069100	Parts and accessories—for cameras	0.724796653	46.752	3
87049010	Others—dumbers designed for off-highway use	0.717441350	46.278	3
72101200	Plated or coated with tin—of a thickness of less than 0.5 mm	0.715651119	46.162	0
87039010	Others—vehicles	0.619635099	39.969	10
85425000	Electronic microassemblies	0.606602113	39.128	0
85389010	Others—boards, panels, consoles	0.598729881	38.620	0
85389090	Others—boards, panels, consoles	0.598729881	38.620	1
87021090	With compression-ignition internal combustion piston engine (diesel or semidiesel)	0.568905829	36.697	20
85447000	Optical fiber cables	0.524513242	33.833	0
90099000	Parts and accessories	0.504786216	32.561	0
85229090	Others—magnetic tape-type	0.480510444	30.995	7
84073410	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87—of a cylinder capacity exceeding 1,000 cc	0.477103924	30.775	3
29032100	Unsaturated chlorinated derivatives of acyclic hydrocarbons—vinyl chloride (chloroethylene)	0.454019971	29.286	0
87084010	Gear boxes	0.440182973	28.394	3

Source of basic data: *WTO Integrated Database*

Among the Philippine products exported to Japan, goods such as electronics, electronic devices, and agricultural products made it to the top 30. Of the top 30 Philippine exports, 87 percent have duty-free access to Japan. Only four export products face MFN tariff. These products include *bananas (including fresh and dried), pineapples, frozen shrimps and prawns, and other doors and their frames and thresholds*. It is noticeable that almost all Philippine exports in the top 30, which are not duty free, are mostly food products.

Conversely, goods such as electronics, engines, machinery and its parts and accessories are the main top 10 Japanese exports to the Philippines. Only 43 percent of the top 30 Japanese exports have duty-free access to the Philippines; the other 57 percent export products face tariff walls. Among the top 10, the Japanese export product that faces the highest MFN tariff of 20 is *pedestrian-controlled tractors with compression-ignition internal combustion piston engine (diesel or semidiesel)*. The next highest Japanese export products that face MFN tariff of 10 are *suspension shock absorbers—parts and accessories, and other vehicles under the classification vehicles specially designed for traveling on snow; golf cars, and similar vehicles*.

In absolute terms, the value of Philippine exports that already benefit from duty-free entry to Japan is USD 5,064,000.99 while Japan's duty-free exports to the Philippines amount to just USD 3,289,000.24. Conversely, the value of exports that face tariffs for the Philippines is USD 3,161,000.06 and USD 1,062,000.60 for Japan. In the short run, these are the proportion of Philippine and Japanese exports that will see potential improvements in market access once an FTA is put in place.

In a purely static setting, it can be said that the bilateral free trade is mutually beneficial to both countries, although Japan would stand to benefit more. Again, this analysis disregards the supply response of the export sectors of both countries once an FTA is in place.

This analysis has implications on the stance of Philippine negotiators. First, because the *relative* benefits of an FTA appear to favor Japan, then Philippine negotiators can be in a favorable position to demand for more concessions in other areas like technical assistance or capacity building. The value of 2001 exports of Japan to the Philippines that face tariffs summed up to USD 3,161,000.06, while Philippine exports to Japan amounted to only USD 1,062,000.60. Second, because the preferences would create relatively greater market access to Japanese than to Philippine exports, the greater burden of preventing trade deflection, through the judicious design and application of ROO, depends on the Philippines rather than on Japan.

How restrictive should the ROO be for the PJEPA?

The degree of restrictiveness of the ROO influences the ability of the FTA

partners to utilize the trade preferences. It should be noted that the design of the ROO determines not only who benefits from improved market access, but also the extent of the benefit. Hence, the details of the rules can be critical in determining the effectiveness of a proposed FTA. This section will explore the impact of applying different benchmarks of ROO restrictiveness on Philippine exports to Japan.

Given the structure of Philippine industries, how will different ROO hurdle rates in value-added method affect the eligibility of potential Philippine exports to Japan in the PJEPA trade preference scheme?

As pointed out in earlier sections, there are a number of methods in setting the ROO. The degree of restrictiveness will vary according to the method used. For the CTC method, a required change from one chapter heading to another is more restrictive than a change from a subchapter heading to another. In the required processing, the longer the negative list is, or the shorter is the list of permissible process to confer origin, the more restrictive is the ROO. Among the methods is the value-added method, which uses either the minimum domestic value added or alternatively, the maximum extent of the imported components, as benchmarks for conferring eligibility on products for trade preference. The value-added criterion is particularly relevant for products that are not wholly obtained in the originating country.

There is no single set of criteria for assessing the degree of restrictiveness of an ROO regime. The multitude of methods and the possibility of employing a combination of these methods in an ROO does not lend itself to the establishment of a common metric for measuring how stringent one ROO regime from the other. Among the methods, the value-added method is the one that can be more easily quantified. Hence, it is the ROO method that lends itself for simulation exercises. It should be kept in mind that the value-added method is, by no means, the only method nor the most common one employed in actual trade agreements.

In this section, a simulation is conducted to assess the extent to which the eligibility of Philippine products for the Japanese markets could satisfy the ROO. The simulation exercise is designed to answer the question, "*Given the current value-added structure of products coming from Philippine industries, what portion or extent could be eligible for trade preferences if the ROO benchmark for minimum local value added were to be set at the AFTA rate? At the JSEPA rate?*" Determining the extent of eligibility can ideally be carried out by summing up the current values of Philippine export items to Japan whose local value-added percentage exceed a chosen benchmark.

This simulation exercise has a number of limitations. The first pertains to the calculation of the local value added. Ideally, the value added has to be determined on a commodity basis corresponding to the tariff line. Unless

there is a survey carried out, data on local value added on a commodity basis is usually not available from standard government statistics. In lieu of the preferable indicator for value added, the value-added data extracted from the 1994 Input-Output (IO) table was used instead. Because the value-added data using the IO table are classified according to economic activity, and not according to standard traded commodities, there is no strict correspondence between these two data sets. To illustrate, it may be possible for a single economic activity to produce commodities falling under different traded commodity classifications. To improve tractability in dealing with the data set, a correspondence table from the WTO that bridges International Standard Industrial Classification (ISIC) (where IO tables are based) and the Harmonized System (HS) traded classification used for international trade data were used.

The second data limitation on value-added figures pertains to the inconsistency in the level of disaggregation of the value-added data set from the IO table. More specifically, because the value-added figures were calculated from an IO table with 229 sectors, there is no strict correspondence with the export commodity of the Philippines to Japan at the disaggregated HS (1996) level. The sectors in the IO table, which are based on the Philippine Standard Industrial Classification (PSIC), are broader than the export product categories. To address this gap, it was simply assumed that the subproducts that fall under a broad category have the same value-added figure as the latter.

A third limitation of the simulation refers to the assumption of no cumulation. Cumulation refers to a ruling that allows partners to include, as part of their value added, the imported materials from their bilateral partners. Thus, imported inputs from Japan, that is, materials that were produced in accordance with ROO, qualify as originating materials when used in Philippine export products to Japan. In the absence of information on which inputs from Japan are utilized in Philippine export products bound for Japan, the simulation is carried out without taking into account cumulation. The implication of not including cumulation is that it understates the size of Philippine exports that are eligible for trade preferences under the PJEPA. Given the limitations cited above, caution should be exercised in interpreting the findings of the simulation exercise.

The simulation is conducted by choosing benchmarks for minimum value-added data. One appropriate benchmark is the 40 percent value-added percentage ROO of AFTA. Another more restrictive benchmark would be the 60 percent, which is used for the JSEPA.⁴ One framework for getting an indication

⁴ JSEPA procedure of ROO is a combination of both CTC and value added. ROO changes on the basis of product-by-product and that the value-added criterion is always an addition to CTC. There is no instance in the ROO for JSEPA that uses value added only.

of the potentials of the Philippines in utilizing trade preferences in the event that the PJEPA pushes through is illustrated by Figure 3.

The different quadrants in Figure 3 represent the different potential gains with a market access through the PJEPA. The higher the value added, the greater the chance of hurdling ROO based on value added. The higher the tariff setting, the greater the extent of market access accorded to the Philippines in the event of a bilateral FTA. Philippine export products that are situated in Quadrants III and IV will have better opportunities of penetrating the Japanese markets than items falling in Quadrants I and II.⁵ Actually, if the bulk of Philippine exports to Japan happen to fall in Quadrant II and assuming that the ROO used is the value added, then the potential impact of a free trade deal with Japan will not be very significant. Items in Quadrants 1 and II have less chance of satisfying the ROO because of low local value-added content. However, if cumulation is factored in the analysis, the magnitudes will differ.

Tables 9 and 10 show the proportion of 2001 Philippine exports to Japan falling under different hurdle rates for local value added and tariff bracket. The tables show the extent of current Philippine exports to Japan that will be eligible for trade preferences given different value-added 'hurdle' rates.

Based on Tables 9 and 10, if the PJEPA benchmark were to be set to the AFTA level of 40 percent, then close to 17 percent of the total Philippine exports would be eligible for trade preference. On the other hand, if the PJEPA benchmark were to be set to 60 percent, then 14 percent of Philippine exports face tariff barriers in Japan. Export commodities in this category should be able to hurdle ROO based on the Japan-Singapore Economic Partnership criteria.

Figure 3. Quadrants representing different potential gains through market access in the PJEPA

	LOW TARIFF	HIGH TARIFF
LOW VALUE ADDED	I Opportunity	II Potential Expansion
HIGH VALUE ADDED	III	IV Problematic

⁵ Note that the qualification of being high/low tariff of an export product is a subjective view of the country's policymakers. Nevertheless, in this study, tariff levels below 5 percent are considered low while levels of 5 percent and above are considered high.

Table 9. Proportion of Philippine exports to Japan in 2001 in categories of value added (39%) and tariff brackets (%)

Value Added	Zero Tariff	1-5 Percent Tariff	Tariff above 5 Percent	Total
0-39 percent	7.33	0.53	0.14	8.00
39 percent and above	71.71	6.89	10.46	89.06
Total	79.03	7.43	10.60	97.06

Source of basic data: *WTO database***Table 10. Proportion of Philippine exports to Japan in 2001 in categories of value added (59%) and tariff brackets (%)**

Value Added	Zero Tariff	1-5 Percent Tariff	Tariff above 5 Percent	Total
0-59 percent	45.569	2.155	1.597	49.321
59 percent and above	33.465	5.272	9.002	47.739
Total	79.034	7.427	10.599	97.060

Source of basic data: *WTO Integrated Database*

Under the 40 percent benchmark, **.14 percent** of Philippine exports to Japan fall under Quadrant II. Most of these export products abound for cloths paraphernalia such as blankets, bed linens, table linens, bedspreads, floorcloths, dishcloths, and dusters.

On the other hand, **10.46 percent** of Philippine exports to Japan fall under Quadrant IV, which has high tariff and high value added. Some Philippine export products that are included in Quadrant IV are handwoven tapestries, mechanically made lace, handbags, buttons, sunglasses, footwear, undergarments, nightdresses and pajamas, jackets and blazers, trousers, suits, dresses, cigars, and fruits and vegetables (e.g., pineapples, bananas, sweet corn, beans, ginger, and potatoes).

If the PJEPA benchmark is set at the 60 percent benchmark, **1.6 percent** of Philippine export products to Japan are under Quadrant II. These include cloth paraphernalia such as the products mentioned earlier; clothing apparel such as undergarments, nightdresses, jackets and blazers, trousers, bib, dresses and skirts, swim wear, overcoats, raincoats, car coats, capes, cloaks and similar articles, gloves, wool, handbags, trunks, travel cases such as suitcases, vanity cases and briefcases, sunglasses, and footwear.

Conversely, **9 percent** of exports from the Philippines to Japan fall under Quadrant IV. Some of these exports include chewing gum, nuts, ice cream,

cigars, bananas, pineapples, beans, sweet corn, potatoes, shrimps and prawns, crabs, and other seafoods.

Since most of the current Philippine exports to Japan already face zero tariffs, the analysis on 'hurdle' rates will affect only the remaining 20 percent of the Philippine exports. Suppose that the benchmark value added is 40 percent or even 60 percent, a good number of Philippine exports that are currently facing tariff walls in Japan can benefit from the trade preferences as long as they can satisfy the ROO.

Most of the Philippine export products included in Quadrant IV, which has high value added and subject to high tariff walls, are agricultural products such as bananas and pineapples. These products are wholly obtained and could easily satisfy ROO compared to those that are not wholly obtained products.

What is the likely impact if the ROO of JSEPA is adapted for the PJEPA?

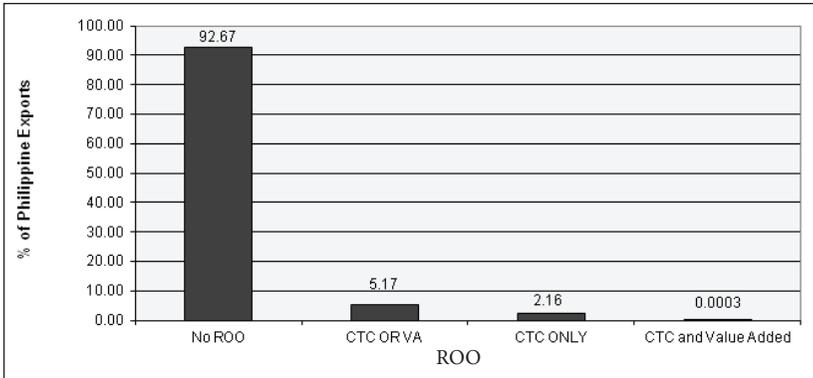
One of the first bilateral FTAs that Japan has concluded is the JSEPA in 2002. The JSEPA is comprehensive and includes 'new age' issues on top of the traditional tariff access negotiations. Many times, the JSEPA has been forwarded as a blueprint or model for negotiating future bilateral FTAs. This section analyzes the possible impact on Philippine-Japan trade if the ROO provisions in the JSEPA are adapted in the PJEPA.

JSEPA employs a combination of the CTC and value added for its ROO, although the combined method is not applied across the board. For most products, the ROO used are simply CTC. Figure 4 illustrates the proportion of Philippine exports under the different classification of JSEPA ROO. It shows that only 2.16 percent of Philippine exports are subject to *CTC only*. In others, it is *CTC and value added* or *CTC or value added*, indicating that the value-added criterion is something that is imposed on top of the CTC. Again, from Figure 4, only 0.0003 percent of the total Philippine exports are subject to *CTC and value added*, while, 5.17 percent of Philippine exports have *CTC or value added* as its ROO.

The CTC formulation is an offshoot of a negotiated process that is done on a product-by-product basis. The criteria used in identifying the specific tariff lines subject to CTC is something not readily known and could even be motivated by political economic considerations. Most *CTC only* restrictions abound for products in the

- (1) beverage sector such as beer from malt and vodka;
- (2) paper and paper products such as office and school supplies, handmade paper, order books, receipt books, notebooks, account books, letter pads, business forms, memorandum diaries, and similar articles;

Figure 4. Proportion of Philippine exports under ROO classification of JSEPA



CTC = change of tariff classification, JSEPA = Japan-Singapore Economic Partnership Agreement, ROO = rules of origin, VA = value added
 Source: Author's calculations

- (3) children's accessories such as toys, dolls, puzzles, toy musical instruments; and
- (4) articles of apparel and clothing accessories such as fabrics and yarns.

These products fall under the 47, 48, 55, 56, 71, 72, 95, and 96 chapter headings. On the other hand, *CTC and value added* restrictions include only one Philippine export product, which is *other fermented beverages (e.g., cider, perry, mead); mixtures of fermented beverages and mixtures of fermented beverages and nonalcoholic beverages, not elsewhere specified or included* under the classification heading of 220600229.

On the other hand, *CTC or value added* restrictions abound for products like

- (1) electronics and semiconductors, winding wires;
- (2) tableware and kitchenware such as boxes, cases, crates, cartons, bottles, carboy, spool, cop, stopper, lids, and caps;
- (3) chemicals such as ether alcohol and saturated monohydric alcohols; and
- (4) doors, windows and their frames, shutters, and blinds.

Nevertheless, one can pose this question: If the ROO of the JSEPA is imposed on Philippine exports to Japan, what percentage of Philippine exports would be affected?

Tables 11 and 12 show the proportion of 2001 Philippine exports to Japan that will be subject to ROO under the scheme of the JSEPA. Almost 93 percent of Philippine exports to Japan face no ROO as opposed to only 87

percent of Japanese exports under the ROO classification of JSEPA. The figures below indicate that Japanese exports to the Philippines potentially face more restrictive ROO than the Philippine exports to Japan if the ROO of the JSEPA were to be adopted. In fact, in Table 12, 13 percent of total Japanese exports (of 2001) to the Philippines would be subject to the more restrictive ROO under the JSEPA than would Philippine exports to Japan. In terms of value, only USD 0.02 million of Philippine exports would be subject to restrictive ROO compared to around USD 61 million for Japan. From this purely static perspective, the impact of adopting the ROO of JSEPA for the PJEPJA would appear to be more favorable to the Philippines than it would for Japan because of easier compliance to the ROO restrictions.

Based on the analysis of data, if the Philippines decide to agree to its use as a blueprint for the PJEPJA, then the ROO of the JSEPA will not undermine the potential utilization of the trade preference. In fact, the Philippines will benefit more than Japan from the enhanced market access because of lesser compliance of ROO restrictions.

Table 11. Proportion of Philippine exports under ROO classification of JSEPA

ROO	Percent of Philippine Exports	
	Affected	Value ('000)
CTC only	2.1300	138.38
CTC and value added	0.0003	0.02
CTC or VA	5.1700	331.15
No ROO	92.670	5,939.39
Total	100.000	6,408.94

CTC = change of tariff classification, JSEPA = Japan-Singapore Economic Partnership Agreement, ROO = rules of origin, VA = value added
Source of basic data: *WTO Integrated Database*

Table 12. Proportion of Japanese exports under ROO classification of JSEPA

ROO	Percent of Philippine Exports	
	Affected	Value ('000)
CTC only	8.653	556.411
CTC and value added	0.002	61.000
CTC or VA	4.017	260.858
No ROO	87.329	5,633.065
Total	100.000	6,511.334

CTC = change of tariff classification, JSEPA = Japan-Singapore Economic Partnership Agreement, ROO = rules of origin, VA = value added
Source of basic data: *WTO Integrated Database*

Regional Dimensions of ROO for PJEPA

The simultaneous overtures of Japan for bilateral FTAs with other ASEAN countries raise up new challenges for Philippine policymakers. While the bilateral FTA talks with Japan and with a number of ASEAN countries are ongoing, it appears that there is little attention paid by ASEAN negotiators in having a common framework for similar areas in these partnership agreements. By their nature, the bilateral talks tend to focus on the interests of the two partners and relatively less attention is given to their regional dimensions. However, it is in the interest of the Philippine policymakers to negotiate on issues that may be applied across the ASEAN member-countries. Among the areas for negotiation, the ROO provisions have potentials for a regional dimension.

In the design of the ROO for the PJEPA, adopting a bilateral cumulation⁶ rule may be instrumental in fostering more trade between partners. If the industrial structures of the Philippines and Japan are complementary, then there are many opportunities for trade at the intraindustry and interindustry levels. A bilateral cumulation rule could make it easier for both partners to comply with a preferential ROO than one without this provision.

In theory, if the Philippines were the only country in Southeast Asia that has a bilateral FTA with Japan, it could well serve as an export base for the ASEAN region. This can be made possible if Philippine policymakers would be successful in negotiating for a diagonal cumulation—where products of nonmember ASEAN countries can be considered to be ‘originating’ in the Philippines. This is, however, quite a remote possibility.

The more realistic outcome is that Japan will be able to forge a number of bilateral FTAs with individual ASEAN member-countries. The economics of ROO setting will change depending on the number of bilateral FTA deals Japan can forge with the rest of the ASEAN member-countries. In fact, the first bilateral FTA with Singapore, the JSEPA, has already been signed. The effect of these bilateral FTAs will vary depending on the particular partner and how well or how badly the FTAs is going. This trend of increasing bilateral deals between Japan and the ASEAN member-countries makes consideration of full cumulation rules an important issue, for a number of reasons.

First, the proliferation of preferential trade deals can give rise to a very complex set of barriers and rules. This outcome is often referred to as “spaghetti bowl,” a phenomenon that increases transaction costs, and invite protectionist capture of *de facto* ROO (Bhagwati 1998). Under a regime of many overlapping PTAs, it is expected that ROO will multiply because different partners have different tariff regimes and preferences. The complexity will not

⁶ When *bilateral cumulation* is provided, materials supplied by any of the parties to the RTA will be reckoned as originating from the partners. For a discussion of cumulation rules, please see Box 1.

Box 1. Cumulation

In some regional trade arrangements (RTAs), rules of origin (ROO) can be subject to a “cumulation procedure.” Cumulation is an instrument allowing producers to import materials from a specific country or regional group of countries without undermining the origin of the product (Brenton 2003). Cumulation is believed to lessen the restrictiveness of the ROO and decreases their negative impact on production distortions and trade and investment diversion. There are three types of cumulation: *bilateral, diagonal, and full*.

The most basic form is *bilateral cumulation*, which applies to materials provided by either of two partners of a preferential trade agreement. In this case, originating inputs or materials, which have been produced in accordance with the relevant ROO imported from the partner, qualify as originating materials when used in a country’s exports to that partner.

Second is *diagonal cumulation* on a regional basis so that qualifying materials from anywhere in the specified region can be used without undermining preferential access. In other words, parts and materials from anywhere in the region, which qualifies as originating, can be used in the manufacture of a final product that can be exported with preferences to the partner-country market. *Diagonal cumulation* is widely used in the European Union (EU) agreements but is not applied by the *North American Free Trade Agreement* (NAFTA). In Europe, a pan-European system of ROO with *diagonal cumulation* has been developed, which governs EU free trade agreements (FTAs) with the countries and Central and Eastern Europe. *Diagonal cumulation* is allowed under the EU’s Generalized System of Preferences (GSP) scheme but within a limited set of regional groups that have pursued their own RTAs.

Finally, the *full cumulation*, whereby any processing activities carried out in any participating country in a regional group can be counted as qualifying content regardless of whether the processing is sufficient to confer originating status to the materials themselves. *Full cumulation* allows for more fragmentation of production processes among members of the regional group and so stimulates increased economic linkages and trade within the region. Under *full cumulation*, it may be easier for more developed, higher-labor cost countries to outsource labor-intensive, low-tech production stages to less developed, lower-wage partners while maintaining the preferential status of the goods produced in low-cost locations.

Under *full cumulation*, all of the processing carried out in participating countries are assessed to decide whether there has been substantial transformation. Hence, *full cumulation* provides for deeper integration among participating countries. *Full cumulation* is rare and is currently applied in the EU agreements with the European Free Trade Association (EFTA) countries, in the EU agreements with Algeria, Morocco, and Tunisia, and under the Cotonou Agreements between the EU and the African, Caribbean, and Pacific Countries (ACP). It is also applied in Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), and ASEAN Free Trade Area (AFTA).

only increase costs of compliance by the traders but could well tax the ability of authorities to administer multiple FTAs. In addition, the maze of varying ROOs can complicate customs procedure leading to more uncertainty. While these associated costs may increase, in theory however, the welfare effects of a country maintaining a multitude of bilateral FTAs is ambiguous and would depend on the initial *ex ante* tariff levels of the partners (Ibarra-Yunez 2003). Given the current trend of bilateralism, it is expected that the “spaghetti bowl” may likely occur in the coming years and its likely impact on trade facilitation may be negative.

Second, after the successful signing of the JSEPA, Japan has been observed to engage other ASEAN member-countries like Thailand, Malaysia, and the Philippines for bilateral FTAs. It is increasingly felt that if the bilateral negotiations with the ASEAN members all come to a successful conclusion, a ‘hub and spoke’ system could arise. Under the hub and spoke system, activity tends to center around the hub (in this case, Japan) with the principal trade between the hub and spokes and very little between the spokes (presumably the ASEAN member-countries). Under this system, the hub, rather than the spokes, tends to appropriate the benefits of the bilateral deals. To illustrate, Japan, as hub, can have preferential access to the markets of the spokes and could enjoy increases in consumer surplus when it imports from the spokes at preferential rates. In addition, a hub would be in a very favorable position—when negotiating with additional spokes—that they conform to the existing ROO that it has already forged with other spokes and with whom it has concluded bilateral FTAs.

In general, negotiating for an ROO regime that allows full cumulation among the ASEAN economies can mitigate the outcome of the hub and spoke system. Full cumulation provides for deeper integration and allows more advanced countries to outsource labor-intensive production stages to lower-wage partners (Brenton 2003). To the extent that the Philippines, or all other ASEAN member-countries, can negotiate for full cumulation, the outcome will have implications on the progress on customs procedure and facilitation.

Conclusions

In the end, both Japan and the Philippines will benefit from the enhanced market access arising from the proposed PJEPA although Japan will gain more than the Philippines given the current structure of bilateral trade in the goods market. The Philippine negotiators are then in a good position to ask for other concessions, such as technical assistance or capacity building, to balance out the benefits.

Since majority of Philippine export products to Japan already faces zero tariff, 'hurdle rates' will affect only around 20 percent of Philippine goods, thus, the burden of ROO setting falls on the Philippines more than on Japan.

Given the existing value-added structure of Philippine exports to Japan, a good portion of current Philippine exports to Japan would pass the 40 percent hurdle of the AFTA and the 60 percent hurdle of the JSEPA. In fact, a good number of Philippine export products that are presently facing tariff in Japan can benefit from the trade preferences with the Philippines complying with the proposed ROO. Thus, the impact of ROO based on value added will not adversely affect the eligibility of most Philippine exports to avail of trade preference.

Indeed, should the JSEPA ROO be adapted to the PJEPA, the Philippines would tend to have a more favorable outcome in terms of fewer compliance with ROO restrictions on its exports than would Japan. Adopting the terms of the JSEPA ROO for PJEPA will not prejudice the Philippines' market access. Barring any other alternatives, the Philippines can agree to the provisions of the JSEPA.

There are wider implications on the region in the process of negotiating for ROO in the PJEPA. The proliferation of bilateral FTAs in the ASEAN region could give rise to a maze of ROO, the 'spaghetti bowl' effect. Maintaining a multitude of bilateral FTAs can very well increase the transaction cost and tax the administrative capacity of a country. Moreover, if a 'hub and spoke' system (with Japan as hub and the ASEAN member-countries as the spokes) will arise, Japan as hub will most likely appropriate the benefits of the FTA. To address these regional concerns, it is suggested that a provision for full cumulation (where all processing in the spokes can qualify as originating) among the ASEAN countries could be negotiated. This, however, requires coordination with the prospective ASEAN bilateral partners of Japan.

It should be noted that the analysis of this paper, particularly the quantitative content, focused on the 2001 trade situation. Thus, it does not consider the *potential* exports to Japan from the Philippines that can be generated from the bilateral FTA.

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7 Movement of Natural Persons Between the Philippines and Japan: Issues and Prospects

Tereso S. Tullao, Jr. and Michael Angelo A. Cortez

Executive Summary

The movement of natural persons has been gaining worldwide currency as a driving force of globalization. The Japanese investors are known for their commercial presence in most developing countries while the Philippines is reputed to be one of the leading exporters of labor with skills ranging from professional, technical, middle, and low skilled.

Considering the asymmetric demographic and development trends between the two countries, this paper explores the possibility of meeting the need of both countries to increase productivity. Japan, through its ageing population, would require the services of health service providers while the Philippines attempts to provide employment by maximizing opportunities in the domestic economy and abroad.

However, there are issues in the movement of natural persons that do not facilitate the free movement of migrant labor. In the case of Japan, it is their health sector that remains closed to foreign service providers be it natural or juridical persons.

Due to the limitations in Japan's health services sector, the demographic trend of ageing, low birth rates, and changing work values, Japan, one way or another, will have to allow the entry of temporary workers to fill in jobs their citizens have deemed as 3D or dirty, difficult, and dangerous. The question now is the modality of entry.

Filipino workers have established presence in Japan way back in the 1950s. Japan opens its doors to skilled workers as classified in their Immigration Control and Refugee Recognition Act. In fact, Japan provides competency training to workers from developing countries through its Japanese International

Training Cooperation Organization (JITCO) training program and its Japan Information Technology Standards Examination (JITSE). However, Japan also allows the entry of entertainers, through its side doors for what Truong (1996) explains as a reproductive need (Ballescas 2003). As more Japanese women join the labor force and postpone marriage and giving birth, a significant number of middle-aged, career-oriented Japanese men remain single. The presence of entertainers somehow meets Japan's need to reproduce through intermarriages. To a certain extent, most labor-receiving countries allow the entry of irregular migrants to work on jobs domestic workers reject. While the presence of entertainers has met Japan's social requirement, the need for health services is a possible area the Filipino migrant labor can meet.

Migration is seen as a significant sociocultural change in the Philippines. The net successes of a migrant worker and the benefits that have accrued to his or her family have influenced people to migrate. However, it is the upper income decile of Philippine society that can afford the costs of migration. It has been reported that some entertainers bound for Japan go to the extent of sacrificing future earnings to be able to afford the high costs of migration and its related expenses like training, certification, travel, and other expenses like boarding and costumes. Net earnings may even happen on their third visit to Japan because employment contracts allow their temporary stay for only six months. Although it widens the income distribution, the Philippine government has been aggressive in forging bilateral agreements in order to facilitate the entry of migrant workers and to protect their rights and welfare.

Issues of exploitation and trafficking are seen as negative consequences of labor migration to Japan and can be considered common in the entertainment sector. Although the Philippine government has formalized and certified entertainers bound for Japan, reported cases of exploitation persist. This is attributable to the status of entertainers who are treated not as workers but as guest performing artists and, therefore, are not covered by employment contracts.

Japan's immigration policy is to allow the entry of skilled workers, with a list of the category of professions and job classifications. Although these jobs are not disaggregated, the proposed entry of health workers, particularly nurses and caregivers, could be based on mutual recognition agreements. While the nursing profession in the Philippines is comparable to the APEC country standards, international recognition through benchmarking with international accrediting institutions is proposed to facilitate access by Filipino nursing professionals and skilled caregivers (Ramirez 2001).

The demand for Filipino nurses was at the peak of its cyclical trend at the turn of the century. The common destinations are the United States, the United

Kingdom (UK), and Saudi Arabia. While Japan has yet to liberalize its health services sector, Filipino caregivers have gained acceptance in Canada through its live-in caregiver program. Canada has listed the minimum requirements while the Philippine government, through the Technical Education and Skills Development Authority (TESDA), has accredited, monitored, and certified training institutions for caregiving services.

The issue of access and cultural opposition may be seen as a natural reaction to the proposed liberalization of Japan's health services sector. Basic sectors are closed to foreign service providers to protect the national interest of quality and access by domestic providers. However, the fact that Japan has been proposing to send its ageing population abroad is a manifestation of Japan's recognition that its population is graying and its health care system may not be able to sustain the forecasted surge in demand.

While the Philippines had been aggressive in developing and certifying new skills, language and cultural training is seen as an area to explore. To meet Japan's work requirements, migrant workers would have to undergo additional training in language and culture. Similar to the case of Italy and Spain, Filipino nurses undergo a training period and work as apprentices or nursing aides before they can qualify as full-pledged nurses.

Modalities will also have to be explored whether at the bilateral or multilateral levels. At the bilateral level, the Philippines has to engage in negotiations with Japanese officials on the pilot scheme of access for Filipino health workers. This may involve initial language certification, technical proficiency tests, and other domestic requirements that may satisfy the objective of ensuring and maintaining quality in the practice of a health profession. While the proposal may be confronted with opposition, an initial arrangement may cover negotiations for areas of mutual recognition. At the multilateral level, the Philippines may have to realign itself with the developing countries' position to separate Mode 4 or the movement of natural persons from Mode 3 or commercial presence in the GATS to facilitate the flow of workers from the territory of a GATS member to another.

On the issue of protection, any bilateral economic agreement between the Philippines and Japan should include a provision on the protection of overseas workers in Japan. The protection of workers covers the period from recruitment to their return to the Philippines. Aside from identifying the flaws in the legal framework of protection, there is a need to regulate migration flows at both ends so that OFWs will not end up as preys and victims of illegal recruiters, crime syndicates, and unscrupulous employees.

On the issue of impact, the remittance flows of foreign exchange from enhanced market access should be channeled to more productive use beyond

provision of consumer goods, housing, and the education of migrant workers' children. There is also a need to push for greater market access that would benefit the poor. Lastly, the issue of brain drain can be transformed into brain gain through technology transfer. A mechanism that would ensure the return of Filipinos who have undergone training in Japan should be put in place to avoid the temptation of becoming irregular workers. The Philippines should also open its market in the knowledge sector to allow the entry of Japanese scientists and professors.

Introduction

Over several decades, the postwar economic relations between the Philippines and Japan have been largely defined by substantial flows of goods, capital, and development assistance funds. The increasing temporal trend and the expansion in scope and depth of bilateral flows have made Japan one of the leading trading partners of the Philippines. In recent decades, however, the contour of Philippine-Japan economic relations has been increasingly influenced by the flows of people between the two countries.

The influx of Japanese visitors tremendously impacts the Philippine tourism industry. In addition, Japanese engineers, managers, experts, and other skilled workers have entered the Philippines to accompany, implement, and manage the huge direct investments and ODA programs of Japan. On the other hand, a significant number of Filipino workers have entered Japan mostly as professional entertainers and, to some extent, technical trainees.

The movement of natural persons is increasingly becoming an important and visible contemporary global phenomenon for several reasons. The increasing trend toward globalization, in general, and the liberalization of trade in services, more specifically, allows people to move with ease for leisure, residence, and employment across national boundaries. This movement is reinforced further by asymmetries in demographic and development trends between nations. The deficiency of labor in economically progressive countries matches the surplus labor in populous developing countries. Movement of people is seen as an adjustment mechanism to this interspatial demographic and development differences. As a consequence, the phenomenon of massive movement of people across nations engenders issues of access, protection, and impact that have to be resolved at the national, regional, or at multilateral levels.

The issue of access pertains to factors that will facilitate or hinder the movement of people across national boundaries. This concern, in turn, is influenced by the modality of movement, volume, and composition of

flows. People could ideally move freely if the flow is facilitated by bilateral or multilateral agreements among nations. However, most bilateral agreements have no implementing guidelines, not ratified, and cover welfare and social protection only instead of facilitating flows. The volume of flows, on the other hand, is influenced largely by domestic policies (immigration and labor laws) and the extent to which the asymmetries in demographic and development trends in host and sending countries are resolved by the entry of foreign workers. Similarly, the composition of flows can be restructured and differentiated by exploring the asymmetries in demography and development.

The temporary movement of natural persons (Mode 4) has been stirring global attention and discussion with the start of a new round of negotiations of the GATS. While the Uruguay Round was generally dismal from the point of view of developing countries due to the lack of meaningful commitments of developed countries on Mode 4, several bilateral and regional arrangements have been explored in alternative frameworks and bodies for negotiations, like the ASEAN Framework Agreement on Services (AFAS).

Given the massive human flows across borders, the problems of abuse, adjustment, and discrimination are bound to happen. In this light, the issue of protection becomes an important policy consideration that needs to be addressed. The extent, scope, and depth of these problems can be best understood in relation with the legal framework of protection for foreign workers and the major flaws of this framework.

As the movement of natural persons proceeds, it brings about differential effects on the various sectors in host and sending countries. Movement of persons can facilitate trade in receiving and sending countries. Its impact on the economy has been analyzed in terms of the remittances sent by overseas workers and in addressing the asymmetries in demography and development. Aside from the macroeconomic impact, the immediate effects of overseas employment are on the migrant and his/her immediate family. Thus, the issue of impact becomes a pressing subject not only for analysis but also for policy action.

The movement of natural persons or temporary migration of labor has been happening since the postwar era and is currently being subjected to stringent regulatory measures emanating mostly from host countries. This could be attributed mainly to addressing public interest concerns, problems of irregular migration, and its accompanying social issues. Nevertheless, labor migration contributes in improving the overall output of both sending and receiving countries. Labor-sending countries are relieved of domestic pressures and alleviate the unemployment of its abundant labor supply while labor-receiving countries benefit in industries where labor is deficient.

Considering the GATS negotiations, developing countries (led by India) have been lobbying that Mode 4 (movement of natural persons) be separated from Mode 3 (commercial presence). Arguably, only companies from developed countries can afford commercial presence and can link Mode 4 to Mode 3. It is suspected not only as a means to transfer expatriates, executives, managers, and other intracorporate transferees but also to ensure the repatriation of profits and wages back to their countries. The comparative advantage of developing countries is based on its surplus labor and Mode 4 is seen as a channel to facilitate freer movement.

Among the destination countries, Japan, together with Canada, has initiated exploring the separation of the movement of natural persons from commercial presence. Among its current commitments in the GATS negotiations is to allow intracorporate transferees and temporary visitors. As stipulated in the Immigration Control and Refugee Recognition Act of Japan, one to three years with a possibility of term extension is allowed. Japan also offers to take commitments on the residency status of accounting, engineering, legal services, and specialists in humanities and international services. Beyond horizontal commitments, Japan has offered to commit legal and taxation services sector in addition to the supply of services by natural persons. On placement and supply services of personnel, Japan has offered to remove the limit on the number of licenses conferred to service suppliers, and to expand the scope of occupations for which these services may be supplied (Tullao and Cortez 2003). However, these proposed commitments do not include health services yet, a sector Japan could liberalize to address its ageing population by allowing the entry of individual health service providers from the Philippines.

Among labor-sending countries, the Philippines is considered to have the "best practices model." While the country initially started exporting low-skilled labor in the 1970s to the Middle East, recent trends reveal that Filipino migrant labor has diversified to a variety of skills ranging from professionals (medical, IT, and health), to middle skilled (caregivers, entertainers, and seafarers), and low skilled (domestic helpers and unskilled labor). The Philippine government's policy is to "seize opportunities [in the global market], minimize the costs and the risks, empower and guide the workers in their decisionmaking, enable stakeholders, [and] engage recruiters, foreign governments, and employers to share responsibilities and mainstream the issues in development planning" (Casco 2003). Considering the Philippines' comparative advantage of providing services to over 200 countries and trust territories, the government has been very aggressive in initiating bilateral arrangements to destination countries. However, host countries are restrained in their responses by reasons of national policy and public interest. Among the recent ones are employment

agreements with the National Health Service (NHS) of the United Kingdom and with Switzerland.

Significance of the study

Japan is the leading commercial partner of the Philippines, accounting for more than 20 percent of the total trade of the country. In terms of FDI, total Japanese FDI reached 21 percent making it the leading source of foreign funds (Tecson 2003). In 2002, out of the total PHP 46 billion approved FDIs, Japan emerged as the top source accounting for almost 37 percent of the total FDIs in the country. In terms of ODA, the Philippines draws from Japan a considerable amount to finance various infrastructure and human development efforts in the country. Japan continues to be the major source of ODA, contributing approximately 45 percent of the total ODA received by the Philippines from 1992 to 1999.

One of the more recent developments in the growing commercial relations between these two countries is the flow of OFWs to Japan. In 2002, of the total 667,226 OFWs deployed by the Philippines, 77,870 OFWs went to Japan (POEA 2003). Of the significant foreign exchange remittances in 2002, OFWs from Japan sent approximately USD 443 million (BSP 2003).

This study becomes significant in the light of the proposed bilateral free trade arrangement between the Philippines and Japan. With the liberalization in the movement of natural persons under a free trade area, the economic relations between the two countries will be further enhanced. Given the contributions of overseas employment to the Philippine economy and the manpower requirements of an ageing population in Japan, an expansion in the flow of human resources between the two countries under a bilateral trading arrangement will have positive impacts on the two countries.

This study could serve as a landmark to furthering the development of trade in services not only between the Philippines and Japan but between developing and developed countries as well. Consistent with regional initiatives, this study is supportive of multilateral frameworks for trade in services.

Using the human development framework of empowerment, productivity, economic sustainability, and reduced inequality, this study could support policymaking for both Japan and the Philippines.

Research problem

In the light of the changing socioeconomic and demographic structures in Japan, on one hand, and the growing trend of Filipino overseas migration, on the other hand, are there prospects and complementation that the two countries can explore in these interspatial developments? Specifically, will the

liberalization in the movement of natural persons between the two countries be able to realize the impact of this complementation in enhancing the commercial relations of the Philippines and Japan under a free trade area? To answer these questions, this paper attempts to investigate the human resources flow from the Philippines to Japan, the reasons behind such movement, and their accompanying problems. Factors that hinder and facilitate the growth of the flows shall consequentially be analyzed.

Research objectives

The following are the objectives of this paper:

1. To trace the historical trend of the movement of natural persons from the Philippines to Japan;
2. To review the contributions and consequences of the movement of natural persons on the economies of the Philippines and Japan;
3. To analyze the key issues faced by Filipino workers in Japan; and
4. To assess the prospects for the enhancement of the movement of natural persons between the Philippines and Japan.

Review of Related Literature

Liberalization of trade in services

Trade in services has been one of the major focal points of liberalization under the last round of multilateral negotiations. Unlike trade in commodities, where tariffs and quantitative restrictions are relatively easy to manage to expand the flow of trade in goods, trade in services globally is more complicated. Service is not storable, tangible, and involves the simultaneous action between the service provider and the service consumer (Stephenson 1999).

In addition, many domestic regulations are instituted for the promotion of public interest and protection of consumers because of the asymmetry between the service provider and the service consumers. These regulatory frameworks have hindered trade in services internationally and made services mainly a domestic economic activity. However, with the development of telecommunications, ICT, massive movement of capital through FDIs and financial flows, and the movement of natural persons for leisure and employment, international trade in services has expanded in leaps and bounds in recent years.

The GATS establishes a multilateral framework of principles and rules for trade in services. It aims to expand and gradually increase the liberalization of trade in services to promote economic growth of all trading countries and the further development of developing countries. The GATS provides a set of

generally applicable disciplines for a large and growing sector of economic activity, and a mechanism to undertake negotiated commitments on market access and national treatment in specific service sectors and subsectors and in modes of supply listed in each member-countries' schedules of commitments (Mashayekhi 2000).

The GATS is a set of rules that seeks to limit the intervention of governments and other institutions in the global trade in services, removes obstacles to market entry, and provides equal treatment of foreign service providers on privileges enjoyed by their domestic counterparts as they comply with government rules and regulations (Yew 1997).

Liberalization is a process of increasing the openness of the domestic economy to the global market. This entails the removal of barriers to the free flow of goods and services across borders and the adjustment of domestic industries. These hindrances are caused mainly by market imperfections, institutional, and legal barriers. As a consequence of participating in global commerce, foreign products and services are allowed to enter the domestic market with ease and compete with local industries (Tullao 1999).

The GATS, therefore, calls for the liberalization of a service sector of an economy to facilitate trade. According to Mashayekhi (2000), the flexibilities provided in the GATS in the making of negotiated, specific commitments on market access and national treatment and in attaching limitation to market access provide for the gradual liberalization of the services sector and space for policies for developing countries to develop a competitive services sector.

Four modes of supply under GATS

The GATS covers the following four supply modes in the provision of services at the international level:

- i. **Cross-border supply.** Services are supplied from the territory of one member-country to the territory of another member through telecommunications, mail, and other means.
- ii. **Consumption abroad.** This involves the purchase by foreigners of services in the territory of another member-country (e.g., tourism).
- iii. **Commercial presence.** Service providers are allowed to conduct business in another country through the establishment of offices, branches, agencies, joint ventures, and other forms of equity participation (e.g., foreign direct investment).
- iv. **Movement of natural persons.** This involves the entrance and temporary stay of individual service suppliers of a GATS member-country into the territory of another member to supply services.

The GATS definitions relevant to Mode 4 (Art. XXVIII) involve “supply of the service (includes the production, distribution, marketing, sale, and delivery of a service) by a service supplier of one member, through the presence of natural persons of a member in the territory of any other member.” Over the years, Mode 4 emerged in meaning as a service delivered by a foreign worker under employment contract to a local provider and may be treated differently from precisely the same service provided by the same person acting as an unattached service provider or under contract to a foreign company (Self and Zutshi 2002). However, there is a need to define the temporary movement of natural persons in terms of time or period.

Current debate on the movement of natural persons

A human development trade regime would give governments space to design appropriate policies and preferably help developing countries build their capacity to gain from trade. To achieve these goals, the trade regime should conduct a human development assessment, support diverse development strategies, increase market access for developing countries, allow for asymmetric rules, reconcile asymmetric rules with market access requirements, and ensure sustainability (UNDP et al. 2003).

Developing countries were largely disappointed with the turnout of commitments on the movement of natural persons, which were mainly limited to intracorporate transferees of businesses, professionals, and technical staff. Since the comparative advantage of developing countries is based on their abundant labor supply, these countries were expecting more meaningful commitments in facilitating trade in services through the movement of natural persons. Such relevant commitments under Mode 4 would have greater impact on the economies of developing countries.

The following issues have to be addressed to make negotiations and commitments more meaningful to both developed and developing countries:

First, is the separation of Mode 4 from Mode 3. Although, Mode 4 (movement of natural persons) is a permissible mode of supply, its application is quite restricted and more often associated with Mode 3 (commercial presence). Developed countries see this as a channel to facilitate the movement of their intracorporate transferees.

Second, horizontal commitments are limited. Although commitments under Mode 4 are mostly horizontal and cover almost all sectors under the services sectors, they are, however, subject to several limitations on immigration rules and economic needs test. Because of these limitations, the relative application and benefits derived from Mode 4 as a mode of supply of services is relatively narrow and quite partial toward highly skilled and professionals associated with transnational corporations.

Third, GATS-visa is proposed to separate the temporary movement from permanent migration. The GATS-visa aims to enable service providers to move in and out of foreign markets for business development and service delivery without undergoing time-consuming processes associated in securing a visa or the need to present documents that they have been invited in a foreign market to provide a service (UNCTAD 1999). Mode 4 should clearly delineate the movement of workers for temporary employment from permanent migration to resolve the issue with immigration policies of labor-receiving countries while facilitating global trade in services. In addition, the term 'temporary' employment needs to be harmonized as to the period covered. Different countries have varying interpretations of the term temporary employment.

Fourth is the issue on disaggregating the categories of professionals and sectoral workers. Professional and workers' classification has been subject to different interpretations by member-countries. Thus, there is a need to disaggregate the categories of service providers in the sectoral schedule through a detailed breakdown of the WTO services sectoral classification list or the adoption of the International Standards Classification of Occupations (ISCO-88).

One of the key reasons for the hesitancy of countries to make commitments under Mode 4 is the variability of market conditions. These uncertainties in the labor market can be addressed through emergency safeguard measures per GATS rules and the economic needs tests. However, discriminatory practices in the use of economic needs tests have to be reduced.

Factors affecting the movement of natural persons at the international level

There are three major frameworks explaining the movement of persons across borders to explore economic opportunities. The first one deals with a macroeconomic response and adjustment mechanism to asymmetries in demography and economic developments in the host and sending countries. The second views migration as a rational individual response to wage differentials between countries. The third view is based on the household decision to maximize family income and minimize the scope of economic risks (Semyonov and Gorodzeisky 2002).

Under the first view, the host country is characterized by rapid economic growth accompanied by low population growth. This combination results in excess demand for labor as a consequence of high demand for labor due to economic expansion and the low level of labor force participation due to depressed demographic trends. On the other hand, a sending country is often depicted by lethargic economic performance and rapid population growth.

This economic-demographic mix produces a pool of unemployed workers. This asymmetry in demographic and development trends between the two countries is resolved through the migration of workers from labor-surplus countries to labor-deficient countries. Labor-deficient countries that maintain restrictive policy on the entry of workers would have to adjust in terms of increasing the wage rate and enhancing youth and elderly participation in the labor force.

The *pull* from higher wages in labor-receiving countries and the *push* of high levels of unemployment and poverty in source countries are the most obvious and popular reasons for the temporary movement of migrant workers (Wickramasekera 2002).

From the Philippine perspective, *push* factors include the migration culture. The positive experiences of Filipino migrants to the United States and subsequent acceptance of other developed countries like Canada, Europe, and the Middle East have mustered the greater willingness to take the risk of difficult adjustment in places of alien culture and physical environment. The Philippine education system is believed to produce skills not only for the domestic economy but for the global economy as well. Coupled with high population growth rate, continuing high incidence of poverty, and slow domestic growth rates with high levels of unemployment and underemployment, the Filipino worker seeks greener pastures in the global work environment (Ballescas 2003).

The *pull* factor from Japan's end is their ageing population and the subsequent shortage in young workers. Young Japanese workers have developed negative attitudes toward jobs seen as 3Ks or 3Ds (*kitanai* (dirty), *kiken* (dangerous), and *kitsui* (difficult)). While Japanese heirs are culturally bound to take care of the elderly, changing work and family values have influenced the shift to engaging health services for the elderly. In addition, declining fertility rates and the rapid ageing of the population deem that heirs caring for the elderly will need to be taken care of in the near future. The increase in ability to pay for health services and the attractive wage differential of working in Japan can serve as other *pull* factors to Filipino labor migration.

Filipino female migration to Japan can be alternatively seen as fulfilling the reproduction requirement both of national and international economic order. The cross-national transfer of reproductive labor under the wage contract of the marriage contract is linked with its social necessity as more and more women in industrialized countries are rejecting domesticity (Truong 1996; Ballescas 2003).

Truong (1996) noted that labor shortage characterized Japan's industrial and service sectors. This labor shortage was aggravated by sharp fertility decline and the ageing of Japan's population, the avoidance by Japanese

workers of 3D jobs, and the outflow of Japanese workers to overseas investment destinations (Ballescas 2003).

In addition, female Japanese workers have shifted preferences from the traditional extended patriarchal family structure to a more career-centered culture. They have been observed to postpone marriage leaving an increased number of unmarried Japanese men (Ballescas 2003).

For Filipino female entertainers, culturally, they have been brought up to socialize and entertain family guests in occasions and gatherings. Japanese men prefer Filipino female entertainers because of their closely-knit family values, cheerfulness, and their ability to speak English (Ballescas 2003).

Ballescas (2003) concludes that Filipino women and Japanese men, therefore, find their cultural and socialization values coinciding with the objective structural requirements for both reproductive and productive labor of the national and international economic systems of which their countries are integral and interrelated parts.

The second explanation of international migration draws its constructs primarily from the traditional theory of internal migration that is based on the individual rational response to wage differential between countries. The asymmetries in demographic and development trends explained above are reflected by wage differentials between countries. Traditional trade theory tells that the wage gap between countries is removed through the expansion of trade. Countries with labor surplus will specialize and export commodities that are labor intensive while countries that are capital abundant will produce and export capital-intensive goods. Such realignment will equalize wages through the theory of one price on the assumption that factor inputs are immobile internationally.

However, the assumption of factor immobility across countries is not realistic in the light of massive flows of capital and the global movement of natural persons in recent decades. If factor inputs, including labor, are allowed to move internationally, there is an incentive for individuals to explore the benefits of wage differentials. Labor from countries with low wage rates will migrate to countries with higher wages. Similarly, capital will move in capital-deficient countries where the returns to capital are high.

Between a macroeconomic adjustment mechanism and a microeconomic response to wage differentials, the third perspective on international migration is based on a household decision to improve its welfare. According to this view, more than an individual decision, external migration is a household decision to maximize expected income and reduce economic risks. This explanation draws heavily from sociological observations on the pattern of external migration of families in developing countries and the direction of

remittances. In the Philippines, it has been observed that there is a trend in sending young unmarried women overseas after replacing the trend of male migration. According to these studies, women are more reliable than men in sending higher amount of remittances on a regular basis and thus contribute in maximizing family income and reducing uncertainties (Semyonov and Gorodzeisky 2002).

Trends in the Movement of Natural Persons

Annual flows of OFWs to Japan

Based on 2002 estimates from the POEA, 667,226 land-based Filipinos were deployed in more than 200 countries and trust territories around the globe. The major recipients of Filipino labor are geographically grouped as the Middle East, Asia, Europe, the Americas, Africa, Trust Territories, and Oceania.

Skilled and professional workers from the Philippines are spread around the world but certain skills tend to cluster in specific countries of destination. For example, Filipino domestic helpers tend to be concentrated in Hong Kong and Saudi Arabia, entertainers in Japan and other Southeast Asian countries, IT professionals and nurses in the United States, and nurses in the United Kingdom.

According to the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP 2002), migration is structural and demand driven. Women's migration and their concentration in domestic services and entertainment suggest that the labor market is not only segmented but also gendered (ESCAP 2002). Since entertainers, dancers, musicians, and singers are clustered mainly in Japan, based on disaggregated information on outbound professions by the POEA, Table 1 summarizes the outflow of OFWs and is broken down by gender.

Performing artists are referred to as guest entertainers in Japan and as such, are accorded recognition as 'professionals.' These professional entertainers work under booking contracts with their agents (as per talent management contracts) and their club managers in Japan. The widespread flow into Japan's entertainment market passes the scrutiny of their immigration rules that require them artist certification from their home governments or the presentation of documentary credentials.

From a mere 5,508 Filipino entrants in Japan in 1960, the number increased several folds to 20,477 in 1970 and 129,053 in 1998. In 2002, of the total 667,226 OFWs deployed by Philippines, 77,870 OFWs went to Japan. However, there is a large discrepancy between entrants and registered Filipinos in Japan. In fact, in 1950, only 367 Filipinos were registered in Japan with hardly any significant

Table 1. Deployed new hires by sex and skills, 1992–2000

Year	Sex	Choreographers and Dancers	Composers, Musicians, and Singers	Professional Nurses	Domestic Helpers
1992	Male	1,552	416	536	1,334
	Female	33,979	2,572	4,230	46,243
1993	Male	370	247	599	1,135
	Female	12,342	941	5,231	60,244
1994	Male	846	387	948	1,559
	Female	26,620	1,963	5,357	63,833
1995	Male	657	221	1,133	1,241
	Female	14,498	1,220	6,295	59,698
1996	Male	647	245	640	1,017
	Female	13,445	1,869	4,017	60,184
1997	Male	802	283	669	745
	Female	24,833	4,164	3,552	46,785
1998	Male	720	485	663	1,035
	Female	25,923	7,781	3,892	45,868
1999	Male	606	610	828	777
	Female	28,731	13,602	4,497	52,268
2000	Male	1,063	919	1,273	1,367
	Female	34,475	23,048	6,410	66,890

Source: POEA

change in 1960. In 1970, the number of registered Filipinos reached only 932 where there were already around 20,000 entrants in Japan (Ballescas 2003).

Socioeconomic characteristics of OFWs to Japan

Filipino migration to Japan used to be predominantly male in the 1970s, which was reflective of the exodus of migrant contract workers for the Middle East. However, at the onset of the 1980s, migration to Japan has become female dominated. In 1970, there were 8,789 female and 11,688 male Filipino migrants.

In 1980, the number of female migrants jumped to 14,962, showing a higher rate of increase than that of males (12,940). By 1990, the number of Filipino males in Japan doubled to 24,956 while the number of females soared 5.5 times to 83,336. The numbers continued to rise until the close of the century with observed increase in male migration (26,856 in 1993) and a marked decrease in female migration (79,538 in 1993) even though the latter still predominates (Ballescas 2003). Filipino male labor migration can be characterized as mostly trainees under Japan's trainees system. In the Philippines, it is also evident that Japanese firms in the automotive and semiconductor industries send their workers to Japan for training. The slowdown in female migration is reflective of the period when bilateral arrangements between the two countries needed to be reviewed against market realities.

In a study by Osteria (1994) on Filipino female labor migration to Japan, she revealed that most entertainers came from Metro Manila and adjoining provinces while domestic workers were drawn from across the country with Northern Luzon (25%) topping the list, followed by Metro Manila (29.2%), the adjoining provinces of the National Capital Region (25%), and the Visayas (20.8%). Recent studies, however, have pointed out that OFWs commonly use addresses in Metro Manila that are proximate to their recruiter or their placement agency's business address. Most of the domestic helpers who have sought work in Japan were either hired directly or went there as tourists. Relatives working in Japan were also instrumental in facilitating recruitment. Entertainers were slightly younger than domestic helpers by nine years. However, domestic helpers were slightly better educated than entertainers as evidenced by a high percentage of those with college education. While entertainers were mostly single, domestic helpers were usually married, widowed, or separated (Osteria 1994).

Flows of Japanese workers to the Philippines

Japanese nationals travel to the Philippines for two reasons: business and leisure. As of October 2000, there were 9,227 Japanese nationals residing in the Philippines. With FDIs of PHP 1.98 billion in 1999, the presence of Japanese nationals is mainly for business purposes. With reports that Thailand has lured Japanese tourists away from the Philippines, tourism is just a secondary purpose for Japanese nationals in the country. Based on the Department of Tourism (DOT) statistics, from January to April 2003, 110,830 Japanese nationals traveled to the country. The figure approximates the same period in 2002 at 111,343 arrivals.

Similarities and differences in bilateral movement of persons

As to volume, Filipinos bound for Japan have exponentially exceeded Japanese nationals entering the Philippines. Japanese nationals are mainly executives or businessmen residing in the Philippines for business purposes, thereby facilitated by Mode 2 (consumption abroad) and Mode 3 (commercial presence).

Impact of Movement of Natural Persons

Economic contributions of bilateral movement of natural persons

Annual flow of remittances

Remittances play a significant role in a developing country's foreign exchange revenues that has contributed in the stability of the economy. This external source of income has increased significantly over the years, and has become the major factor that fills in the gap between the GDP and the gross national product (GNP) of an economy. In 1999, the Philippines (USD 6.9 billion) and India (USD 11 billion) led in terms of remittances through formal remittance channels of banks (Table 2).

Total remittances refer to workers' remittances and compensation of employees. For most countries, except the Philippines, workers' remittances account for almost all remittances. For the Philippines, compensation of employees accounts for the larger share.

The top five sources of remittance earnings for the Philippines in 2002 (Table 3) are the United States (USD 3.6 billion), the United Kingdom (USD 260 million), Hong Kong (USD 278 million), Germany (USD 89 million), and Japan (USD 469 million). By the end of 2003, the Philippines expects to earn a total of USD 7 billion from OFW remittances.

OFW remittances from Japan are broken down in Table 4 as sea-based workers (seafarers) and land-based workers (not disaggregated as to professions). From USD 131 million, dollar remittances doubled to USD 273 in 1999, and tripled to USD 391 million in 2001. In 2002, remittances reached USD 469 million. While OFW deployment to Japan is predominantly in the entertainment profession, remittances may not necessarily come from entertainers as most of them get their salaries in lump sum at the end of the six-month employment contract and bring home the earnings themselves. Land-based remittances could also come from intermarriages with Japanese nationals and technical trainees. These, however, need further study.

Table 2. Level of remittances: selected Asian countries (in USD million)

Year	Bangladesh	India	Pakistan	Sri Lanka	Indonesia	Philippines*
1975	-	430	-	9	-	-
1976	19	642	410	13	-	-
1977	79	934	868	18	-	338
1978	115	1,165	1,303	39	-	445
1979	171	1,437	1,495	60	-	556
1980	339	2,757	2,038	152	-	626
1981	381	2,301	2,057	230	-	800
1982	526	2,618	2,576	289	-	1,049
1983	642	2,660	2,926	294	10	1,124
1984	501	2,295	2,569	301	53	718
1985	502	2,469	2,525	292	61	805
1986	576	2,240	2,435	326	71	859
1987	748	2,665	2,170	350	86	1,020
1988	764	2,315	1,863	358	99	1,262
1989	758	2,614	2,008	358	167	1,362
1990	779	2,384	1,997	401	166	1,465
1991	769	3,289	1,541	442	130	1,850
1992	912	2,897	1,566	548	229	2,537
1993	1,007	3,522	1,446	632	346	2,587
1994	1,151	5,857	1,749	715	449	3,452
1995	1,202	6,223	1,712	801	651	5,360
1996	1,345	8,766	1,284	843	796	4,875
1997	1,527	10,331	1,707	934	725	6,799
1998	1,606	9,480	-	1,011	969	5,130
1999	1,807	11,124	-	1,068	1,109	6,896

* Figures have discrepancies with BSP figures shown in Table 2.

Source: United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), 2002, *IMF Balance of Payments Statistics Yearbook* as cited in "International migration: an emerging opportunity for the socioeconomic development of the ESCAP region."

Impact on the labor market

Labor migration to Japan could not be characterized as leading to brain drain. In fact, technical trainees in various high-technology industries benefit from the Japanese discipline, work ethic, and advanced production systems. For Filipino entertainers, they are mostly recruited from the pool of unemployed, thus, alleviating the burden of providing domestic employment to them.

Table 3. OFW remittances from various destination countries (in USD '000)

Country	1997	1998	1999	2000	2001	2002
United States	4,109,430	6,403,215	4,868,879	3,944,639	3,201,698	3,681,652
Saudi Arabia	5,723	33,433	183,304	494,032	609,600	590,836
Japan	131,375	107,807	273,831	370,097	391,871	469,080
Hong Kong	189,230	171,353	176,738	146,831	248,337	278,949
United Kingdom	205,940	130,961	83,079	91,087	134,168	260,743
Singapore	93,329	69,288	80,180	105,351	194,702	166,929
Germany	121,258	78,486	93,588	64,320	37,475	89,793
Canada	18,226	25,010	51,053	47,410	62,386	56,259
Australia	17,934	13,924	22,276	16,255	10,023	30,848
Kuwait	16,998	13,550	21,264	36,107	19,147	27,690

Source: BSP

Table 4. Overseas Filipino workers' remittances from Japan, 1997-2002

	1997	1998	1999	2000	2001	2002
Sea-based	8,873	7,333	43,820	46,739	18,248	26,087
Land-based	122,502	100,474	230,011	323,358	373,623	442,993

In USD '000

Source: BSP

Brain drain can only affect the nursing profession in the Philippines. While most nurses are awaiting deployment to the United States and United Kingdom, an additional market like Japan would mean further drain on the health care system of the Philippines. On the other hand, should the discussions on caregiving services with Japan materialize, workers will be recruited once again from the pool of unemployed.

For Japanese nationals and industries, Filipino migrant workers take on the 3K or 3D jobs, thus, enhancing productivity of Japan's various sectors. Entertainers address their recreation needs and using Truong's (1996) arguments, their reproductive objectives, through intermarriages.

Transfer of technology

The Philippines has inked an agreement with the Japanese government on the transfer of technology to Filipino trainees to improve labor competitiveness through the JITCO. In coordination with the TESDA, Filipino workers from

companies of sending organizations are selected and deployed to train in Japan.

Intracorporate trainees, particularly in the automotive and electronics industries in the Philippines (a sector significantly invested in and controlled by Japanese companies), benefit from the temporary movement to Japan through the development of knowledge base and transfer of technology, otherwise referred to as 'brain-gain.' However, the outflow of highly educated and skilled professionals to Japan may contribute to the problem of brain drain or a reverse transfer of technology. As of 2001, there are 3,768 Filipino trainees that entered Japan out of the 53,967 Asian subtotal.

The government of Japan also started offering the JITSE, which enables successful examinees to be hired in IT firms in Japan. However, during the pilot examination in 2002, due to the lack of course and review materials, the Philippine passing rate was only 6.1 percent or 44 out of 726 takers. In comparison, 17.5 percent or 14,741 out of 84,113 passed the standards examination in Japan. In 2003, the Philippine passing rate is still low at 5 percent.

Sociocultural impact of bilateral movement of natural persons

Impact on the family

While social costs can be raised as a downside of labor migration resulting to disintegration of the family and social values (juvenile delinquency and formation of materialistic values), a four-country study by the ESCAP on Indonesia, Philippines, Thailand, and Yunnan-China proved otherwise. The study indicated that despite the problems encountered by migrant workers, the positive outcomes outweigh the negative consequences (ESCAP 2002). The economic benefits that accrue to the migrant worker and his/her family constitute the single most tangible positive effect of migration. The effects are visible in the assets accumulated, small businesses acquired, and the social status achieved (Go 2002).

Key informants from nongovernment advocacy organizations for migrants in the Philippines expressed concern over the long-term negative effects of temporary migration on the migrants' families. These include disintegration of the family and disruption of relationships. Health issues related to children caused by the absence of migrant working parents, particularly mothers, may include early pregnancies, drug addiction, malnutrition, and school dropouts. There are no empirical studies yet to prove these claims. However, Go (2002) and Migrant Watch (2002) see the Filipino family as stable on account of its resilience and its ability to adapt to changing situations. For example, caretakers

and other relatives have been playing key roles in taking care of the children left behind (Migrant Watch 2002).

Most of the above benefits, on the other hand, have downsides, and these include the destruction of cultural values and religious heritage. The Philippines is predominantly Catholic and the deployment of workers to non-Catholic countries where the practice of religion is restricted, leads to an erosion of the cultural and religious heritage of the Filipino workforce. The usual 2–3 years employment contracts prevent Filipinos from observing cultural traditions and familial occasions such as Lent, All Saints' Day, Christmas holidays, family bereavement, paternity leaves, and children's graduation (Tullao and Cortez 2003.)

Impact on the community

With the long history of temporary migration and the overwhelming net successes of individuals, households, communities, and the economy as evidenced by around 2,700 Filipinos leaving daily for overseas deployment, the Philippines has developed a 'migration culture.' The negativity attached to being a '*japayuki-san*' (bound for Japan) has been overshadowed by the economic gains, assets accumulated, status attained, and personal experiences of overseas employment. Since overseas migration among Filipinos has been described from a household perspective, a migrant from one family enters a network of migrants, sometimes relatives or neighbors, in the destination country. Subsequently, every family in the community has at least a member of its family that has been deployed overseas. The improvement of housing facilities in the rural areas and the acquisition of consumer durables are some of the tangible effects of overseas migration on the community.

Impact on income distribution

As a whole, international labor migration has benefited a larger proportion of urban families than rural families. The percentage of urban families who rely on remittances from abroad as their main source of income is much higher than that of rural families (Go 2002). In a study by Tanchanco et al. (2003), the share of external remittance income has increased from 7.53 percent in 1988 to 8.61 percent in 2000. There were regions, however, where this share reached 15.63 percent in 2000. Interestingly, the study revealed that the Gini coefficients are very high in regions where the share of external remittances are quite substantial, implying that these international transfers accrue mainly to households in the upper-income deciles, thus worsening income inequality.

Problems and Issues in the Movement of Natural Persons

Cost of migration

Labor-sending countries entail lower social costs when they deploy less-skilled workers since these workers have lower training costs compared with professionals and skilled workers. If unskilled or low-skilled workers are recruited from the pool of unemployed, as the bulk of the unemployed workforce consists of less-skilled workers, their movement to regions with labor shortage may have a greater contribution in increasing global output and improving the domestic economy.

The cost of migration is generally shouldered by migrant workers to the point of compromising future earnings as debt payment. Recruitment of entertainers in the Philippines is an organized business where domestic recruiters have established counterparts in Japan. The initial costs of migration, which range from USD 1,000 to USD 2,000 that covers training, certification, costumes, board and lodging, and travel expenses, are loaned to migrants by recruitment agencies, training centers, and talent managers on the arrangement that the cost would be deducted from the lump-sum earnings normally given at the end of the contract period. In fact, according to government informants, entertainers may have to go to Japan for several times before he/she can really start to earn net of recruitment and other costs of migration. On the average, an entertainer earns only on the third contract.

Migration to Japan also has costs to the Philippine government in terms of welfare administration and certification of skills by the TESDA. Entertainers and cultural dancers are required to undergo training, testing, and certification under the Artist Record Book System. Entertainers are required to undergo skills training and testing for dancing, singing, and other performing arts. All outbound OFWs are required to attend predeparture orientation seminars by Overseas Workers' Welfare Administration (OWWA) accredited entities.

Exploitation at the workplace

A large number of Filipino female migrants enter Japan with an entertainer's visa. They are supposed to be singers and dancers but, in most cases, they are forced to entertain customers to the extent of prostitution. Japan's traditional *geisha* culture condones sex services as a form of entertainment. Incidentally, an entertainer is not considered a worker but a professional guest performing artist with which no labor law is applicable. They are, therefore, subject to abuses by their employers for the duration of their six-month contracts and in some cases only upon its expiration can they receive their salaries. For the meantime, they are at the mercy of their employers for living expenses. For

fear that their employers may preterminate their contracts, Filipino female entertainers run away and stay with their more experienced peers. This leads to irregular migration (Matsuda 2003).

The demand for female migrant workers in Japan is concentrated on the sex industry offering services and entertainment. Brokers and agents both in sending countries and in Japan are quite organized. It is noticeable that in Japan, entertainment establishments such as snack joints and bars are willing to employ young women with less skill or education. Many female migrant workers are working at bars and clubs as hostesses, singers, dancers, entertainers, and strippers. In most cases, prostitution is part of their work (Matsuda 2003).

Unfair labor practices

In many cases, female entertainers are confined together in small places, guarded, and limited in activities as most of them do not understand Japanese. Although they are employed, they are faced with various violation of human rights and disadvantageous practices such as (a) confiscation of passports by employers, (b) salaries released in lump-sum upon returning home, (c) imposition of penalties for various reasons, (d) violence, (e) forced overtime and out-of-contract work, and (f) offset of wages with cash advances (Matsuda 2003).

Immigration problems

Japan appears to have a lax immigration policy due to the large discrepancy between registered and irregular migrants. In fact, it has become cyclical for entertainers to overstay and reenter Japan. A number of reported cases of missing and undocumented workers have raised immigration problems.

Adjustment problems

Predeparture seminars. To avoid adjustment problems and empower workers, the OWWA conducts predeparture seminars on destination country and job peculiarities.

Language proficiency. There is also a proliferation of Japanese language training centers accredited by the Japan Foundation Manila Office. These centers conduct skills development and preparation for the Japanese Language Proficiency Test (JLPT), which is simultaneously given annually in Manila (De La Salle University-Manila), Cebu City (University of San Carlos), and Davao City (Nikkei-jin Kai, Inc.). The Japan Foundation, in cooperation with other cultural exchange/educational institutions, administers the JLPT once a year worldwide to evaluate and certify the Japanese language proficiency

of nonnative speakers. The test comprises four levels based on proficiency and covers writing-vocabulary, listening, and reading-grammar. There are at least 26 training institutions in Manila and 25 in the provinces that conduct Japanese language education and Japanese studies. Placement agencies, to some extent, also conduct basic language training to professional entertainers.

Prospects of Enhancing Movement of Natural Persons

Commitments of Japan under Mode 4 in the GATS

Japan made commitments for intracorporate transferees and temporary visitors as stipulated in its Immigration Control and Refugee Recognition Act. Japan also offers to take commitments on the residency status of accounting, engineering, legal services, and specialists in humanities and international services. Beyond horizontal commitments, Japan is offering to commit the legal and taxation services sector, in addition to the supply of services by natural persons. On placement and supply services of personnel, Japan is offering to remove the limitation on the number of licenses conferred to service suppliers, and to expand the scope of occupations for which these services may be supplied. Japan offers to take new commitments subject to qualifications in some of the other business services, which it has not committed namely, investigation services, telephone answering services, mailing list compilation and mailing services, courier services, telecommunications services, distribution services, educational services, environmental services, financial services, tourism and travel-related services, and maritime transport services. Japan has committed the deletion of the requirement for contractual service suppliers for juridical persons. From a previous maximum term policy of five years, Japan has committed an initial period of 1–3 years with a possibility for extension. Business visitors will be allowed to stay for 90 days while independent professionals will be allowed 1–3 three years with a possibility for term extension. However, Japan has yet to commit on health services in relation to the movement of natural persons and independent service providers¹ (Tullao and Cortez 2003).

Current immigration policies of Japan

Japan's policy of accepting foreign workers is based on two assumptions. *First*, Japan's promotion of technical exchange with foreign countries will help revitalize and internationalize its economy and society. *Second*, the local economy, particularly as it affects Japanese workers, will not be adversely affected (Cabilao 1998).

The 1989 revisions to the Immigration Control and Refugee Recognition

¹ Independent service providers are persons who offer/perform services without affiliation to a firm.

Law established 28 categories of foreign residents in Japan. Of these, approval to take on employment is granted to the following: (1) professor, (2) artist, (3) person involved in religious activities, (4) journalist, (5) investor and business manager, (6) provider of legal or accounting services, (7) provider of medical services, (8) researcher, (9) instructor, (10) engineer, (11) specialist in the humanities or international services, (12) intracompany transferee, (13) entertainer, and (14) skilled worker. The labor market test applies to the employment of foreign nationals (Sasajima 2003). Table 5 summarizes the categories and number of entry permits granted to foreign workers.

A growing number of Japanese companies especially large, multinational firms, are actively hiring foreign nationals due to globalization of operations; the need for information, knowledge, and skills that foreigners possess; the desire to hire the best available workers; and the hope that foreign workers would help enhance the Japanese staff's linguistic skills and sensitivity to foreign cultures (Sasajima 2003).

Table 5. Entry permits to foreign workers

	1990	1995	2000	2001
Professor	591	1,296	1,941	2,024
Artist	1,202	103	167	211
Person in religious activities	1,958	1,219	1,199	1,105
Journalist	410	212	231	166
Investor and business manager	3,807	1,021	863	681
Provider of legal or accounting services	42	7	3	5
Provider of medical services	73	1	1	
Researcher	458	870	1,036	793
Instructor	4,092	2,963	3,323	3,296
Engineer	1,338	3,717	3,396	3,308
Specialist in humanities or international services	2,756	4,982	7,039	6,945
Intracompany transferee	1,540	3,074	3,876	3,463
Entertainer	75,091	59,833	103,264	117,839*
Skilled workers	1,510	2,210	3,529	2,118
Total	94,868	81,508	129,868	141,954

Source: Ministry of Justice, Government of Japan; Sasajima (2003)

*Per POEA records, there are about 65,000 entertainers in Japan in 2001.

To discourage and prevent irregular migration, there were amendments imposing penalties for persons employing illegal aliens at work. Unskilled migrant labor is also prohibited from employment in Japan (Sasajima 2003).

However, categories for unskilled workers are not disaggregated. The Ministry of Justice only recognizes those workers who fall into official categories of residency status. Workers who are not included in the government categories are considered illegal or unskilled. No category covers women employed as factory workers, household helpers of nondiplomats, and 'hostesses.' Japanese immigration law does not explicitly define skilled and unskilled work (Cabilao 1998). The classification of a particular job is at the discretion of Japanese authorities. For instance, the job of a carpenter is thought to be a typical skilled worker. However, under the current immigration policy, the said job is considered unskilled (Cabilao 1998).

In 1997, further amendments in Japan's Immigration Act included provisions for penalizing smugglers and organizers of collective stowaways. In 1999, penalties for organized human smuggling were established to discourage the practice.

The Employment Security Act and Workers' Dispatching Law are also applicable for the employment of migrant workers. For female migrant workers engaged in jobs as hostesses and waitresses, the law prohibits employers to let the worker shoulder unfairly large amount of debts. Some employers wish that the balance be promptly repaid if the worker quits the job, and confiscate the passport or travel document of the worker in debt. Therefore, it is against the law for employers to offset workers' debts against their cash advances or to take away passport of workers.

Managers or brokers forcing female migrants to engage in prostitution with the use of violence or to forcibly make them pay debts are violating the anti-prostitution law. Japan generally prohibits prostitution, as embodied in the Anti-Prostitution Law of 1957. However, the law permits prostitution in certain areas. This 'prostitution culture' is tied to the Japanese belief that there are two kinds of women: the bad (or the prostitutes) and the good (or the housewives). Housewives, normally, do not condemn their hardworking husbands for soliciting the services of the 'bad women' as a form of rest and recreation (Cabilao 1998).

Commitments of the Philippines under Mode 4 in the GATS

There is a labor law provision for labor market test in the Philippines, constituting a limitation under Mode 4. Nonresident aliens may be admitted to the Philippines for the supply of a service after a determination of the nonavailability of a person in the Philippines who is competent, able, and willing, at the time of application, to perform the services for which the alien

is desired. European Commission has requested that this be not applied in relation to intracorporate transferees. The Philippines has not yet submitted any request from destination countries under the GATS negotiations.

Demographic changes in Japan

Implications of an ageing population in Japan

Japan has a population of 127.5 million in 2001, a working-age population (15 years old and over) of 108.8 million, and a workforce (those employed plus those classified as unemployed) of 67.5 million. Females make up 41 percent of the workforce. The ageing population is apparent in Table 6. In 1990, 23.8 percent were 55 years or older while 12.1 percent were 65 years or older. In 2001, the ageing population grew by 30 percent where the 55 years or older group comprised 30.4 percent while the 65 years or older comprised 17.8 percent of the total population. Ageing is a recognized phenomenon in developed countries. However, Japan's trends differ in speed. What would take the United States 56 years, Germany 70 years, and Britain 75 years to attain such proportions is projected to take place in Japan in only 21 years. By 2010, it is projected that almost 60 percent of Japan's population would be over 55 years where 37 percent belongs to the 55 or older age group and 22.5 percent to the 65 or older age group (Sasajima 2003).

Table 6. Population and labor force projections (in million people)

Age	Population			Labor Force		
	1990	2001	2010	1990	2001	2010
0-14	22.5	18.3	17.1	0	0	0
15-29	27.0	25.6	20.4	14.7	15.6	12.3
30-54	44.6	44.5	42.8	36.2	36.4	35.5
55-59	7.7	8.3	8.6	5.6	6.3	6.7
60-64	6.8	7.8	9.9	3.7	4.3	6.3
65-	14.9	22.6	28.7	3.6	4.9	6.6
Total	123.5	127.1	127.5	63.8	67.5	67.4
Share (%)						
55 or over	23.8	30.4	37.0	20.2	23.0	29.1
65 or over	12.1	17.8	22.5	5.6	7.3	9.8

Note: Projections for issues in supply and demand in the labor force, 1999.

Sources: Sasajima (2003); Ministry of Public Management, Home Affairs, Posts, and Telecommunications, *Rodoryoku chosa* (labor force survey), and the Ministry of Health, and Welfare.

Table 7. Population forecast for Japan, 1995–2050

Year	Total (in '000)	65 Years and Over	Percent of Total
1995	125,570	18,277	15
2000	126,926	22,041	17
2010	127,473	28,735	23
2020	124,107	34,559	28
2030	117,580	34,770	30
2040	109,338	36,332	33
2050	100,593	35,863	36

Source: National Institute of Population and Social Security Research; Foreign Press Center-Japan (2003)

Table 7, which was based on facts and figures of Japan (Foreign Press Center-Japan 2003) projects that the ageing population (aged 65 or older group) could even reach to as much as 36 percent in 2050 from only a projected 28.7 percent of the total population in 2010.

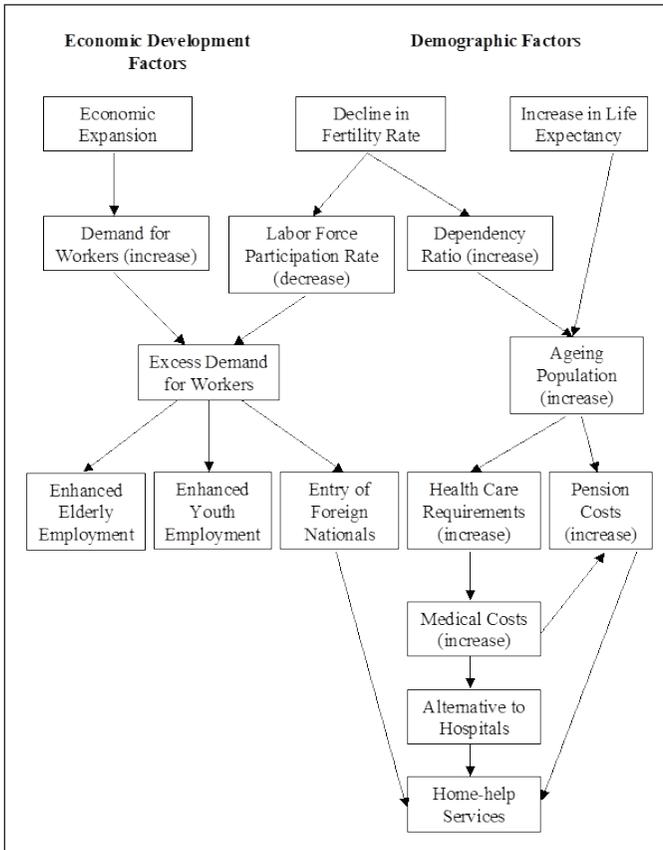
Japanese workers are seen to work until they are 65 years of age for only then shall they be entitled to retirement pension. The main problem the government faces as a result of the ageing of the population is the deteriorating financial health of the public pension system. The government reforms the public pension system every five years, and among the measures it has taken to stem the financial woes are cutting the level of pension payments, increasing the level of contributions, and raising the starting age for the payment of public pensions gradually to 65 from 2001 to 2025 (Sasajima 2003).

Exploring the opportunities of an ageing population

Supply of health professionals in Japan and the movement of natural persons/movement of natural persons of health professionals

To understand the need for home-help services, the complex interaction of economic development and demographics factors would have to be considered. Economic expansion leads to increased demand for workers. For demographic factors, Japan's declining fertility rates and the increase in life expectancy of the population have decreased labor force participation rate at the same time increasing dependency ratio. High dependency ratio requires increasing number of the working population to attend to the ageing group, thus, creating the void in the demand for workers. This excess demand may be addressed domestically by enhancing the employment of the elderly, which in

Figure 1. Framework providing the rationale for the movement of natural persons (health care providers) to Japan



Japan's case is costly since age correlates to salary scale, and by encouraging youth employment, which is the more realistic scenario. The excess demand may also be met by the employment of foreign workers.

As the ageing group increases, there are corresponding increases in pension costs and health care requirements. Resultant medical costs may lead to alternative sources of caring for the elderly like househelp-caring services. Considering the changing work and family values of Japanese workers, employing foreign nationals for househelp-caring services may be seen as a way of complying with Japanese good family values. Good family relation can even be maintained through the removal of the care burden to the family (Saito 2003).

Establishment of retirement havens in the Philippines

Since the 1980s, the Philippines has been promoting itself as a retirement community mainly for foreigners "as a means of accelerating the social and economic development of the country, strengthening its foreign exchange position at the same time providing further the best quality of life to the targeted retirees in a most attractive package." The retirement industry is seen as a potentially lucrative source of financing and foreign investments through foreign retirees and their dependents (Tigno 2001).

Under Executive Order No. 1037, foreign nationals and overseas Filipinos participating in the country's retirement program are given incentives and benefits. The first is tax exemption and exemption from the payment of customs duties or import taxes for one time only up to USD 7,000 and the right to import one automobile for personal or family use free of all import and customs payments. There is also a provision for guaranteed repatriation of any foreign exchange currency remitted to, brought in, or invested in development projects pertinent to the program. Permanent resident status may be granted to foreigners participating in the program. In addition, the spouse and unmarried children under 21 years of age of the foreign retiree may also be given permanent resident status if accompanying or intending to join the retiree in the Philippines. If applicable, special retiree visas shall be issued to allow multiple entries for the duration of the retirement program. In the event of death of the retiree, all rights benefits and obligations may be transferred to the surviving spouse (Tigno 2001).

Allowing the movement of retirees to the Philippines could be facilitated by Mode 2 (consumption abroad) of the GATS and even by Mode 3 (commercial presence).

Capabilities of Filipino workers: nurses, caregivers, and technical workers

Nurses. The Philippines has been exporting nurses on a cyclical trend to the United States, the United Kingdom, and the Middle East.

Table 8 summarizes the deployment of newly hired nurses from 1998 to the first half of 2003. Following the oil boom in the 1970s, middle-eastern countries have employed the majority of Filipino nurses abroad. Saudi Arabia leads the group of destination countries with 6,068 newly hired nurses and followed by the United Kingdom with 3,105. These figures, however, are for newly hired nurses and do not necessarily show total deployment.

Table 8. Deployment of nurses (new hires), 1998–1st semester 2003

Country	1998	1999	2000	2001	2002	2003*
Algeria	1			1	2	
Angola		1		1	1	1
Australia			2		2	3
Austria	1	1				
Bahamas	2			4	2	
Bahrain	42	11	22	7	57	13
Belgium					1	
Bermuda			1	4	1	
Belize		1				3
British West Indies					1	
Brunei	3	1		1	9	1
Cambodia			1			
Canada			1	7	51	13
Commonwealth of Northern Marianas Island	1	2		27	10	1
Cuba					1	
Diego Garcia						2
Egypt	28	28	18			
Equatorial Guinea		3				
Federal States of Micronesia		1				
Guam			6	7		
Hong Kong			1			
Iceland			1	1	1	
Ireland			127	1,561	930	175
Isle of Man			4			
Israel				3	12	
Italy				1	1	1
Jordan	18		29	36		
Kuwait	143	53	133	192	108	13
Lebanon	24					
Libya	89	18	17	9	424	39
Malaysia	34	13		2	16	7
Maldives	1	2	1	1		
Malta			1			
Marshall Island					1	4
Netherlands				34	10	
New Zealand	15	25	16	12	6	4
Nigeria		1	1			

Table 8. (continued)

Country	1998	1999	2000	2001	2002	2003*
Norway	2	3	19	50	33	1
Oman	79	119	47	3	1	
Pakistan	5					
Palau			1		1	1
Qatar	29	12	7	143	213	216
Saipan	4	21	24	49	17	3
Saudi Arabia	4,098	4,031	4,386	5,275	6,068	3,021
Singapore	371	214	418	413	338	236
Taiwan	8	17	1	9	131	134
Thailand	2		1			
United Arab Emirates	279	378	305	249	424	152
United Kingdom	63	934	2,628	5,388	3,105	962
United States	5	53	91	304	322	106
Yemen North	52	29	30	27	32	10
Yemen, Republic of			1	1	2	3
Yemen South					1	
Total	5,399	5,972	8,341	13,822	12,335	5,125

Source: POEA

* 1st half of 2003 only

Caregivers. With the opportunities in destination countries for health service providers and allied services, a new segment in the Philippine health services sector called 'caregiving' emerged. A caregiver can be defined as a person responsible for meeting the physical and psychological needs of an infant child or dependent adult. Without supervision, a caregiver provides private household child care, senior support care, or care of the disabled (TESDA 2003).

This sector, which aims at serving Canada and other developed countries with ageing population, has attracted Filipino migrant workers. The POEA classifies caregiving services as skilled—considering the training and certification process a worker has to undergo before deployment overseas.

It is foreseen that the demand for caregiving would continue to rise in the next four years. Demand prospects for the country include countries with ageing populations (TESDA 2003) like Canada. However, POEA figures on new hires show that Israel's demand for caregivers compares with that of Canada with reported average monthly earnings amounting to USD 800 per month. Canada's live-in caregiver program offers temporary employment opportunities for individuals willing to provide care for children, the elderly, or people with disabilities in their own homes. Eligibility requirements include

high school equivalency, training or experience in a related field, and an ability to work using the English language. Caregivers who complete 24 months of full-time, live-in employment during a 36-month period can apply for permanent landed immigrant status for themselves and their dependents (Martin Spigelman 2000).

Table 9 shows the outflows of newly hired caregivers and their countries of destination.

As a result of this surging demand, caregiver training institutions have mushroomed all over the Philippines. More than 500 institutions applied with the TESDA for accreditation of their program as of April 2003. However, TESDA has registered only 150 caregiver institutions nationwide and is closely monitoring the various training centers to curb the proliferation of unauthorized training centers. All caregiver programs are being evaluated based on Training Regulations on Caregiver promulgated by the TESDA Board. While nursing schools have introduced caregiving as a vocational alternative, there were institutions that particularly focused on the vocation itself while there were other technical and vocational institutions that spun off the service from other allied services.

Table 9. Deployment of caregivers and caretakers (new hires)

Country	2001	2002	2003*
Bermuda		1	1
Canada		2,152	1,206
Cayman Islands	1		
Cyprus			1
Hong Kong			1
Ireland	58	63	74
Israel	397	2,908	934
Jamaica		1	
Kuwait			1
Saudi Arabia	3	5	
Singapore	2		
Taiwan			8,429
Tajikistan			1
Tanzania			2
Tonga			1
United Kingdom	4	253	264
Total	465	5,383	10,915

Source: POEA

*1st half of 2003

In an attempt to standardize, assess, certify, and monitor the caregiver training program in the country, TESDA has formulated the caregiver course module covering the following:

- Overview of the live-in caregiver program of Canada
- Introduction to live-in caregiver skills enhancement
- Basic first aid
- Basic life support
- Cardiopulmonary resuscitation
- Home and client safety management
- Home management and client care
- Nutrition and food preparation
- Care of the child
- Care of the elderly
- Canadian culture, people, and traits
- English as second language
- Personality development

The above standards are used for registration of programs, assessment, certification, and monitoring of training institutions in the Philippines and may be used as criteria for domestic regulation in other destination countries (TESDA 2003).

Mutual recognition

Expanding trade in professional services will require the accreditation of qualifications of service providers in the light of existing differences in training, requirements, standards, and licensing mechanisms across countries. In addition, domestic rules governing the practice of a profession entail not only the licensing procedures but imply, to a great extent, the valuation of perceived social risks from the incompetence of service providers.

In a study by Veronica Ramirez (2001), she concluded that the quality of Filipino nursing graduates is at par with APEC member-countries. To enhance access by Filipino nurses who are now recognized as service providers in the United States, the United Kingdom, and Saudi Arabia, local accrediting bodies like the Professional Regulation Commission (PRC) should aim at regional accreditation and certification. This will pave the way for local professional associations like the Philippine Nurses Association (PNA) to enter into a mutual recognition agreement within the APEC region. Aiming for international comparability and standards will also serve as a challenge to the Philippine educational system, for nursing education in particular, to gain more international respect and recognition (Ramirez 2001).

In establishing guidelines for the accreditation of qualifications, however, GATS member-countries have different views on which pertinent article on the

GATS should prevail. One view is to operate within the provisions of Article VI on Domestic Regulation while others believe that Article VII is very explicit on the process of recognition of qualifications of service providers.

Members arguing for Article VI consider the prominence of domestic regulation over the need to have a multilateral recognition of qualifications. For reasons of public order, health and safety, public morals, and other socially acceptable reasons, government can enforce laws and regulations pertaining to the provision of a service. Thus, according to this view, recognition of qualifications of service providers should operate within the basic right of sovereign nations to regulate their domestic economy (Tullao 1999).

Article VII, on the other hand, intends to accomplish the prevention of barriers to trade in services arising in the course of the administration of domestic regulation. In view of this, member-countries are assured that government regulations affecting trade in services are administered in a reasonable, objective, and impartial manner.

As in the case of Japan and other receiving countries, there are practical reasons why many countries are opting to use Article VI as the avenue to pursue recognition of qualifications. *First*, a harmonized system under an MRA is more of a long-term objective given the difficulties in harmonizing the multiple and different standards, qualifications, and other requirements across countries. *Second*, countries that are allowed to enter into bilateral MRAs, or even to have an autonomous recognition, are required not to discriminate. However, inherent in reciprocity agreements on recognition of professionals is the discrimination on third parties.

On the other hand, Article VII does not obligate members to form MRAs but encourages them to establish such arrangements. Members are free to choose their own approach in recognizing foreign qualification and licenses through autonomous recognition, bilateral arrangements, or international harmonization.

The scope, use of titles, licensing agencies and recognition mechanisms, and levels of equivalence agreed upon by the parties should be established. The precise terms of agreements will depend on whether the MRA is based on qualifications, experience, licenses, or combinations of those elements.

If the MRA is based on recognition of qualifications, the following should be included:

- 1) Minimum level of education required, including the entry requirements, length of study, and curriculum.
- 2) Minimum level of experience required, including length of conditions or practical training or supervised professional practice prior to licensing.

- 3) Framework of ethical and disciplinary standards.
- 4) Examinations passed and the extent to which home country qualifications are recognized in the host country.

On the other hand, if the MRA is based on recognition of the licensing or registration decision of a licensing agency, the MRA should specify the mechanism by which eligibility for such recognition is established.

If additional requirements are needed to ensure quality of service, the conditions under which those requirements may apply should be spelled out in the MRA. Examples are shortcomings in relation to the qualification requirements in the host country or knowledge of local law, practice, standards, and regulations.

Because of the differences in education and examination standards, experience requirements, regulatory powers, and other factors across countries, it is difficult to implement professional recognition on a multilateral basis. Bilateral negotiations, on the other hand, are more practicable since countries are able to focus and resolve key issues related to their two environments. Once bilateral agreements have been achieved, this can lead to other bilateral agreements, which will ultimately extend mutual recognition more broadly.

Domestic regulations on the practice of health professions

On a global scale, only 40 percent of the WTO member-countries have committed to the health and education sectors. Education and health services have traditionally been subject to strong government involvement in many countries and this situation has changed far less rapidly than the role of governments in, for example, banking or telecommunications. From the standpoint of individual health ministries and health-related associations, the Uruguay Round of negotiations might have been viewed as a threat, jeopardizing basic quality and social objectives, rather than as an opportunity for reform that would improve efficiency (Adlung and Carzaniga 2001). Japan's health services sector remains closed in spite of its ageing population. In its proposed commitments to the GATS, health services were not mentioned among the sectors.

On the specific commitments of WTO members on individual health services, as of July 2000, Japan, like the United States, has committed only to hospital services. Medical and dental, nurses and midwives, and other human health services have remained a closed sector for health services in Japan. In terms of movement of natural persons, Japan has offered to take commitments but only to certain professions listed in a previous section of this paper.

Cultural apprehensions

The problem of ageing population does not exist in developing countries. Most of the problems concerning bedridden elderly and care for the senile, dementia patients arise in the countries where people live for more than 80 years and Japanese people live the longest in the world (Saito 2003).

In comparison to elderly care services in developed countries like the United States and Europe, there were very few in Japan. According to a study by Saito (2003), at the beginning of the 1990s, compared with European countries, Japan had only one-fifth the number of home-helpers and only one-tenth the number of nursing homes. Because the care service was not sufficient, most families in Japan had no way but to care for the elderly parents. According to the Ministry of Health and Welfare, over 50 percent of the families who take care of their handicapped elderly at home are over 60 years old (Figure 2). Saito (2003) further describes the situation as "elderly taking care of the handicapped elderly at home with few care services." The lack of care services has produced many bedridden elderly. Before World War II, it was customary for the wife of the oldest son to take care of her husband's parents. However, lifestyle has changed and married couples do not want to live with their parents anymore. Japan, therefore, cannot depend on the traditional ways of caring for the elderly.

The Japanese elderly have a strong opposition to being cared for by strangers. They feel that the family should provide the elderly care service. The virtue of *inkyō* ("live in hiding") also explains why the elderly would want to live quietly. This disposition of the elderly in Japan became one of the reasons why the detection of sickness was often delayed (Saito 2003).

In the pre-World War II era, the Japanese brought up children with the expectation of support in their old age. The idea of "the Japanese-style welfare society" aimed for an inexpensive welfare society in the 1970s where women were made care provider of their old parents at home. Even now, 85 percent of long-term care providers are women (Saito 2003).

Saito (2003) adds the other cultural apprehension of Japanese elderly to live in hospitals rather than in an old age home. They think that the old age home is for poor people. At one time, the old age home was the place for

Figure 2. Ratio of bedridden elderly by bedridden duration

Less than 1 month (2.8%)	1–6 months (11.6%)	> 6 months (11.3%)	1 year–3 years (21.2%)	> 3 years (53.0%)
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Source: Statistics and Information Department, Minister's Secretariat, Ministry of Health and Welfare, "1995 Comprehensive survey of the living conditions of people on health and welfare."

poor elderly who could not be taken care of by their family. As a result, medical expenses for the elderly are increasing year by year in Japan.

Policy Options

In the first part of this paper, three major issues on the movement of natural persons between the Philippines and Japan have been mentioned that need to be addressed at various levels. The issue of access includes the mode of facilitation, volume of flows, and the composition of flows. The issue of protection, on the other hand, should include the legal framework of protection and the major limitations of this framework. On the issue of impact, it should cover the effects of overseas employment on the national economy, its role in facilitating trade, the concern on the migrant, and the consequences on the family and community.

Issue of access: mode, volume of flows, and composition of flows

There are two major options that the Philippines can pursue in its efforts to increase market access on the movement of natural persons between the Philippines and Japan. It can either take the bilateral route or engage actively in multilateral initiatives. Under the bilateral option, an FTA with Japan could be forged that would specify requirements for market access for OFWs intending to seek temporary employment in Japan. A bilateral mode may be preferable to a multilateral mode since it addresses very specific needs of contracting parties. However, given the unequal status between the Philippines and Japan, the commitments of the accord may not be as binding as the commitments in multilateral agreements. Another bilateral avenue is through an MRA with Japan on key specific professions and occupations. An MRA is an ideal option because it focuses on particular market access issues including qualification requirements and technical standards of specific professionals and workers. However, it may be difficult to organize because it requires lengthy discussions involving several parties. These contracting parties may differ in views that are colored by their respective country's regulatory measures that are in turn based on public interest and to some extent protectionist stance of certain interest groups.

To enhance market access for the movement of natural persons via the multilateral mode, the Philippines should align with the position of developing countries led by India in the current negotiations of the GATS. One benefit of going multilateral is the binding nature of the commitments. However, these binding commitments, in turn, make countries reluctant to make extensive market access commitments particularly on the movement of natural persons.

Although Japan has offered to commit additional occupations and professionals that can enter under Mode 4, it has not committed health services, a sector of interest to the Philippines, in relation with the movement of natural persons and independent service providers. Moreover, commitments made by Japan at multilateral negotiations will not benefit exclusively the Philippines since these will apply to all member-countries of the WTO under the MFN principle. In fact, greater market access in Japan may even hurt the Philippines as other foreign workers that may enter Japan would displace OFWs and reduce the market share of Filipino workers.

Under the principle of reciprocity, any request for greater market access for Filipino workers with Japan must be matched by a corresponding offer. Philippines must be willing to open the economy to Japanese professionals and workers aside from the usual intracorporate transfers. Although there is the Constitutional prohibition on the hiring of foreign workers in this country, the Labor Code allows the entry of foreign workers under certain conditions determined by the economic needs test (ENT). In this light, the Philippines must be more transparent and specific in setting the conditions and requirements for the ENT. In the same light, the Philippines should also encourage the entry of Japanese scientists, professors, and researchers that can significantly contribute in improving the quality of higher education in the country through research and the development of graduate education.

In any bilateral economic agreement with Japan, the Philippines should push for the liberalization of the Japanese health care industry. Given the ageing population in Japan, on one hand, and the ability of the Philippine human resource development institutions to train health workers, on the other hand, it will be of mutual interest to both countries if the entry of Filipino caregivers is liberalized. However, there is a need to strengthen the regulatory measures of government agencies in the Philippines to ensure the quality of graduates from institutions offering short-term training programs in caregiving.

To start with, the Philippines may present similar arrangements with receiving countries. In Spain and Italy, Filipino nurses act as nursing assistants to train side by side with a certified/registered Spanish or Italian nurse. In Austria, the host government pays for the six-month training of Filipino nurses to ensure compliance with their standards.

Since language and culture is a major barrier to access to the Japanese market, the TESDA can assess, certify, and monitor the operations of language training centers. All Japan-bound health professionals could be required to take the JLPT and some units in Japanese culture. A criterion for training and certification of caregivers catering to the Japanese market could be set similar to the established standards for the Canadian market.

Aside from enhancing market access for individual caregivers, the Philippines should (a) explore the liberalization of Mode 3 or commercial presence for Filipino caregiver agencies, and (b) examine how Filipino health professionals (e.g., doctors, nurses, dentist, and physical therapists) can enter the Japanese health care sector and work out an MRA with Japan on educational qualifications, professional requirements, and other technical standards so that the qualifications of Filipino health professionals can be comparable and recognized in Japan. Such recognition is a major prerequisite for entry and eventual employment.

There is a need to revitalize, repackage, and market the Philippines as a haven for retirees. Instead of giving residence status, Japanese retirees can stay in the country temporarily. For example, December–April is an excellent season to visit the Philippines. Japanese retirees can stay in the country during this period on a short stint to relax and escape the cold winter in Japan.

The bulk of Filipino workers in Japan are entertainers who stay in Japan for a six-month contract. There is a need to restructure the composition of workers beyond entertainers. One alternative that can restructure the composition of flows is to push Japan to open its health care sector to foreign workers particularly for Filipinos. Starting with an MRA in health professionals, educational qualifications, experience, and professional credentials of Filipino nurses, doctors, dentists, and other health professionals can be appreciated, recognized, and find equivalency in the Japanese health occupational structure.

Issue of protection

Any bilateral economic agreement between the Philippines and Japan should include a provision on the protection of OFWs in Japan. The protection of workers covers the period from recruitment to their return to the Philippines. Although Japan has strict immigration policies and labor laws that adhere to international standards, the prevalence of abuse, discrimination, nonpayment of wages, violation of contracts, and the rise in missing and irregular migrants tend to indicate that the implementation of these laws is very lax. Aside from identifying the flaws in the legal framework of protection, there is a need to regulate migration flows at both ends so that OFWs will not end up as preys and victims of illegal recruiters, crime syndicates, and unscrupulous employers.

The bulk of the Filipino workers in Japan are entertainers who enter the host country on a six-month contract. Since they are not considered workers in Japan, they are not covered by labor laws and therefore potentially subject to all types of abuse. In the Philippines, they are categorized as professional entertainers and are subject to skills competency requirements set by TESDA. The Philippines should push for Japan to reexamine its position on the labor

status of entertainers. Inclusion of entertainers as part of the labor force would give them protection from the current abuses they have to bear and may contribute in minimizing the problems related to missing and irregular migrants. If the classification of entertainers will remain as temporary workers as defined under Mode 4 of GATS, the issue of protection of temporary movement of natural persons remains an important concern that should be pursued by the Philippines in an economic agreement with Japan.

A sizable number of Filipino workers who enter Japan are corporate trainees. The objective of the program is to expose Filipino workers to the various aspects of Japanese companies so that they may gain experience on how they use modern technology. Although these training programs have the potential of contributing to the transfer of modern technology, there are reports that its implementation has been tainted with abuse. Although Filipino workers enter as trainees, they end up performing regular work but without the corresponding compensation and protection. The Philippines should request Japan to make stringent measures so that trainees will not be abused at the workplace and be treated as trainees and not as regular workers.

Issue of impact

The enhanced market access in the movement of natural persons between the Philippines and Japan can contribute in expanding the remittance flows of foreign exchange to the country given the household perspective in the decision of Filipinos to work overseas. More than contributing to the stability of external balance of our macroeconomy, the remittance flows should be channeled to more productive use beyond the provision of consumer goods, housing, and the education of migrants' children. The financial sector should develop attractive financial instruments that can be offered to OFWs for inclusion in their basket of personal investment.

Since overseas migration tends to favor individuals coming from higher income groups, there is a need to push for greater market access that would benefit the poor members of Philippine society. In this light, caregiving services can be a possible avenue where the poor Filipinos can reap the benefits of overseas employment since caregiving skills do not require enormous amount of training. Another measure of making overseas employment more equitable is to make the costs of migration more affordable through the provision of soft loans to potential OFWs as practiced in other countries.

With the exit of highly skilled professionals from the country, the problem of brain drain becomes a consequence of overseas employment. However, the issue of brain drain can be transformed into brain gain through technology transfer. Filipino professionals training in Japan should be encouraged so

that they may be exposed to the modern technology used in various fields. The training, exposure, and experience that they could gain in Japan can be applied in the Philippines upon their return. A mechanism that would ensure the return of Filipinos who have undergone training in Japan could help avoid the temptation of becoming irregular workers. In addition, the country should also open its market particularly in the knowledge sector, including educational institutions, and allow the entry of scientists and professors.

One major concern that should be explored is the development of alternative mechanisms for providing employment opportunities to OFWs upon their return to the Philippines. Since overseas migration is an adjustment mechanism to the asymmetries in demography and development, such asymmetries are not permanent. The labor market in the host country may change over time and may not need foreign workers in subsequent years. In such an event, the Philippines should be ready to provide employment opportunities to these returning OFWs.

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8 Exploring the Potential of a Japan-Philippines Economic Partnership in Human Resource Development¹

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Introduction

This paper aims to explore the potentials of a Japan-Philippines economic partnership in human resource development. Specifically, it aims to (1) provide a comparison of the human resource situation of the Philippines and that of Japan, (2) pinpoint possible areas of cooperation and complementation in the bilateral agreement on human resource development, and (3) formulate strategies on how to improve the human resource in the Philippines and Japan on identified areas of complementation.

Trends and Patterns in Japan-Philippines Human Resource Development

Status of human resource development in Japan and in the Philippines

The Human Development Report prepared by the United Nations Development Programme (UNDP 2003) advocates that economic growth, increased international trade and competitiveness, investment, and technological advances are all means and not the end in the realm of fostering human resource development. UNDP (2003) maintains that human development is about expanding their choices to lead lives they value.

In this regard, the Human Development Index (HDI) is an important indicator for assessing and evaluating the status of human resource development. The indicator is constructed basically by the weighted aggregation of human life

¹ Prepared for the PJEPA project.

² The authors appreciate the assistance of John Adrian M. Narag, research assistant of the project.

expectancy, adult literacy, and schooling gross enrollment ratios and GDP per capita. Table 1 shows the comparative indices of Japan and the Philippines from 1975 to 2000. Similar to the initial observation, human resource development in Japan is more advanced than the Philippines. Classified by the UNDP as a high-income country, Japan ranked 9th for its effort to further human development, while the Philippines, as a middle-income country, placed 77th. Looking closely at the statistics, the performance indicator for the Philippines in 2000 was 0.754, a level that lags behind the performance of Japan 25 years ago (0.854).

The apparent disparity in the level of human development between the two countries can be seen in Table 2, showing the disaggregated components of the HDI. Life expectancy at birth in Japan is almost 15 percent higher than the Philippines, which implies relative success of the former in expanding knowledge of causes of diseases and in the methods of prevention, treatment, and health maintenance and protection. Both countries, on the other hand, are almost at par in furthering access to education in the primary, secondary, and tertiary level.

Table 1. Human Development Indices, Japan and the Philippines, 1975–2000

Country	Rank (2002)	1975	1980	1985	1990	1995	2000
Japan	9	0.854	0.878	0.893	0.909	0.923	0.933
Philippines	77	0.652	0.684	0.688	0.716	0.733	0.754

Source: United Nations Development Programme (UNDP), 2003

Table 2. Selected human development indicators, Japan and the Philippines, 2000

Human Development Indicators (2000)	Japan	Philippines
Life expectancy at birth	81	69.3
Adult literacy rate	0	95.3
Combined gross enrollment ratio	82	82
GDP per capita (PPP in USD)	26,755	3,971
Life expectancy index	0.93	0.91
GDP index	0.93	0.61
Human Development Index	0.933	0.754

GDP = gross domestic product, PPP = purchasing power parity

Source: UNDP (2003)

However, per capita income in the Philippines in 2000 is only 15 percent of the purchasing power parity of Japanese. This has severe implications for the Philippines in terms of expanding options or choices in building human capabilities. Its access to health services, education, training, and other human development initiatives is constrained and limited.

There are obvious lessons and experiences to be learned from Japan's human development process. Although one should keep in mind that these trends do not explicitly nor implicitly suggest that human resources in the Philippines are by far inferior to Japanese standards, these, however, indicate areas or entry points for intervention in terms of policy, development, and technical assistance, and for enhancing the national priority ranking of health, nutrition, and education.

The identification of policy entry points and/or cooperation areas of the Philippines with Japan on health, nutrition, and education are the main concentration of this study. These human resource areas, according to Herrin (2002), act as a yardstick of human resource improvement.

Health and nutrition

Structure of health and nutrition systems

With the devolution of health services, the provincial government manages the provincial and district hospitals while the municipal government handles the rural health units (RHUs) and *barangay* health stations (BHSs). In every province, city, or municipality, a local health board chaired by a local chief executive serves as advisory body to the local executive and the local legislative council (*sanggunian*) on health-related matters (Custodio 1999). On the other hand, the private sector's involvement is just as enormous and includes providing health services in clinics and hospitals; health insurance; manufacture of drugs, medicines, vaccines, medical supplies, equipment, and other health and nutrition products; research and development; and other health-related services.

The Ministry of Health, Labour, and Welfare is the central agency of the Japanese government, aiming to "enrich people's lives through the management of social security systems including social insurance, social welfare, and health/medical care systems." Basically, information on health and related areas is a well-researched subject as the ministry administers six research institutes. Apart from this, there are 12 councils, 18 national hospitals, 13 port quarantine stations, 10 national social welfare facilities, and 2 social insurance-related agencies.³

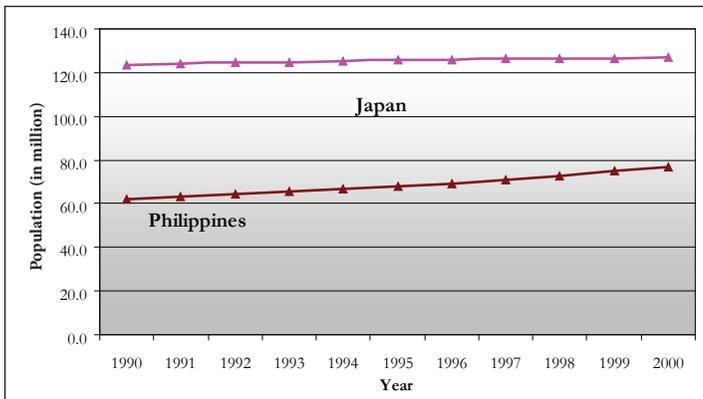
³ The number of attached offices does not include the regional health and welfare bureaus, prefectural labor bureaus, and social insurance bureaus.

For nutrition, the Philippines' Food and Nutrition Research Institute (FNRI) and its Japanese counterpart, the National Institute of Health and Nutrition (NIHN), are responsible for research undertaken in this area for their respective countries. Since last year, NIHN has been operating as an "Independent Policy Corporation" as part of reforms undertaken by the Japanese government. Still, the Ministry of Health, Labour, and Welfare defines the role of the said institution with regard to research primarily on nutritional welfare and assessment of foods in terms of health and nutrition quality among others, which are vital to the Japanese's health and nutritional conditions. The NIHN conducts a national nutrition survey (NNS) similar to that done by the FNRI. Survey results form the basis for policy formulation on the "maintenance and promotion of health as well as nutrition diet, and lifestyle" (NIHN 2003).

General trends in health and nutrition

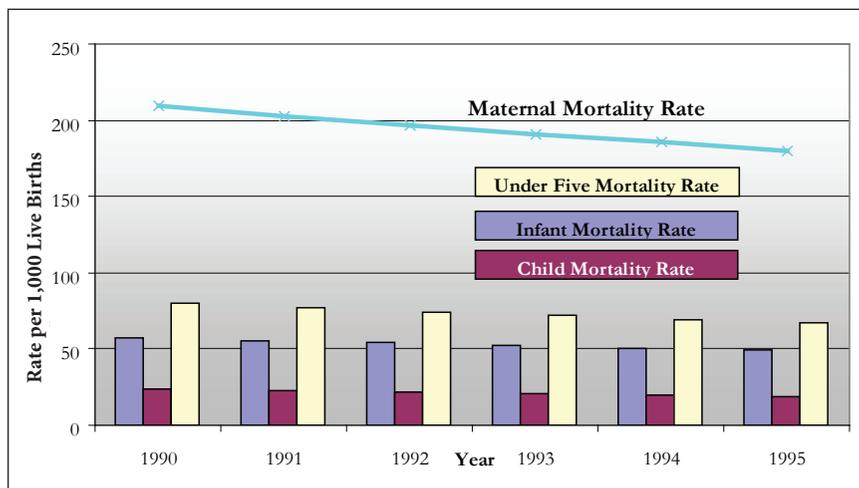
Figure 1 shows the Philippine population trend from 1990 to 1999 compared with that of Japan. While Japan registered minimal growth in its population, the Philippine population increased at an average annual rate of 2.3 percent. This can be traced to prevailing high (but declining) crude birth rates vis-à-vis the low crude death rates for the Philippines. The total fertility rate (TFR) of the Philippines is considered to be the highest among Southeast Asian countries, with the 1999 TFR pegged at 3.36 children per woman (Custodio 1999). In contrast, Japan's declining crude birth rates are converging with its crude death rates. This is consistent with Japan's low fertility and population growth rates for the period 1983–2001.

Figure 1. Population size, Philippines and Japan, 1990–2000 (in millions)



Source: Philippine Statistical Yearbook (various years), National Statistics Office (NSO); Annual Report on Current Population Estimates (as of October 1, 2002), Statistics Bureau and Statistics Center, Ministry of Public Management, Home Affairs, Posts and Telecommunications, Japan

Figure 2. Selected mortality trends, Philippines, 1990–1995
(rate per 1,000 live births)



Source: Philippine Statistical Yearbook (2002), National Statistical Coordination Board (NSCB) Technical Working Group on Maternal and Child Mortality

High fertility adversely affects infant and child health survival, child nutritional status, and child scholastic performance, while poorer households have less capacity to obtain adequate nutrition and health care, and to provide better education for its members (Herrin 2002). As shown in Figure 2, from 1990 to 1995, minimal improvements were noted in reducing the incidence of child mortality,⁴ infant mortality, and maternal mortality in the Philippines. In the same manner, the incidence of infant and maternal mortality is generally influenced by socioeconomic conditions and reflects the need for improving maternal and child health care programs.

Infectious and communicable diseases continue to be the major causes of morbidity. As of 1998, diarrhea, pneumonia, bronchitis, influenza, tuberculosis, malaria, and chicken pox continue to be among the leading causes of morbidity. Custodio (1999) points out that while the prevalence of communicable diseases is still very high, that of noncommunicable diseases are increasing, which places a double burden on health and the economy. Furthermore, unlike the causes of morbidity, deaths are mainly attributed to noncommunicable diseases like diseases of the heart and vascular systems. Improved control of communicable diseases and increased life expectancy will shift the disease

⁴ Child mortality is the number of deaths at ages 1–4 years in a given year and reflects the numerous environmental factors affecting the child's health such as nutrition, sanitation, childhood communicable diseases, and accidents (Zablan 1994).

burden to noncommunicable diseases in the future. Thus, strategies must be put in place to address both the current and future situations.

Nutrition plays an important role in the health of an individual. Per capita food intake has been decreasing from 1978 to 1993. Thus, the nutrient intake of Filipinos has not improved much over the years. Table 3 shows a general declining trend in the percent adequacy of the recommended daily allowance (RDA) of certain nutrients. Mothers and preschool children have been especially

Table 3. Adequacy of energy and nutrient intake, per capita per day, Philippines, various years (as % of RDA)

Nutrient	1978 ^a	1982 ^b	1987 ^c	1993 ^e
Energy	88.6	89.0	87.1	87.8
Protein	102.9 (93.2) ^d	99.6	98.2	106.2
Iron	91.7 (88.3)	91.5	91.5	64.7
Calcium	80.4	75.0	0.42 (g) ^e	67.2
Vitamin A	68.6		389.7(mcg RE) ^e	88.1
Thiamine		71.8	66.7	68.4
Riboflavin		56.3	54.4	57.1
Niacin		119.7	119.9	88.0
Ascorbic acid		91.1	80	73.2

Sources: ^aNational Science and Development Board (NSDB), FNRI, 1981, First Nationwide Nutrition Survey, Philippines, 1978 (Summary Report), 2nd revision.

^bNational Science Technology Authority (NSTA), FNRI. Second Nationwide Nutrition Survey, Philippines, 1982. October 1984

^cDepartment of Science and Technology (DOST), FNRI. Third National Nutrition Survey, Philippines 1987 Preliminary Results

^dNumber in parenthesis refers to data given in Source C (from Florencio 1994)

^ePhilippine Nutrition Facts and Figures, FNRI-DOST, 2001

Table 4. Prevalence of Vitamin A deficiency and iron-deficiency anemia among various groups, Philippines, 1993 and 1998 (%)

Vitamin A Deficiency			Iron-Deficiency Anemia		
Group	1993	1998	Group	1993	1998
Children	38.0	35.3	All	28.9	30.6
Pregnant women	22.2	16.4	6-11 months	49.2	56.6
Lactating women	16.5	16.4	Pregnant women	43.6	50.7
			Lactating women	43.0	45.7
			60 years and above	45.6	43.9

Source: FNRI

suspected to suffer from vitamin A deficiency, and iron-deficiency anemia continues to be prevalent among all age groups in general (Table 4). On a general note, malnutrition among Filipinos is a serious problem that needs to be addressed. In contrast, the Japanese nutrient intake has remained well above the RDA level (with the slight exception of calcium) despite the decline in recent years (Table 5).

While the Philippines has struggled to contain its population explosion and the negative consequences brought about by high fertility, Japan's problem concerns its ageing population. Figure 3 shows the declining proportion of the Japanese population that is 14 years old and below and the slow but continued rise in the proportion of the elderly aged 65 and above. This is attributed to low fertility rates in conjunction with low mortality rates. The improvement in mortality implies not only an increase in the proportion of the aged population, but an extension of life for the elderly as well. Between 1948 and 1995, life expectancy at birth rose from 56 to 74 years for males and from 59 to 78 years for females. Life expectancy at age 65 also rose from 10 to 16

Table 5. Intake of national nutrition, Japan, 1970–2000

Year	Energy (kcal)	Protein (g)	Fats and Oils (g)	Carbohy- drates (g)	Calcium (mg)	Iron (mg)	Vitamin				Total
							A (i.u.)	B1 (mg)	B2 (mg)	C (mg)	
1960	2,096	69.7	24.7	399	389	13.0	1,180	1.05	0.72	75	1,128.4
1965	2,184	71.3	36.0	384	465	—	1,324	0.97	0.83	78	1,160.8
1970	2,210	77.6	46.5	368	536	—	1,536	1.13	1.00	96	1,270.7
1975	2,226	81.0	55.2	335	552	10.8	1,889	1.39	1.23	138	1,411.6
1980	2,119	78.7	55.6	309	539	10.4	1,986	1.37	1.21	123	1,351.9
1995	2,042	81.5	59.9	280	585	11.8	2,840	1.22	1.47	135	1,449.2
1996	2,002	80.1	58.9	274	573	11.7	2,836	1.21	1.43	131	1,417.5
1997	2,007	80.5	59.3	273	579	11.6	2,832	1.19	1.43	135	1,426.3
1998	1,979	79.2	57.9	271	568	11.4	2,701	1.16	1.42	125	1,397.1
1999	1,967	78.9	57.9	269	576	11.5	2,803	1.18	1.43	129	1,400.6
2000	1,948	77.7	57.4	266	548	11.3	2,654	1.17	1.40	128	1,379.6

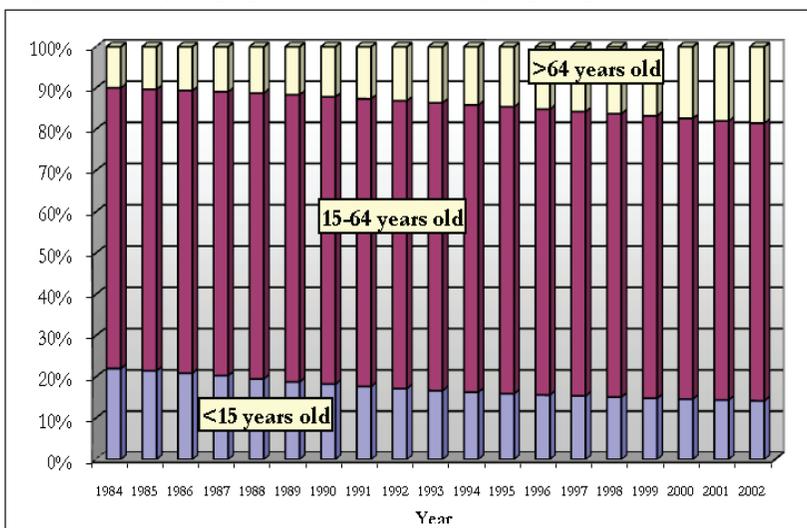
Data are based on the National Nutrition Survey. For 1970, May; and for years beginning 1975, November

Source: Health Service Bureau, Ministry of Health, Labour, and Welfare, Japan

years for males and from 12 to 21 years for females (Ogawa and Rutherford 1997). In fact, longevity is unarguably the distinguishing characteristic of the Japanese, with life expectancy for both males and females recognized as the highest in the world (Table 6).

It is a fact that older age groups experience more illness and need considerably more health services than younger age groups. Controlling for other factors, the decline of mortality among the elderly implies a greater need

Figure 3. Change in population by broad age groups, Japan, 1984–2002 (%)



Source: Annual Report on Current Population Estimates as of October 1, 2002, Statistics Bureau and Statistics Center, Ministry of Public Management, Home Affairs, Posts and Telecommunications (2003), Japan

Table 6. International comparison of life expectancy at birth, in years

Country	Year	Male	Female
Japan	2001	78.07	84.93
Philippines	2000	66.00	69.20
United States	1999	73.90	79.40
Germany	1997-1999	74.44	80.57
France	1999	75.00	82.50
Italy	1999	75.80	82.00
United Kingdom	1998-2000	75.13	79.98
Sweden	2000	77.38	82.03

Source: Abridged Life Table; Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labour, and Welfare (2002), Japan

for financial and manpower resources devoted to the provision of health care (Ogawa 1989). On a positive note, however, not only will these benefit the aged segment of the population, but also the country as a whole. According to statistics, the total number of medical care facilities has expanded, with the rise attributed mainly to the expansion of small-time health care amenities like general clinics and dental clinics. Similarly, there has been a general increase in the number of medical professionals available to maintain these facilities (Table 7). Of particular interest is the number of nurses, which has more than doubled from 1984 to 2000, with the number of male nurses increasing five times as much during the same period. This trend is expected to continue as the proportion of the ageing population continues and longer hospitalization and caring is required for these people.

On the other hand, a rapidly growing population also exerts pressure for the expansion of social services. Expansion in financial and manpower resources for health over the years has been inadequate to match the increase in population and the changing service demands. A UN-ESCAP (1993) study cited that most Philippine health facilities have inadequate space for accommodating and examining patients and for proper storage of medicines and other medical supplies.

The same study also points out that available health facilities suffer from unbalanced use: an underutilization of facilities at the lower and local levels and an overutilization of facilities at the higher levels. As a result, the peripheral facilities established at high cost fall short of their potential use, while the hospitals and patient clinics located in large urban areas are often overcrowded. The number of hospitals has virtually remained stagnant.

Table 7. Number of medical professionals,^a Japan, 1984–2000

	Nurses	Male Nurses	Physicians	Dentists
1984	303,734	04,681	173,452	61,283
1986	333,040	06,218	183,129	64,904
1988	365,298	07,845	193,682	68,692
1990	395,496	09,268	203,797	72,087
1992	430,499	10,810	211,498	75,628
1994	479,584	12,768	220,853	79,091
1996	530,044	14,885	230,297	83,403
1998	576,640	17,807	236,933	85,669
2000	631,428	22,189	243,201	88,410

^aPersons actually engaged in medical care facilities.

Source: Sanitation Administration Report, Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labour and Welfare (2001), Japan

Furthermore, no apparent increases were noted on the availability of health professionals and paraprofessionals. Shortage of trained health personnel results in poor quality of basic health services, thus affecting credibility. Furthermore, this poses a serious challenge to the expansion of public health services, especially with the growing demand for maternal and child health and family planning services. It was also noted that available personnel tend to be concentrated in urban areas and in places of very high population densities, resulting in problems in the rural areas (UN-ESCAP 1993).

As a result of these trends, the two countries' health expenditures have been rising through the years. For the Philippines, the increase in total health expenditure (in current prices) at an annual average rate of 13.7 percent, compared to the average annual population growth (2.3%), allowed per capita health expenditures (in current prices) to increase from PHP 575 in 1991 to PHP 1,486 in 2000. In real terms (1985 prices), the increase has been from PHP 334 in 1991 to PHP 451 in 2000, the annual growth averaging at 3.4 percent. Custodio (1999) points out, however, that spending was biased toward hospital or curative care and not toward preventive and promotive health services, an indication that health spending is still not enough nor done effectively. For Japan, the amount of medical care expenditure has been growing over the years, with each person spending ¥239,200 on average in 2000, up by 100 percent from 1982. In 2000 alone, total spending for medical care is pegged at ¥30,358 billion. At least three factors contribute substantially to this growth: high per-person-to-drug costs, high hospital usage, and ageing of the population (Li 1995). The average length of stay in Japanese hospitals and other in-patient institutions is longer compared to other industrialized countries. Rising hospitalization costs associated with the ageing population are said to be the main source of increase in public medical expenditure (Ogawa and Rutherford 1997).

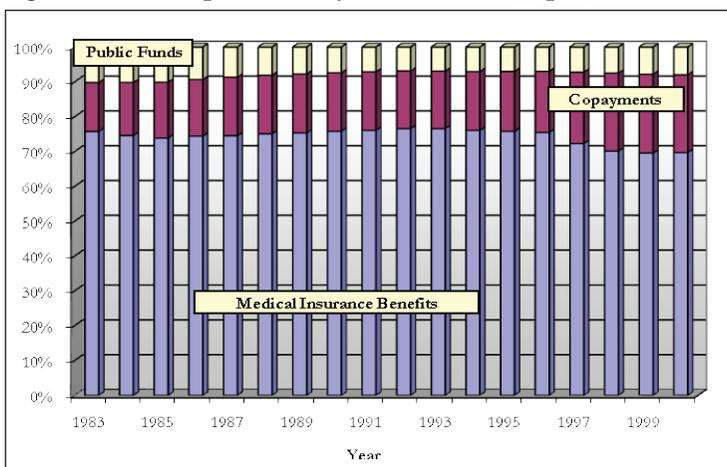
In addition, the public medical insurance system of Japan has had a universal coverage since 1961, granting each person virtually unlimited access to all health care facilities. Figure 4 shows that medical insurance benefits are the largest source of funds for health expenditures. According to Ogawa and Rutherford (1997), approximately 87 percent of the population is covered by the following three largest plans:

- (1) the Government-managed Health Insurance Plan (GHIP) for employees in small- and medium-sized enterprises,
- (2) the Association-managed Health Insurance Plan (AHIP) for employees in large enterprises, and
- (3) the National Health Insurance Plan (NHIP) for persons not covered by any other plans.

The Japanese system guarantees equal access to medical care regardless of income, and it is managed and subsidized by the Japanese government. For example, in the NHIP, local governments act as the insurers and the central government provides direct subsidies (Li 1995). Geriatric care, which is the most expensive component of health care, is financed through contributions to the pooled fund as mandated by the Geriatric Health Act (1982). Medical insurance benefits paid out to the elderly in 2000 have tripled from its 1983 level, accounting for 73 percent of all medical insurance benefits paid. Aside from this, the government subsidizes hospitals and nursing homes. Still, rising costs have prompted increasing co-payments, which amount to around 10–30 percent of the medical care costs, that all insured persons have been required to make since 1984 to ease the fiscal burden on health spending brought about by an ageing population.

The World Health Organization (WHO) recommends that at least 5 percent of the GNP should be allotted to health services in a developing country. In 2000, only 3.25 percent of Philippine GNP (around PHP 113.5 billion) was spent on health by the government and private sectors, way below the WHO-recommended amount. While the proportion spent on personal health care services has declined, it is still high in absolute terms compared to the amount spent on public health care for 1991–2000. Around 73.9 percent or PHP 84 billion went to personal health care services for 2000, with public health care services accounting for only 14 percent (PHP 12 billion) for the same year. Overhead services needed to run the health system will cost PHP 14 billion

Figure 4. Health expenditures by source of funds, Japan, 1983–2000 (%)



Source: Kokumin Iryohi no Gaikyo, Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labour, and Welfare (2002a), Japan

or 12.2 percent of the total health expenditures. On the sources of funds, the financial burden for individual families remains heavy, as 41 percent of total expenditures in 2000 were paid out-of-pocket. The trend from 1991 to 2000, however, indicates that this share has been decreasing. Government spending for health has increased in absolute terms for the same period, due to diminished centralized spending and increased local government spending brought about by the devolution of the health sector in 1992. Social insurance continues to be a nonfactor in providing funds for health spending. The poor performance of the National Health Insurance Program is attributed to the low benefits (22 centavos for every peso contributed) and limited coverage (Ramirez 1999).

Education and training

Structure of education systems

The Philippine Constitution mandated the government to maintain a system of free public elementary and secondary education where participation of school-age children is mandatory and universal. The education system of the Philippines is supervised by three institutions: the Department of Education (DepEd), which manages the basic education; TESDA, which oversees the vocational and technical education; and the Commission on Higher Education (CHED), which handles the tertiary institutions. This division of responsibility was a result of the “trifocalization” of the education system as part of reforms during the Corazon Aquino administration.⁵

On the other hand, the education system being adopted by Japan follows the post-World War II educational system (i.e., 6-3-3 or six years of formative elementary education, three years each for the lower and upper secondary schools), which was introduced by the United States or patterned after that of the western type (Ellington 2001). All policies and curriculum reforms are centralized under the leadership of the Ministry of Education, Culture, Sports, Science and Technology (*Monbukagakusho*).

Elementary education in the Philippines covers grades 1–6 for children.⁶ About 90 percent of the total elementary schools are public schools, which is consistent with the objective of providing at least one elementary school per barangay. In Japan, the compulsory level, divided into the elementary (six years) and lower secondary levels (three years), is dominated by state-subsidized schools. After junior high school, students are then required to take

⁵ Prior to this “trifocalization,” the exclusive management for the whole education sector was centralized in the Department of Education, Culture, and Sports (Manasan 2000).

⁶ The original elementary entry age was seven years old. In the early 1990s, this age requirement was changed to six years. Thus, those who entered basic elementary level at age 6 are now in their third year in high school.

standardized high school entrance exams to be able to enter senior or upper secondary schools. Junior high school students who failed the entrance exams may opt to enroll in specialized schools/vocational schools or enter the labor force.⁷

Higher education in the Philippines is provided both by the public and private sector, with private-run universities and colleges and schools outnumbering the public tertiary education institutions. The private provision of tertiary education is classified into sectarian and nonsectarian. Within the public sector, tertiary education is further subdivided into the following: state universities and colleges (SUCs), CHED-supervised institutions (CSIs), local universities and colleges (LUCs), government schools, and special higher education institutions. Higher education in Japan is almost similar to the Philippines and comprises the following: universities and graduate schools, junior colleges, colleges of technology, and specialized training colleges or specialized schools (MEXT 2003). Universities are institutions of advanced learning, which offer 4–6 year courses while students of junior colleges spend around 2–3 years for training in specialized courses. Colleges of technology, on the other hand, welcome graduates of lower secondary schools. Graduates of junior colleges and colleges of technology obtain a degree as associates while graduates of universities are conferred a bachelor's degree.

General trends in education

Enrollment of elementary Japanese students has been decreasing over the years, from about 7.9 million in 1997 to nearly 7.2 million in 2002. In 2000, there were more public schools (23,861) than private elementary schools (172), with 73 schools funded by the government. Among the lower secondary schools, public or local schools comprised 93 percent (10,453) of the total 11,209 established schools in 2000. Private lower secondary schools constitute only 6 percent (680) while the rest (76) are nationally funded. The same trend is observed among upper secondary schools; 24 percent of upper secondary schools belong to the private sector with public high schools comprising the majority (76%) for 1999, with around 15 being funded nationally. Enrollment for this schooling level decreased from 1997 to 2002. The common trend in terms of the elementary level and upper and lower secondary schools was the decreasing number of enrolled students and the increasing number of teachers, which is reflective of low teacher-to-student ratios (1:18 for basic elementary, 1:26 for lower secondary level, and 1:15 for upper secondary level as of 2002). Thus, teacher shortages are not really an issue within the Japanese education system.

⁷ However, admission to either any of the senior high schools depends upon the grade obtained from the exams being administered.

Higher education in Japan has been dominated by private universities. For the year 2000, there were 478 private universities (comprising almost 74%) while there were 99 national universities and only 72 public/local universities compared to 122 (54%) in 1955. As a result, most students obtain their degrees from them. Out of the 2,740,023 total university enrollees, 73.3 percent were from private universities in 2000. Female university students have been increasing in number from 12 percent in 1955 to 36.2 percent in 2000. The top three undergraduate courses in terms of scale are social sciences (39.6%), engineering (18.7%), and humanities (18.6%).

For the Philippines, there were 30,221 elementary schools in 1978. Since then it has expanded by 37 percent in 2003 to 41,288 elementary schools, growing with approximately 443 new schools per year for the given 25-year period, although the rate of expansion is apparently much lower from 1998 onward. Statistics on total enrollment indicate that there are about 13 million pupils enrolled in both public and private elementary schools in the Philippines at present. From 1997 to 2003, total enrollment increased by 125,765 new students per school year (6.2% annual increase), relatively higher than the 1978 to late 1980s enrollment rate of 98,873 new pupils per school year. The relatively constant teacher-student ratio of 1:36 for 2001–2003 implies two things: (1) consistent with the observation in the late 1970s and 1980s, enrollment steadily increased from year to year, and (2) the rate of increase in the number of elementary teachers is almost negligible. Quantity wise, the current growing international demand for Filipino teachers is not creating much cavity on the public elementary school system teaching force (what is not apparent is if the country is losing its best and most experienced teachers to the international market).

As for Philippine secondary schools, there were 3,851 secondary schools (48.7% public) in 1970, when secondary education was not yet free and compulsory and relied heavily on the private sector and local government units (LGUs) for funding. By 1975, public high schools had outnumbered the private high schools, accounting for 58.3 percent of the total 4,844 secondary schools during the period. By 2003, 7,890 secondary schools have been established throughout the country, 60 percent of which are public high schools. The expansion of the secondary school system is pegged at an annual average of 3 percent or about 200 new schools per school year since 1997. Total secondary school enrollment has expanded by 21 percent since school year (SY) 1997–1998, growing by 176,000 new enrollees per year. Enrollment growth, particularly in public schools from SY 2000 to the present is more than double of its expansion rate three years earlier. Still, the increase in the number of teachers was not able to match the expansion in the number of students.

The teacher-student ratio has increased from 1:34 in 1997 to an outstanding 1:40 ratio in 2003. On the growing international market demand for teachers, private secondary schools appear to be at the losing end as evidenced by the contraction in the number of private school teachers.

Current data on tertiary enrollment (2002) indicate that most college students enroll in the following courses: business administration and related courses (29%), education teacher and training (20%), engineering and technology (12%), and mathematics and computer science (9%).

In the provision of tertiary education, reports noted that the quantity of degrees and nondegrees being offered in the country is often at the expense of quality. Libraries and laboratories are almost nonexistent or ill-equipped in most institutions, and expensive products such as science education, graduate training, and research are only minimally provided. It is further noted that college faculty are poorly paid and trained.

There are over 3,000 technical and vocational education and training schools and institutions in the Philippines as of 2002. Of these, 24 percent are higher education institutions (HEIs) or CSIs while the rest are comprised of training centers, nongovernment organizations (NGOs), LGUs, national government agencies (NGAs), and enterprises conducting training. About 1.3 million people are enrolled in technical and vocation training institutions as of 2002.

In 2002, TESDA assessed 300,524 persons and certified 146,673. Of the total number of persons assessed, one-third specialized in automotive, electricity, electronics, construction, welding, machine shop, refrigeration and air conditioning, and other skills. The maritime sector (covering the deck and engine ratings) shared more than one-fifth (22.31%) to the total 300,524 persons assessed and another one-fifth (20.48%) came from the overseas performing artists (OPAs). The highest certification rate was observed in maritime-related skills (91%), implying strong local compliance to deck and engine ratings according to maritime standards. On the other hand, the ICT skills certification received the lowest certification rate (18%).

Performance of education systems

The International Math and Science Study conducted in 1999 by the National Center for Education Statistics in the United States showed that Japan ranked fifth and fourth in terms of academic achievement of its eighth grade students in the areas of math and science, respectively.⁸ In the same study, the Philippines ranked 36th out of the 38 countries included in both academic areas.

⁸ While the said rankings are uncontested, teachers observed that their students may not be that good in applying the derived knowledge "creatively to new situations."

This is despite the recorded increase of Japanese students refusing to attend elementary and lower secondary schools.⁹ The Ministry of Education, Culture, Sports, Science, and Technology or MEXT identified the following factors affecting such trend: anxiety; emotional disturbance; juvenile delinquency; desire to have fun or apathy; and problems in school, at home, and with society. In connection with this, schools have responded by introducing counseling sessions and curriculum guidance. Elementary and lower secondary students who refuse to attend class are part of a negligible 0.3 percent out of the total number of students in both levels. However, the data (1997–1998) also indicate the increasing incidence of students' refusal to attend school in both elementary schools (25% increase) and lower secondary schools (20% increase).

In 2002, 97 percent of Japanese junior high school students were able to enter the upper secondary schools. Over a 10-year period (1992–2002), the average advancement rate to upper secondary schools was 97 percent.¹⁰ Data on upper secondary dropouts exhibit a decreasing trend from 1997 to 2001. During the same period, a relatively constant 3 percent of the total upper secondary students comprise the high school dropouts.

In 2000, out of the 599,747 graduates of upper secondary schools, 463,897 (77%) students advanced to universities, 21 percent attended junior colleges, while only 1 percent studied correspondence courses and the rest (6%) enrolled in short-term courses. This shows that most high school graduates are still able to attend universities in Japan. The advancement rate of junior college students to universities has been improving over time. From 1998 to 2002, average advancement rate was recorded at almost 49 percent. MEXT (2003) reported that the scale of higher education in Japan is among the world's highest since there were about two million students in 2002. However, Ellington (2001) noted that graduate education is still relatively underdeveloped compared to other developed countries. This is manifested in the low rate of undergraduates advancing to graduate courses (7%).

The efficiency and effectiveness of the Philippine elementary schooling system can be evaluated and assessed by using definitive performance indicators¹¹ that are standard in the public and private elementary school continuum. Effectiveness of the elementary educational system can be deduced from the performance of pupils in nationwide achievement exams. At present, DepEd is administering the National Elementary Assessment Test

⁹ This refers to the number of students who refuse to attend school for more than 30 days (MEXT 2003).

¹⁰ Advancement rate refers to the number of new entrants to universities or other higher education institutions/the number of lower secondary school graduates three years ago x 100 (MEXT 2003).

¹¹ Performance indicators refer to several key indicators that can be computed and utilized for evaluating the educational system's performance at various levels.

(NEAT) to Grade VI pupils, which has been the primary evaluation tool of DepEd for elementary education since 1993.

The comparative performances of pupils in the nationally administered exam are shown in Table 8. Average achievement rate from 1997 to 2001 is almost nonmoving, with almost negligible yearly fluctuations. Achievement rate is more or less pegged at 50 percent from 1997 to 2001, brought about by the apparent declining performance in mathematics, science, and English, which was compensated by the relative improvements in Heograpiya, Kasaysayan, at Sibika (HEKASI) and in Filipino. With the performance of school-age children in the NEAT, there is an apparent wide room for improvement. Increasing average scores in the national achievement test prompts for innovative and state-of-the-art methods and techniques in instructions and curricular refinements. It is an obvious entry point for possible interventions in elementary education, and such interventions underscore the need for better performance of the elementary school-age children.

Efficiency in performance is the extent to which the goals of systems are attained with the resources available in the system. For this study, six indicators of efficiency were used. These are participation rate, gross enrollment ratio, cohort survival rate, completion rate, dropout rate, and transition rate (Tables 9 and 10).

Table 8. Comparative mean percentage score¹² in NEAT, 1997–2001 (%)

Effectiveness Indicators	1997–1998	1998–1999	1999–2000	2000–2001
Achievement rate	50.78	50.08	49.19	51.73
Mathematics	51.75	52.45	45.69	49.75
Science	52.68	49.93	48.61	49.75
English	49.13	46.40	46.32	47.70
HEKASI	49.58	51.55	55.21	53.93
Filipino			50.13	57.49
Percentage of passers			76.54	73.21

HEKASI = Heograpiya, Kasaysayan, at Sibika (geography, history, and civics)
Source: Department of Education (DepEd), 2003

¹² Mean percentage score (MPS) indicates the ratio between the number of correctly answered items and the total number of test questions or the percentage of the correctly answered items in the test.

Table 9. Efficiency in performance indicators for the elementary school education system, Philippines, 1997–2003 (in %)

Efficiency Indicators	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Participation rate	95.09	95.73	96.95	96.77	nd
Gross enrollment ratio					
Based on 7–12 population	118.28	118.16	119.15	113.45	nd
Based on 6–12 population	99.62	101.08	101.20	98.08	nd
Based on 6–11 population	115.23	116.97	117.15	113.57	nd
Cohort survival rate	68.56	69.79	69.48	67.21	67.13
Completion rate	67.67	68.99	68.38	66.13	66.33
Dropout rate	7.39	7.57	7.72	9.03	nd
Transition rate	100.23	99.39	98.21	98.02	100.75

nd = No data

Source: DepEd (2003)

Table 10. Efficiency in performance indicators for the secondary school education system, Philippines, 1997–2003 (in %)

Efficiency Indicators	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Participation rate	64.04	65.22	65.43	66.06	nd
Gross enrollment ratio	75.79	75.32	75.34	79.49	nd
Cohort survival rate					
Based on Grade 1	46.47	47.50	48.66	49.76	49.86
Based on First Year	71.40	72.18	72.08	73.05	73.16
Completion rate					66.33
Based on Grade 1	44.97	45.12	47.20	48.10	nd
Based on First Year	69.09	69.98	69.89	70.62	nd
Dropout rate	9.93	9.08	9.55	10.63	nd

nd = No data

Source: DepEd (2003)

Participation rate¹³ of children in the elementary schools was 95–97 percent from 1997 to 2001. The gross enrollment ratio,¹⁴ on the other hand, far exceeds the expected percentage of population in school-age range that should be

¹³ Participation rate is the ratio between the enrollment in the school-age range to total population of that age range (7–12 years old).

¹⁴ Gross enrollment ratio refers to the total enrollment in a given level of education as a percentage of the population of the school-age range that should be enrolled. It measures the capacity of the elementary school.

enrolled. Based on the 7–12 years old school-age range, total gross enrollment ratio peaked to as high as 119 percent in 1999–2000 from a little over 118 percent two school years earlier. High gross enrollment ratio is pointing out two things: (i) high proportion of early starters, enrolling before the school-age range; and (ii) high proportion of late finishers. By expanding the school-age range to include the six-year-olds, total gross enrollment ratio dropped down to 98.08 percent in 2000–2001. This denotes that 15–18 percent of the total enrollment in the elementary school systems came from the young preschool proportion of the population. On the other hand, by reducing maximum school-age range to 11 and starting at the age of 6, gross enrollment ratio is pegged at 114–117 percent in the same period.

Cohort survival rate¹⁵ shows a decreasing trend from SY 1998–1999 to SY 2001–2002. From a survival rate of about 70 percent in 1998–1999, it dropped to 67.13 percent after three consecutive school years. The completion rate¹⁶ likewise follows a declining pattern from the same period onward. This is manifested with a completion rate of 69 percent in SY 1998–1999 to 66.33 percent by SY 2001–2002. The declining cohort survival and completion rate can be allied with the consistently increasing dropout rate¹⁷ in the given five-year evaluation period. What might have been the cause of the relatively low cohort survival rate and completion rate? This phenomenon would have serious implications since so many children appear to have been affected. On a positive note, however, pupils who managed to survive and complete all the required grade levels and number of years of elementary education have relatively very high transition rate.¹⁸ In the given five-year evaluation period, 98–101 percent of pupils who completed their sixth grade education went to the secondary schools (not necessarily immediately the following year).

Gross enrollment ratio was nearly constant between school years 1997 and 2000 at 75 percent and little more than a 4 percent increase by SY 2000–2001. It implies that nearly 25 percent of high school students each year from 1997 to 2001 do not continue their high school education. This trend can also be observed in the cohort survival rate estimates. Based on Grade 1 enrollment, less than 50 percent reached the fourth year secondary education for the five-year evaluation period. For the First Year enrollment, cohort survival

¹⁵ Cohort survival rate is the proportion of enrollees at the beginning grade who reach the final grade at the end years of the required number of years of study.

¹⁶ Completion rate is the percentage of Grade 1 entrants who complete/finish the level in accordance with the required years of study (up to Grade 6).

¹⁷ Dropout rate is the proportion of pupils who leave school during the year as well as those who complete the grade level but fail to enroll in the next grade level the following school year to the total number of pupils enrolled during the previous school year.

¹⁸ Transition rate from elementary to high school is the percentage of pupils who graduate from Grade 6 and moved on to the next higher level which is the secondary school.

rate increased from 71.40 percent in SY 1997–1998 to 73.16 percent in SY 2001–2002. Similar to the earlier observations, the increase in survival rate is relatively small (less than 1% increase per annum), although higher than the average cohort survival rate in the elementary school.

In addition, not all students who were able to reach the last year of secondary education were able to complete the requirements within the set number of years. Completion rates based on the Grade 1 and First Year enrollments were lower than those who were able to reach Fourth Year high school. Based on Grade 1 enrollment, at least 1–2 percent dropped out while based on the First Year enrollment, about 2–3 percent do not push through until completion. Still, dropout rate for the entire secondary school system started to pick up again in SY 2001–2002 after it regained its performance two school years before it. Comparing with the elementary schools' performance, dropout rate in the secondary schools were 2–3 percentage points higher for the last five years.

In the case of secondary schools, achievement rates in the National Secondary Assessment Test (NSAT) are moderately variable, following an increasing-decreasing pattern from one school year to another. Fluctuations can be attributed to the similar fluctuating patterns in the mean percentage scores in mathematics and science learning areas. Apparent improvements in the mean percentage score (MPS) in Filipino and English were evened out by the fluctuating MPS in science, mathematics, and in *Araling Panlipunan*. Yet even with the high passing rate of 94 percent, there is still a big room for improvement in the NSAT mean percentage scores, specifically in the science and mathematics learning areas. Improvements in learning modules and methods of instructing these learning areas would be a significant enhancement in the effectiveness of secondary school education.

As indicators of the performance of higher education institutions in the country, CHED uses the gross enrollment ratio/participation rate, the gross survival rate, and the graduation rate. Gross enrollment ratio/participation rate had improved from nearly 20 percent in 1997 to 22 percent in 2001. Trends in the gross survival rate, though, had shown a rather decreasing rate. The average gross survival rate from academic years (AY) 1997–2002 was estimated at 68 percent, which is lower than the 2002 gross survival rate of 65 percent.

Based from a six-year average (1995–2001), passing rate in licensure exams, which is supervised by the PRC, was considerably high among board passers of environmental planning (71%), medicine (69%), and geology (68%). However, in 2001, examinees of geology garnered the top spot with the highest number of board passers (91%), followed by mining engineering (87%), and environmental planning (75.76%). The performance, though, of all professional

examinees as portrayed in the national averages of all licensure examinations from 1996 to 2001 was kept below the 50 percent passing rate.

Potential Areas of Bilateral Cooperation in HRD between Japan and the Philippines

A lower fertility might reduce the pressure for expanding basic health, nutrition, and education services; such reduced pressure could open up opportunities for improving the quality and coverage of such services (Herrin 1994). For example, improving the health and nutrition status of preschoolers would be easier to achieve in a slow fertility regime compared to a high fertility scenario. Aside from the result that there will be fewer preschoolers to accommodate under the former scenario, faster fertility decline will be associated with a greater reduction in the risk of child malnutrition and health (controlling for other factors). In the end, such reduced pressure would provide opportunities to improve the quality of elementary and secondary education (Herrin 1994).

On Japan's ageing population

In 1990, Japan launched the 10-year Golden Plan to improve social services for the elderly and their families. Part of this Golden Plan involves improvements in institutional care, focusing on the expansion of nursing homes' capacity by some 80 percent (Ogawa and Rutherford 1997). These nursing homes serve as "way-stations" between the hospital and the home, and the expansion and improvement of medium-term care would considerably reduce the burden on hospitals that provide costly (to the government) long-term care. Over time, medical care costs associated with hospitalization could be reduced as a result.

The most important thrust, however, is the improvement in the services for the elderly who stay at home. Japan's culture advocates a very strong filial relationship between parents and children, with the elderly parents expecting to be cared for by one of their children. One of these services involves the home-helpers. Another of the services in short supply is short-term stay facilities. A bedridden elderly needing constant care may stay up to a maximum of one week per month in a nursing home to give respite to the assigned caregiver. Lastly, the day care centers provide rehabilitation services to elderly persons to facilitate their independence, aside from easing the burden on the caregivers (Ogawa and Rutherford 1997).

Thus, the Japanese government is facilitating the shift in the burden of caring for the elderly back to the family, with the middle-aged women acting as the primary caregivers. It has been observed that the labor participation rate of women has increased from 62 percent to 70 percent between 1967 and 1995 (Ogawa and Rutherford 1997). This may affect the ability of families to

provide appropriate care for the elderly as this may conflict with work done outside the home. The opportunity costs of caring for the elderly are high especially for women who are full-time paid employees. This is in terms of the foregone wages during the period of care, and the lower wages after returning to work. More likely, these opportunity costs would increase as wages are driven up due to the declining proportion of the total population that would create labor shortages (Ogawa and Rutherford 1997). In response to this, a 1999 law was passed by the Japanese Diet that gives employees the right to take a maximum of three months of unpaid leave to provide care for sick family members. At the very least, this allows women to return to their jobs without breaking their service record, and it offsets the opportunity costs associated with women at work (Ogawa and Rutherford 1997).

Moreover, co-residence patterns in Japan, while still quite high by international standards, have declined substantially over the years due to changing values about caring for the elderly (Ogawa and Rutherford 1997). Highly publicized cutbacks in social security benefits probably made the "natural duty" of caring for elderly parents more burdensome. There is also evidence that the weakening of values on caring for elderly parents is accompanied by a parallel weakening of values on passing on assets to children. Nowadays, parents increasingly tend to bequeath their property and financial assets to whichever of their children co-resides with and takes care of them, a departure from the traditional primogeniture inheritance pattern (Ogawa and Rutherford 1997). This will undoubtedly make it more difficult to shift much of the responsibility of caring for the elderly from the social security system to the families.

Given the situation that some Japanese women may find it difficult to sacrifice their work in caring for the elderly, hiring personal caregivers might be a viable option. The Philippines could extend cooperation to Japan on this aspect by supplying more caregiving and nursing services to Japan's ageing population. The Philippines is one of the major sources of nurses that supply well-trained human resources to countries experiencing nursing shortages (Lorenzo 2001). In addition, various tertiary schooling institutions have started to offer training in caregiving in response to the increased demand for personal care services. Japan and the Philippines should be able to reach an agreement on the requirements for entry, with language training first and foremost for Filipino health service workers eyeing work in Japan. Issues on the recognition of professions and education are also of foremost concern. Specific strategies are discussed in sections On Language Proficiency, and On Mutual Recognition of Professional Qualifications and Education in this paper.

Looking ahead, the Philippine population is still relatively young as reflected in a slow shift in the age structure due to the slow decline of fertility. Of the

population, 38 percent is under 15 years old and the elderly comprise just 4 percent (Custodio 1999). While this may be the present case, the proportion of the aged will inevitably continue to rise and the number of elderly will be increasing faster than those of either ages. In fact, the Philippines belongs to a group of countries that are expected to have the highest rates of increase of the elderly in the future (Domingo 1994). The Philippines thus has the advantage of being able to plan ahead by learning from the experiences of developed nations like Japan. Existing policies and programs can be modified to respond early and effectively against this growing demographic concern. Existing health care facilities would need to be expanded and upgraded, and a review of the pension and insurance system for the elderly is such that Japan's present difficulties will not be repeated in the Philippines. The Philippine government can request cooperation from Japan regarding this aspect.

On health and medical care

As embodied in the trends of human resource indicators presented earlier, the Philippines has existing issues that need to be dealt with, such as fast population increase, the nutrition problem, and the spread of infectious diseases. In addition, the problems brought about by devolving health services to the LGUs present challenges in the adequate and quality provision of health and medical care. In response to these issues, JICA presently cooperates in the field of health and medical care through education in clinical medicine in hospitals, studies on infectious diseases, training of medical staff, quality control of pharmaceutical products, public health, and population and family planning (JICA 2003). In conjunction with the WHO and the United Nations Children's Fund (UNICEF), JICA's project-type technical cooperation includes measures to combat infection through supply of vaccines and equipment needed for inoculations and measures to fight HIV/AIDS through the provision of inspection instruments and machines needed for safe blood supply. The improvement of reproductive health is facilitated through the provision of essential items such as contraceptive devices, simple medical equipment, basic pharmaceutical products, and audiovisual equipment (JICA 2003).

In view of the planned bilateral agreement on human resource development, JICA's continued assistance in these health- and medical-related matters would be sufficient. However, the unexpected difficulties in the devolution of health services to LGUs open up more avenues for cooperation, namely:

1. Project-type technical cooperation should be considered to strengthen the collaboration between the regional and provincial health bureaus. Technical training is also essential to improve the abilities of local health administration staff, which include the midwives.

2. In areas where provision of health service is lacking, Japan could cooperate in expanding health and medical services, prioritizing remote and poor areas as models for further expansion elsewhere. The cooperation that JICA currently extends to the Philippines could be applied to these areas. In particular, educating the people on population and family planning is a first and an essential step for more effective service delivery in the long run.
3. Cooperation that involves maternal and child health can be done through local in-country training (second-country training). One aspect, as mentioned previously, is education on voluntary family planning. Other activities would be the setting up of a drug revolving fund, use of maternal and child care notebooks, and training to produce and reeducate barangay health workers (JICA 1999). These would enhance people's engagement in maternal and child health/family planning activities.
4. Project-type assistance in improving general health and public hygiene at the grassroots level can also be considered. It will be necessary to enlist the participation of the Japan Overseas Cooperation Volunteers (JOCVs) in collaboration with NGOs for greater efficacy of the project. Participation and exchanges among people from both countries will be encouraged, thus contributing further to human resource development.

On technical cooperation

A typical technical cooperation project is characterized by the following:

- (1) certain objectives that are achievable within a given budget over a specific project timeframe;
- (2) clearly defined inputs and quantifiable outputs;
- (3) direct and foreseeable input-output relationship; and
- (4) an evaluation method based on the project design matrix and/or cost-benefit analysis (JICA 2003).

Table 11 shows Japan's ODA to the Philippines in terms of technical cooperation. Japan's ODA has mainly extended technical cooperation in agriculture, industrial technology, health, and in the transportation sector. The project-type technical cooperation has been continually implemented in the health sector since the 1960s. Project-based technical cooperation has been administered in the field of science and mathematics education in conjunction with dispatching of experts and JOCVs, and provision of second-country training (JICA 1999).

Following the enactment of the Freedom and Information Act (Japan's law enforcing public disclosure of government as well as administrative

information) and the budget cut in FY 2002, the Japanese government, through JICA, will implement a new form of technical cooperation that seeks to improve its quality and efficiency. The "Program Approach" was conceived in order for JICA to effectively and efficiently utilize its limited resources by focusing on the use of its resources to priority issues/areas (JICA 2003). For the JICA Philippine Office, the new approach shall be fully implemented beginning Request Survey 2003. Previous cooperation schemes known as Individual Expert Dispatch, Equipment Supply, Expert Team Dispatch, Research Cooperation, Counterpart, Individual/Country-Focused/In-Country/Third-Country Training, and the Project-Type Technical Cooperation (PTTC) will be merged to form a single cooperation known as the Technical Cooperation Project or TCP (JICA 2003).

The TCP differs from the traditional types of technical cooperation by its improved flexibility in terms of project size and components. Under the old approach, technical cooperation projects are treated as mutually exclusive to each other, while under the new approach, a TCP would now be composed of any or a combination of the following previously separate components, as follows (JICA 2003):

1. *Expert dispatch* – JICA may dispatch either a Japanese or a third-country expert to perform tasks related to his or her area of specialization and the actual requirements of the proponent agency. The latter refers to experts coming from another country besides Japan and the Philippines. Experts can either be assigned for short or long periods of time.
2. *Equipment supply* – In the conduct of the project, the Japanese side may provide equipment to facilitate technology transfer but only if the request is in conjunction with other components (for example, to support the work of JICA experts assigned in the project).

Table 11. Japan's ODA expenditures as technical cooperation to the Philippines, 1996–2000 (in USD million)

Year	Expenditures	Percent Net of Disbursement
1996	94.34	23
1997	89.25	28
1998	80.68	27
1999	92.08	22
2000	99.52	33
Total	1,391.91	15

Source: JICA (2001)

3. *Overseas training in Japan* – Filipino counterparts of JICA experts may receive training from the various JICA training centers located throughout Japan to facilitate better technology transfer.
4. *In-country training/second-country training* – Filipino experts who have received initial overseas training in Japan will provide training in the Philippines for their fellow countrymen. Since the local technicians are trained in their own languages, problems in linguistic communication do not arise and technology transfer can take place smoothly in line with local conditions.
5. *Third-country training* – This type of training is conducted in the Philippines and is mainly targeted for officials and technical people of other countries. Likewise, Filipino trainees may be trained in other countries. With this particular training, participants are able to study in an environment similar to their own and acquire appropriate technologies that can be relevantly applied in their own countries. JICA bears the training costs as well as expenses on sending instructors from Japan.
6. *Facility development* – This kind of assistance in the form of construction of facility should support the technology transfer activities of a certain TCP. The Japanese would then, in most cases, approve the request of the proponent as long as it costs less than ¥20 million.
7. *Community empowerment* – This involves facilitation of technology dissemination to the grassroots level developed by a certain project. The proponent that wishes to disseminate a given technology may engage in a joint venture with an NGO. The Japanese will then support the contractual arrangement between the proponent agency and the NGO, availing a total amount of ¥5million–¥15 million as financial support.
8. *Research support* – This type of support intends to financially help Filipinos on research activities for a total of ¥5 million monetary support on condition that research topics must contribute to the social and economic development of the Philippines.

On professional/technical training

There are two types of technical training that JICA currently supports: technical training of overseas participants that is conducted mostly in Japan, and overseas training that is carried out in developing countries. The former involves technology and knowledge transfer to specific countries through the training provided by JICA. Key administrators, technicians, and researchers are the targeted participants of this professional/technical training program.

JICA (2003) notes that those who have received such technical training have contributed greatly to nation building as national leaders, top-ranking researchers, or administrators.

Conducting the technical cooperation training in Japan is advantageous for the following reasons:

- (1) Participants are motivated by seeing the utilization of new technology and ideas not yet available in their own countries;
- (2) Japan's experience is transmitted to the world through their participants; and
- (3) Participants have the chance for intellectual exchange of ideas and experiences with colleagues from other countries who are themselves facing similar issues.

Aside from the benefit of the training, a secondary benefit of this program is the fostering of friendly attitudes among participants. In return, the Japanese people have a heightened level of international awareness (JICA 2003).

The other option of overseas training involves organizations in developing countries, fostered through Japanese technical cooperation, that provide training for their own people or for people in neighboring countries. This is a more effective training method in the sense that this is conducted in a developing country with similar technical levels and social conditions. Second-country training refers to training provided to participants in their own countries. This encourages the diffusion of the results of Japanese technical cooperation extended to developing countries and is aimed at projects that bring direct benefits to local communities in fields such as the environment, population, and health and medical care.

Training targeted at participants in neighboring countries is called third-country training, which facilitates the transfer of technology in line with the participating countries' needs and encourages implementing countries to engage in self-help efforts. This can also be provided in areas with similar cultures, languages, climates, and customs, aside from keeping training costs low (JICA 2003).

On collaborative technical education and training

The TESDA under Republic Act (RA) 7796 provided for the rationalization of the provision of technical education in the Philippines by the National Manpower and Youth Council, the Bureau of Technical and Vocational Education, and the Apprenticeship Program of the Bureau of Local Employment.

TESDA was mandated to provide relevant, accessible, high-quality, and efficient technical education skills and development in support of the development of high-quality, middle-level manpower responsive to and in

accordance with development goals and priorities of the government and of the changing manpower and skills demand of the international economy.

Similar to the Philippines, the Japanese economy places high premium on training individuals to realize latent potentials, and to participate fully in social and economic activities, and act against threats to livelihood. The Japanese government has been providing and accepting trainees to Japanese universities and industries and has been dispatching trained personnel to developing countries as a form of assistance in support of the South-South cooperation.

To complement the technical training and education initiatives in the Philippines in general and TESDA in particular, bilateral cooperation or joint training exercises can be crafted with Japan. Joint technical training and education can facilitate mutual recognition of manpower skills and qualification of manpower transfers from either country. Potential cooperation can be embedded or supported by the Philippine Dual Training Act (RA 7686) where the training system combines in-plant and in-school activities based on a collaborative plan designed and implemented by an accredited public or private institution and a business establishment. The accreditation can be extended to include Japanese firms and industries in the Philippines and in Japan that have been providing training to Filipino workers.

An incentive for Japanese firms to participate in the dual training system of TESDA is provided by RA 7686, which grants tax relief or deductions to firms conducting training and skills development on the following areas:

- (1) agriculture and fishery;
- (2) processed food and beverages;
- (3) tourism (including hotels and restaurants);
- (4) decorative crafts;
- (5) gifts, toys, and houseware making;
- (6) metals and engineering;
- (7) furniture and fixtures;
- (8) garments;
- (9) construction;
- (10) information, communication, and technology;
- (11) maritime;
- (12) land transportation; and
- (13) health, social, and other community development services.

Training areas can be extended to include the emerging skills demand of Japan's industrial society, as well as lifelong learning areas.

On education and research institutions

Education

To assist less-developed countries, Japan has extended support through the ODA, helping in the construction of school buildings, improving educational facilities, and providing equipment and materials (JICA 2001). The Philippines is one of the developing countries that had previously enjoyed and is still enjoying Japan's financial aid in education and human resource development trainings.

Through its MEXT, Japan is advancing cooperation with other countries by utilizing its experience in education. It has accepted foreign students in its major universities and had been sending its students to other countries as well. MEXT extends care for international students from other countries by developing a comprehensive system to promote student exchange. Examples of measures include the following:

- the Japanese government (*Monbukagakusho*) scholarship available for Asian youths;
- financial support to privately financed foreign students;
- promotion of student exchange in cutting-edge areas;
- assistance with living accommodations;
- enhancement of teaching and proper guidance for foreign students at universities;
- the full-scale administering of testing for foreign students wanting to study in Japan;
- information dissemination regarding study in Japan; and
- follow-up service after the students return to their home countries (MEXT 2003).

Furthermore, MEXT provides scholarships to Japanese students wishing to study abroad. It also cooperates with foreign governments in recruiting and screening Japanese students who study under their respective scholarship programs, and provides information related to study abroad.

In 2001–2002, 27 Japanese students studied here in the Philippines. On the other hand, 483 Filipino students also studied in Japan based on the 2002 data. The greater disparity implies a greater contribution and influence of Japanese education to Filipinos. Another explanation for such discrepancy would be the relative abundance of the scholarship programs being offered by the Japanese government for foreign students wanting to study in Japan.

Financial assistance through scholarship programs was also made available by the Japanese government. The list includes private foundations offering scholarships. For 50 years, the Japanese government has received

Filipinos, among other nationals from all over the world, to study in Japan. Elpidio (1986) conducted a study regarding the assessment of Monbusho scholarship program by looking into the accomplishment of Filipino grantees. For developing countries, student exchange is extremely significant as an intellectual contribution to the cooperation of cultivating human resources. An evaluation done by Chittiwatanapong (1986) in Japan pointed out the positive and valuable contribution of the scholarship to the author himself. Studying in Japan promotes mutual understanding, friendship, and scholarly exchange in addition to fostering greater unity between the two countries.

However, difficulties, such as language and institutional barriers, have been noted by former exchange students in Japan. Arifin (1986) noted the following problems:

- (1) difficulty of the Japanese language;
- (2) lack of academic and social guidance for foreign students;
- (3) the problem of degree; and
- (4) internalization of the Japanese society.

Possible areas of cooperation on these problems are discussed in greater detail under the section On Language Proficiency.

Filipinos who were former foreign students in Japan formed alumni associations to promote closer relationships between these two countries. These associations were established to strengthen the alliance between those who have studied in Japan, thus building opportunities for personal networks and improving the standing of previous and current foreign students coming from the Philippines. Thus, they are important for international exchange between the Philippines and Japan. Japan recognizes the importance of these alumni associations, with the Japanese government continually supporting and cooperating in their activities through partial subsidy of related expenses.

Research

Technological development and increasing trade openness present both new opportunities and risks for developing countries like the Philippines. Research is essential as it enables the modification and use of advanced technology and provides up-to-date undergraduate and graduate education in fast-developing fields (Thulstrup 1992). Most developing countries thus have to overcome the challenges brought about by a shortage of researchers, thus contributing to their low research output. Thulstrup (1992) attributes this more to a lack of proper incentives than to a lack of facilities and equipment like laboratories, modern equipment, computers, and library facilities, although the latter does limit research possibilities greatly.

Most countries cannot rely solely on research training abroad. Although it results in high-quality training and international exposure for students,

it is expensive and may not be targeted to national needs; furthermore, it does not directly support capacity building at home and may lead to costly brain drain (Thulstrup 1992). Therefore, a national research capacity must be established, with universities at the forefront of such a strategy. In most countries, universities account for a substantial portion of the research spending. Scientific university research is noted to be more efficient compared with other public sector research (Thulstrup 1992).

An alternative option would be to allow for the exchange of researchers between countries. As pointed out in the working paper for ASEM S&T Minister's Meeting (1999), the movement of people brings transfer of knowledge that may lead to practical application across institutional barriers and national borders. In view of this, interregional flow of researchers must be encouraged. Japan promotes exchanges of researchers by sending Japanese researchers to international scientific conferences, inviting foreign researchers to Japan, and promoting researcher exchange programs implemented by the Japan Society for the Promotion of Science (JSPS) and the Japan Science and Technology Corporation (JST). MEXT also promotes global cooperation in science and technology through bilateral science and technology cooperation agreements, multilateral international joint research, and Antarctic research projects, through the United Nations Educational, Scientific and Cultural Organization (UNESCO) programs and cooperation with the OECD, and by providing assistance and cooperation to the United Nations University or UNU (MEXT 2003).

The issue on inadequate research incentives needs to be addressed. In its simplest form, incentives can be provided by a monitoring and evaluation process that gives recognition to outstanding researchers. Rewards for good research can also include improved research opportunities, promotion, better pay, travel opportunities, intellectual stimulation through interaction with other researchers, and fame and honor (Thulstrup 1992). At present, the research funding system in developing countries like the Philippines is spread out thinly over a variety of activities, including travel funds and equipment, with only a small share given to researchers themselves. In addition, scientific and technological research is not likely to be funded to a great extent by industry in developing countries. The lack of incentives stemming mainly from lack of funding sources is a barrier to efficient and productive research.

Thulstrup (1992) advocates some general strategies for advancing research and research cooperation, which include the following:

1. Universities should be used as centers for quality research and research training and provided with incentives and needed resources. This will result in the double benefit of research and research-based training.

- Public-based research institutions will complement the universities' research thrust.
2. Provide individual incentives for active research to all researchers and secure sufficient resources for efficient and qualified researchers. These will strengthen university education at all levels and will provide the foundation for production of research results and training. Japan's support through ODA can be utilized in this manner. In addition, research output should be monitored and evaluated, with the evaluation results influencing the distribution of research funding.
 3. A system of national research journals can strengthen research publication habits. These must include specific requirements in publishing as well as financial support. There should also be support for international dissemination, being careful not to overlook the needs for local language research reviews.
 4. Research activities should be promoted internationally. Specialized equipment and libraries may be more affordable if researchers from several countries in regional research centers can share them. Cooperation with industrialized country research communities like Japan provides useful and inexpensive support, such as instrumentation services, up-to-date information through scientific journals or informal networks, and reviews and quality control. Therefore, proper university or department twinning between Japan and Philippines should be promoted in lieu of one-sided assistance programs. With possible overseas research training, degree programs of the sandwich type—where the domestic university in cooperation with an overseas university defines a research program—are much more likely to contribute to a strengthening of local universities and to promote research of local importance.
 5. The terms of exchange should be crafted with the view of reducing barriers and obstacles between countries and enhancing the ongoing bilateral or multilateral personnel exchange programs (ASEM 1999). Training programs, mission trips, policy dialogue and working groups, fellowship programs, and joint projects must continuously be promoted.

On lifelong learning

The task confronting the Philippine and Japanese societies in promoting human resource development in education is to create an enriching and dynamic social structure in which people can freely choose learning opportunities at any time during their lives and in which a proper recognition is accorded to those learning achievements (Conferido 1998).

The increased global competition, liberalization of markets, and the introduction of state-of-the-art technologies and organization structures would have both positive and severe repercussions on employment and income prospects of unskilled and semiskilled workers in the Philippines. The importance of educating Filipinos not only for academic gains but also to support economic competitiveness, cross-cultural understanding, social transformation, and the development of national identity cannot be overlooked (Conferido 1998).

The Philippine concept of lifelong learning as identified by Conferido (1998) is focused on workplace learning and should be well within the interests and partnership agreements among the tripartite sectors (employers, employees and trade unions, and the government). This explicitly defines workplace learning as concentrated on training in new and updated skills, continuing professional development, and learning the use of state-of-the-art technologies—all of them contributing to increasing competitiveness, skill employability, and the capacity to deal with change (e.g., period of unemployment).

Although biased in favor of the tripartite sectors, strategies for lifelong learning must not overlook the learning aspirations and confidence of people in underrepresented sectors of the society, such as the unskilled manual workers, part-time and temporary workers, people without qualifications, people living in isolated locations, ethnic minorities, older adults, and people with learning difficulties, among others.

On the other hand, for the Japanese society, the concept of lifelong learning takes another form. Sawano (1998) defined the lifelong learning needs of Japan as encompassing not only the organized learning through schools and social education that directly improves market participation of Japanese, but also the learning achieved through a number of social factors, such as involvement in the areas of sports, outdoor activities, hobbies, recreation, and volunteer activities.

Sawano (1998) and Gordon (1998) emphasized that lifelong learning is important to support the Japanese in coping with social (e.g., ageing population), economic, and technological changes that are taking place, including the substantially increased use of higher technology, growth in information technology, internationalization, and structural changes that are taking place in the business and industry sectors.

In addition, there is an apparent increase in the number of dropouts from upper secondary schools and number of pupils refusing to go to elementary and lower secondary schools in Japan (Sawano 1998). These phenomena might stimulate the need to increase alternative learning opportunities for such

people or to establish second-chance schools. The compensatory education model of lifelong learning should be taken into consideration.

The creation of a bilateral agreement on this area is not impossible to achieve as both countries have relatively strong policy pronouncements in promoting lifelong learning and providing a wide variety of adult educational activities. The Lifelong Learning Law of Japan, the Education for All Philippine Plan of Action (EFA-PPA), and the Nonformal Alternative Learning Systems of the Philippines are already in place to provide the necessary legal structure and groundwork for a possible bilateral arrangement. Although there is an obvious advantage of the lifelong learning system of Japan, such as the *kôminkan*, the Philippines can tap and collaborate with a wide variety of challenging certification programs, on-the-job training by businesses, the University of the Air, and private enterprises that provide educational activities to adults.

On mutual recognition of professional qualifications and education

With the liberalization in the movement of natural persons under a free trade agreement, a continuing expansion of trend in the flow of human resources between Japan and the Philippines can be expected (Tullao and Cortez 2003). The movement can be expected to swell further should the Philippines and Japan forge an economic partnership.

The Philippines through time has become a net exporter of labor to Japan. The majority of the migrant labor flow, however, is characterized as low-skilled and semiskilled workers, recruited from the pool of unemployed (Tullao and Cortez 2003). The entry of professional, skilled, and technical persons still lags behind the sheer volume of entertainers deployed by the Philippines to Japan.

It is often argued that mutual recognition of qualifications and education is the best process to be adopted if the free movement of professionals is to be increased and achieved efficiently and effectively. The whole process requires efficient communication between organizations in each country, which recognizes both the areas of professional activities undertaken by their members and the quality of the output of each of these organizations' required professional qualifications.

The GATS seeks to ensure

“...that measures relating to qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services... as such, mutual recognition of professional qualifications and education can be created and expanded to cover professional expertise (business, education, research and development, among others)

and other services (health, caregiving) for exchange and or for deployment.” (Article VI: 4)

MRAs are identified as the most common way to achieve mutual recognition of qualifications, allowing for the reconciliation of differences in education, examination standards, experience requirements, regulatory, influence, and various other matters.

This would progress and speed up the exchange of professionals and intracorporate transfers of personnel between the two countries, considering the fact that Japan made commitments on the residency status of non-Japanese professionals, such as accountants, engineers, legal and law practitioners, and specialists in humanities and international services (Tullao and Cortez 2003).

The memorandum may not necessarily call for a moratorium on the stringent proficiency and certification examination that is required for employment in Japan, but rather open up the over 600 national certifications and proficiency examination areas officially approved and recognized by Japanese government ministries, such as the *Monbushô* and other public organizations, to Filipino workers. This has the potential to expand employment and income options for Filipino professionals intending to work in Japan. Similarly, Japanese professionals will be able to practice in the Philippines.

However, the Philippines and Japan should take note that mutual recognition of professional qualifications requires certain preconditions, including:

- 1) degree-level entry to the profession in both countries;
- 2) appropriate regulation of the profession in the “host” country;
- 3) a corresponding profession, i.e., where a substantial number of professional activities practiced in the “home” country comprise the profession as practiced in the “host” country;
- 4) an adaptation mechanism to make up for any deficiencies in the content and scope of the professional education and training of migrants; and
- 5) a willingness on the part of the host country and its bodies that award professional qualifications/licenses to accept the principle of mutual recognition, to respect the quality of professional education and training in other countries, and to trust the professionalism of migrants (WTO 1997).

On language proficiency

Employment, educational, and training opportunities in Japan for Filipinos are being constrained by the language proficiency requirements of Japanese universities and firms. Higher education institutions in Japan primarily conduct

all their classes in Japanese language with only a few conducting in the English language. License to practice nursing of foreign nurses in Japan can be obtained only upon passing the nursing licensure examination in Japanese language and characters.

In response to this, the Japan Foundation in cooperation with Philippine cultural exchange and educational institutions implemented the JLPT to evaluate and certify Japanese language proficiency of nonnative speakers. The certification exam consists of four levels (1 to 4), concentrating on proficiency and covering writing-vocabulary, listening, and reading-grammar. The requirements and expectations for each level include minimum hours of study and training on Japanese language. The Japan Foundation-Manila Office (JFMO) already has a list of Philippine schools and educational institutions that can provide courses on Japanese language education and Japanese studies.

Japanese language programs can be taken as part of the school's regular nondegree semestral course offerings or can be especially arranged depending on the number of potential participants/trainees and availability of training personnel. In addition, TESDA is currently arranging and instituting the Japanese Language and Cultural Center (JLCC) integral to their technical vocational education and training (TVET) offerings and is being proposed to the Japanese Embassy for Grant Assistance.

Expansion of Japanese language education program and activities would not only benefit the current and potential workforce and students to Japan, benefits will also transcend to Filipinos seeking employment in domestic Japanese firms. Satisfaction of the minimum language comprehension requirement of some domestic Japanese firms can be facilitated as language proficiency has the potential to help counteract the undue importance placed by Japanese people on previous academic backgrounds, such as the prestige of the university attended, among others, for both Japanese and non-Japanese applicants.

On the language proficiency needs of Japan, it is interesting to note the growing demand for practical English courses, calligraphy, secretarial skills, as well as the study of Chinese characters (*kanji*) in Japan among adults. There has been a significant growth in the number of Japanese adults taking proficiency exams in these fields of interest. However, since many certification programs give proficiency exams at different levels, the passing rate for Level 1 (highest) for the Practical English Proficiency Test (PEFT), which is almost the equivalent of English ability at the college-graduate level (similar to Test of English as Foreign Language or TOEFL), remains low at an average of 4 percent of the total examinees. Similarly, the passing rates were under 15 percent at the top level for secretarial skills, abacus, bookkeeping, calligraphy, retailing, and business English (Shoten 1997).

Technical cooperation on language proficiency, Japanese for Filipinos, and English for Japanese, can close gaps and eliminate natural barriers to employment and movement of natural persons between the two countries. Technical assistance agreements can be made with Japan, such as language education classes, training of Japanese language teachers, financial assistance for administering language proficiency, and teaching competency tests through the MEXT and the Japanese Agency for Cultural Affairs. These are the key institutions in Japan that are also promoting Japanese language study by non-Japanese by offering educational grants (scholarships) to pre-college students in Japanese language institutes and implementing the Regional and Educational Exchanges for Mutual Understanding (REX) Program through which public school teachers can be dispatched to the Philippines as Japanese language teachers.

The institution of the JLCC, on the other hand, is being expected to improve the capacity, capability, and language proficiency of TESDA in preparing technical and skilled workers for Japan. The JLCC can also serve as a benchmark institution for recruitment and placement agencies accredited by TESDA to provide predeparture orientations and Nihongo classes.

On the other end, the Philippines can commit trainings, workshops, and short courses on English proficiency for Japanese workers and business people. The large pool of teachers and education graduates of the Philippines that can teach practical and business English course (as certified by the DepEd, CHED, and/or TESDA) can be committed to improve the performance of the Japanese in high-level English proficiency exams in particular and communicating business and industries in the global market in general.

On information and communication technology

Of the tertiary education graduates in the Philippines from 1991 to 2002, 22 percent finished engineering, information, communication, and computer technology degrees. In addition, TESDA certifies more than 9,000 TVET graduates specializing on ICT (about 18% of the total assessed workers) per annum. These trends create a large pool of ICT skilled workers in the Philippines available for employment in both domestic and international ICT labor markets.

Excess domestic supply of ICT workers can be channeled to the growing demand and shortage of domestic supply for ICT workers in Japan. Reports state that Japanese industries and businesses are in need of about 1.4 million IT engineers, software programmers, and other knowledge-based skilled professionals and the available domestic supply capacity is only about 840,000 IT engineers.

The pool of ICT professionals from the Philippines can very well bridge the supply-demand gap since the Japanese government has substantially eased the requirements for the Philippine IT workers who are interested to work in Japan.

However, the apparent difference in testing and certification standards is an important barrier to mobility of IT experts across borders. In this regard, both countries should have an agreement on mutual recognition of test results and certification by accredited conformity assessment bodies in either country (Rajan and Sen 2002). ICT experts can be tested and certified by accredited assessment bodies locally (a refinement of the existing assessment and certification requirements of TESDA can be made in consonance with this provision), and not have to duplicate the procedures in the importing and supply-deficit country.

As an initial step to mutual recognition on ICT skills, the METI of Japan and the DTI of the Philippines are currently implementing the JITSE that would facilitate certification of qualification of Filipino workers to the minimum ICT skill requirements for employment. JITSE-certified ICT professionals are guaranteed 1–2 years working visa in Japan while it will also improve chances of employment in Japanese companies established in the Philippines.

Through a Memorandum of Mutual Recognition between the Japan Information Technology Engineers Exam Center (JITEC) and the JITSE-Philippines Foundation, the latter was authorized to implement a certification program equivalent in scope of knowledge skills, with the technology to the Skills Standards provided by the Japan Information Processing Development Corporation (JIPDEC), and shall be recognized by JITEC and the Japanese government. Arrangements were also done by JITSE-Philippines to expand the certification exams and programs such as the Computer Graphics Certification Examination from the Computer Graphics Arts Society of Japan (CGA) and other levels of exams from JITEC.

Although the initial introduction of JITSE in the Philippines in 2002 recorded a very low passing rate (5.3% of the total 719 examinees), the JITSE-Philippines expects a higher passing rate in the succeeding exams as the METI provides technical assistance to JITSE-Philippines by providing review materials. The review materials concentrated on introduction to computer science, information processing and security, development and operations, internal design and programming, network and database technologies, and current IT topics. A possible technical assistance in the form of Japanese IT experts facilitating and conducting review sessions to complement the review materials from METI and the local pool of experts/reviewers to improve JITSE passing rate and certification procedure is of great importance.

On exchange of government officials for capacity building

As mandated by the Philippine Local Government Code of 1991, decentralization is integral in the efforts to reduce poverty and disparity among regions. LGUs play a key role in expanding efforts to promote basic health service and education on a level close to residents, which enhances the effectiveness and sustainability of development programs implemented by the LGUs (JICA 1999). Administrative powers, work, staff, budgets, among others, have been transferred to LGUs, with the authority to initiate development plans, including distribution of budgets and staff.

Overall, though, decentralization has not been highly successful due to the lack of administration experience and abilities of the LGUs. With budget and staff distribution left to the discretion of LGUs, supply of basic social services is degraded due to the deterrent priorities of such LGUs (JICA 1999). In addition, disparities in administrative abilities among LGUs exist, and new disparities are created due to the tendency of local grants to be concentrated in cities with larger populations. Moreover, the traditional power structure wherein councils and their members often played the leading role in local administration has partly contributed to insufficient institutional and human capacity building of LGUs (JICA 1999). This has led to the incompetence of LGUs in planning projects and drawing up budgets by themselves.

Thus, it is important to assist LGUs in improving their management capacity through capacity building of individual local administrators, which will enable them to make the efficient use of transferred authority to advance regional development. The existing project-type technical cooperation extended by JICA to developing countries could be considered for this purpose. With the proposed PJEPA embodying exchange in government officials as one strategy to advance human resource development, some specific assistance measures the Philippines could request from Japan may include the following (adopted from JICA [1999]):

- 1) Local administrative officials could seek intensive training in Japan. In addition, the presence of some national government officials presenting the training will lead to local and national officials sharing a common understanding and forming a network between them.
- 2) Alternatively, Japan could provide training in the Philippines to local administrative officials in order to create a network among LGUs. The primary focus will be on those who have received training in Japan (from #1 above).

With either option, promoting personnel exchanges and mutual training will enhance the communication among LGUs and the national government. This will facilitate the exchange of information, know-how, and advice. The

Department of Interior and Local Government (DILG) should be strengthened in its functions to enable it to consolidate the different networks (JICA 1999). In addition, local administrative officials will be able to deepen their knowledge and skills on current issues and conditions of development sectors, and improve their capacity for policy planning, coordination, implementation, and monitoring.

Aside from overall capacity strengthening, it is necessary to address the problems of LGUs on service provision, which is hampered by inadequate appropriations or their insufficient implementation capacity (JICA 1999). These open up other avenues for cooperation such as Japan continuously providing development funds through ODA, and dispatching advisory experts to help in effective implementation. However, LGUs should be entitled to make a direct request for foreign assistance. This will enable better targeting and more effective disbursement of development funds rather than letting the national government solely decide on the appropriations of ODA to the local governments.

On international youth exchanges

JICA's Youth Invitation Program is intended to foster abilities in developing countries, deepen mutual understanding and trust, and build friendships (JICA 2003). The program involves young people from developing countries who will eventually hold important positions in their countries of origin. The program started in 1984 and gradually expanded to include Asia, Oceania, Africa, Latin America, Central Asia, Saudi Arabia, and the Caucasus. Around 1,700 young people from approximately 120 countries are invited every year.

The program enables participants to increase their knowledge in their respective fields of specialization such as education, economics, regional development, administration, agriculture and forestry, and social welfare. It also seeks to foster a better understanding of Japan and the Japanese people, including such aspects as culture and history. One of the main features of the program is a balance between training and exchange. Study and exchange activities in various places in Japan give participants the opportunity to see Japan as a whole and, at the same time, experience the distinctive culture and history of the area where they are staying. Both the invited participants and the Japanese participants are able to experience international cooperation and exchange through these activities, which greatly encourage the development of education and heighten international awareness in the regions (JICA 2003). The program also provides for a course of Japanese language study in which Japanese volunteers show participants around the areas they are staying, at the same time teaching them practical Japanese. There are also in-house seminars

where the participants and young Japanese can engage in discussions and hold parties.

A bilateral agreement between the Philippines and Japan will strengthen the existing invitation program and can lead to more participation of Philippine youths. This can be achieved through the cooperation of the Philippines and Japan in disseminating information to the public. The two governments can also consider the facilitation of the requirements needed for the Youth Invitation Program. In return, the Philippines could consider setting up its own invitation program. The present arrangement with Japan is currently one-sided wherein Philippine youths are invited to Japan and engage in various activities. Hence, entering into a mutual exchange program will be doubly beneficial to both countries as Japanese youths going to the Philippines would then be able to experience Philippine study and culture in the same manner as their Philippine counterparts going to Japan being imbibed in Japanese study and culture. In this aspect, the Philippines could request assistance from Japan in setting up the requirements and activities for this youth exchange. Educational and cultural institutions need to be organized to facilitate the implementation of the envisioned youth exchange. Depending on the initial results of the exchange program, and with proper support and funding, the Philippines can eventually expand the youth exchange program to countries other than Japan.

Another aspect of international exchange advocated by Japan is done through its JOCV program, composed primarily of young people. The volunteer youths assist in the economic and social development of developing countries based on requests from these countries (JICA 2003). Cooperation is provided in seven fields: agriculture, forestry and fisheries, processing, maintenance, civil engineering, public health care, education and culture, and sports. The JOCV program began in 1965 with the dispatch of the first batch of 26 volunteers to four countries—5 to Laos, 4 to Cambodia, 12 to the Philippines, and 5 to Malaysia.

Living and working with local people, JOCVs spend around two years in developing countries. Aside from the benefits that the local people receive from the volunteers, the experience also benefits the volunteers themselves as they strive to overcome the various difficulties they face in their personal relations and at work (JICA 2003). The proposed bilateral agreement between the Philippines and Japan opens up the option of requesting/accepting more JOCVs into the country. Specifically, the acceptance of young and old Japanese volunteers would be beneficial to both countries. More elderly people can be sent to the Philippines, which could help in easing the Japanese burden due to its ageing population. In April 2000, the JOCV Secretariat had set up a Senior Volunteers Division. Thus, the Philippines would benefit from the experience and skills of both the senior volunteers and the young volunteers.

On cultural exchange

The Cultural Grant Aid Program under Japan's ODA scheme for the Philippines is generally concentrated on the improvement of equipments in cultural and higher education institutions. Recipients of the Cultural Grant Aid Program includes the Cultural Center of the Philippines (CCP), the National Historical Institute (NHI), and public education institutions like the University of the Philippines (UP), Cagayan State University (CSU), Mindanao State University (MSU), Leyte Normal University (LNU), and the Philippine High School for the Arts (PHSA), among others.

Though focused on the improvements of cultural facilities, the exchange of cultural persons can be expanded. Since the Philippines has been sending female entertainers and cultural dancers to Japan, cultural exchange agreements can be drawn out to other areas that promote and foster the "real" cultural heritage between the two countries.

The cooperation can include the invitation and dispatch of national artists and specialists. Japan has been inviting outstanding artists, cultural property specialists, and others to their territory to take part in exchange projects, such as training of Japanese counterparts, joint production, and joint research. Arts fellowships through the Japanese Government Fellowship Program for Artists from abroad can be tapped where young overseas artists are invited to Japan to study and meet with young Japanese artists while the same program for Japanese artists are being sent overseas for practical training in fields of fine arts, music, dance, drama, film, stagecraft, media arts, and arts management. Japan does not only limit its assistance to artists, the Program for Asian Cooperation in Modern Performing Arts invites stage technicians to undergo training in New National Theatre, Tokyo to improve stagecraft for contemporary drama and stage arts.

Cultural exchange agreements can also figure through exhibitions and performances, among others. Bilateral exchange in modern and folk arts festivals, production of stage performances, participation in overseas film festivals, and joint exhibition of cultural properties promotes greater awareness, appreciation, and cultural understanding.

Similar to Japan's cooperation with the European Union and the United States, a joint effort for the conservation of cultural heritages is of great importance. The conduct of a joint research to clarify the mechanism of arresting the deterioration of the cultural property quality of historical buildings and investigate suitable methods of preservation will be of great use and will contribute to the Philippines' effort in preserving national treasures.

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Appendixes

**Table 1. Medical insurance benefits paid to the elderly, Japan, FY 1983,
(in hundred million yen)**

Fiscal Year	Medical Insurance Benefits Paid	Medical Insurance Benefits Paid Out to the Elderly
1983	85,283	32,899
1984	85,828	35,889
1985	88,506	40,377
1986	94,405	43,829
1987	99,625	47,084
1988	103,279	50,002
1989	107,868	54,097
1990	112,543	57,646
1991	118,695	62,305
1992	128,206	67,343
1993	131,632	71,778
1994	136,548	78,412
1995	140,042	84,877
1996	145,156	92,898
1997	140,159	96,762
1998	137,823	101,737
1999	138,456	110,275
2000	140,214	102,399

Source: Kokumin Iryohi no Gaikyo, Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labour, and Welfare (2002), Japan

Table 2. Basic national elementary education data, Japan, 1997–2002

Basic Data	1997	1998	1999	2000	2001	2002
Number of schools	24,376	24,295	24,188	24,106	na	na
National	73	73	73	73	na	na
Public	24,132	24,051	23,944	23,861	na	na
Private	171	171	171	172	na	na
Total enrollment	7,855,387	7,663,533	7,500,317	7,366,079	7,296,920	7,239,333
Number of teachers	420,901	415,680	411,439	407,598	407,829	410,526
<i>Teacher-student ratio</i>	<i>1:19</i>	<i>1:18</i>	<i>1:18</i>	<i>1:18</i>	<i>1:18</i>	<i>1:18</i>

Source: Japan Information Network Statistics; Ministry of Education, Culture, Sports, Science and Technology (MEXT)

Table 3. Basic national lower secondary education data, Japan, 1997–2002

Basic Data	1997	1998	1999	2000	2001	2002
Number of schools	11,257	11,236	11,220	11,209	na	na
Total enrollment	4,481,480	4,380,604	4,243,762	4,103,717	3,991,911	3,862,851
Number of teachers	161,485	158,757	155,865	153,290	151,714	150,496
<i>Teacher-student ratio</i>	<i>1:28</i>	<i>1:28</i>	<i>1:27</i>	<i>1:27</i>	<i>1:26</i>	<i>1:26</i>

Sources: Japan Information Network Statistics; MEXT

Table 4. Basic national upper secondary education data, Japan, 1997–2002

Basic Data	1997	1998	1999	2000	2001	2002
Number of schools	5,496	5,493	5,478	na	na	na
Total enrollment	4,371,360	4,258,385	4,211,826	4,165,434	4,061,761	3,929,359
<i>Annual growth rate</i>		<i>-2.60%</i>	<i>-1.09%</i>	<i>-1.10%</i>	<i>-2.49%</i>	<i>-3.26%</i>
Number of teachers	276,108	273,307	271,210	269,027	266,548	262,439
<i>Teacher-student ratio</i>	<i>1:16</i>	<i>1:16</i>	<i>1:16</i>	<i>1:15</i>	<i>1:15</i>	<i>1:15</i>

Sources: Japan Information Network Statistics; MEXT

Table 5. Basic higher education data, Japan, 1997–2002

Basic Data	1997	1998	1999	2000	2001	2002
Number of colleges/universities						
Junior colleges	595	588	585	572	na	na
Universities	586	604	622	649	na	na
Total enrollment						
Junior colleges	446,750	416,825	377,852	327,680	289,198	267,114
Universities	2,633,790	2,668,086	2,701,104	2,740,023	2,765,705	2,786,078
Number of colleges/universities						
Junior colleges	19,885	19,040	18,206	16,752	15,638	14,491
Universities	141,782	144,310	147,579	150,563	152,572	155,048

Sources: Japan Information Network Statistics; MEXT

Table 6. Basic national elementary education data, Philippines, 1997–2003

Basic Data	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Number of schools	38,395	39,071	39,529	40,284	40,763	41,288
Public	35,272	35,587	35,857	36,013	36,234	36,759
Private	3,123	3,484	3,672	4,271	4,529	4,529
Annual growth rate		1.17	1.17	1.91	1.19	1.29
Total enrollment	12,225,038	12,502,524	12,707,788	12,759,900	12,826,218	12,979,628
Public	11,295,982	11,562,181	11,786,622	11,832,611	11,916,686	12,050,450
Private	929,056	940,343	921,166	927,289	909,532	929,178
Annual growth rate		2.27	1.64	0.41	0.52	1.20
Number of teachers	354,063	359,964	359,798	331,827	331,448	337,082
Public	324,039	329,198	329,198	331,827	331,448	337,082
Private	30,024	30,766	30,600	-	-	-
Teacher-pupil ratio (Public schools)	1:34	1:35	1:35	1:36	1:36	1:36

Source: Department of Education (DepEd), 2003

Table 7. Basic national secondary education data, Philippines, 1997–2003

Basic Data	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Number of schools	6,690	7,017	7,197	7,509	7,683	7,890
Public	3,956	4,116	4,214	4,336	4,422	4,629
Private	2,734	2,901	2,983	3,173	3,261	3,261
Annual growth rate		4.89	2.57	4.34	2.32	2.69
Total enrollment	5,022,830	5,115,251	5,207,446	5,378,735	5,813,879	6,077,851
Public	3,616,612	3,767,159	3,933,210	4,157,889	4,562,317	4,793,511
Private	2,734	2,901	2,983	3,173	3,261	3,261
Annual growth rate		1.84	1.80	3.29	8.09	4.54
Number of teachers	144,662	145,977	145,561	109,845	112,210	119,235
Public	105,240	107,706	107,706	109,845	112,210	119,235
Private	39,422	38,271	37,855			
Teacher-pupil ratio						
(Public schools)	1:34	1:35	1:35	1:36	1:39	1:40

Source: DepEd (2003)

Table 8. Comparative mean percentage score of fourth year students who took the National Secondary Assessment Test (NSAT), 1997–2001

Effectiveness Indicators	1997–1998	1998–1999	1999–2000	2000–2001
Achievement rate	48.66	46.12	54.34	53.39
Mathematics	49.65	44.49	49.99	51.83
Science	45.63	42.99	46.29	45.68
English	47.07	44.19	50.43	51.00
Filipino	57.50	62.50	66.14	61.26
Araling Panlipunan			58.64	57.19
Percentage of passers	94.40	94.76		

Source: DepEd (2003)

Table 9. Data on higher education, Japan and Philippines, 2002

	Universities	University Professors and Instructors	University Students
Japan	0,686	155,048	2,786,078
Philippines	1,479 ¹	093,884 ²	2,637,039 ²

¹2003²2000–01

Sources: Japan Information Network Statistics; Commission on Higher Education (CHED), Philippines

Table 10. Minimum requirements of the Japanese Language Certification Test (JLPT) by certification level

Certification Level	Minimum Certification Requirements
Level 1	Mastered grammar to a high level, knows about 2,000 Kanji and 10,000 words, and has an integrated command of the language sufficient for life in Japanese society and providing a useful base for study at a Japanese university. This level is normally reached after studying Japanese for about 900 hours.
Level 2	Mastered grammar to a relatively high level, knows about 1,000 Kanji and 6,000 words, and has the ability to converse, read, and write about matters of a general nature. This level is normally reached after studying Japanese for about 600 hours and after completion of an intermediate course.
Level 3	Mastered grammar to a limited level and knows about 300 Kanji and 1,500 words, has the ability to take part in everyday conversation and to read and write simple sentences. This level is normally reached after studying Japanese for around 300 hours and after completion of an elementary course.
Level 4	Mastered the basic elements of grammar, knows about 100 Kanji and 800 words and has the ability to engage in simple conversation and to read and write short, simple sentences. This level is normally reached after studying Japanese for about 150 hours and finishing the first half of the elementary course.

Source: Japan Foundation-Manila Office (JFMO), 2003

Table 11. Partial list of schools and institutions related to Japanese language education and Japanese studies

Metro Manila Centers/HEI	Provincial Centers/HEI
1. International Studies Center, Adamson University	1. Filipino-Japanese Foundation of Northern Luzon, Inc. ABONG
2. Japanese Studies Program, Ateneo de Manila University	2. Cagayan Capitol College
3. Foreign Service Institute	3. Philippine Nikkei-Jin Kai, Inc.
4. College of Nutrition, H.E. Tourism - Centro Escolar University	4. Caritas Don Bosco School, Incorporated

Table 11. (continued)

Metro Manila Centers/HEI	Provincial Centers/HEI
5. Philippine - Japan Cultural Institute	5. Basic Arts and Sciences Department - Technological University of the Philippines
6. Philippine Trade Training Center	6. Center for Japanese Studies - University of Cebu
7. Nihongo Center & PIJLC	7. College of Arts and Sciences - University of San Jose-Recoletos
8. C.P. Garcia High School	8. The U.P. Mindanao
9. International Center, Institute of HRM (Angelo King) College of Saint Benilde	9. Japanese Language Center - Sorsogon State College
10. Japan Studies Center-Trinity College of Quezon City	10. Department of English and Literature - Silliman University
11. Technological University of the Philippines	11. Department of Literature and Languages - University of San Carlos
12. St. Benedict College	12. College of Hotel and Restaurant Management - University of Baguio
13. Asia Pacific Language Center - University of Asia and the Pacific	13. Southwestern University
14. Japanese Language Division - De Ocampo Memorial College	14. Leyte Normal University
15. High School Department - La Salle Greenhills	15. HRM-Tourism Department - Colegio de San Agusitn
16. Foreign Language Department - Miriam College	16. College of Arts and Sciences - Leyte Colleges
17. Marikina Institute of Science and Technology	17. International Studies Center, College of Arts and Sciences - University of the Philippines in the Visayas
18. Santiago Zobel High School - De La Salle Zobel	18. Bohol Institute of Technology
19. N. Araullo High School	19. Social Sciences Division University of the Philippines-Cebu
20. College of Foreign Service - Lyceum of the Philippines	20. University of the Philippines-Tacloban
21. International Studies Department - De La Salle University	21. Department of Economics - University of the Philippines-Los Banos
22. Institute of Foreign Languages - National Defense College of the Philippines	22. Office for Development, External Relations and Alumni Affairs (DERA) University of St. La Salle
23. Career Development and Continuing Education Center (CDCEC) Philippine Women's University	23. College of Arts and Sciences West Visayas State University
24. Modern Languages, High School - International School Manila	24. Tourism Department University of San Jose- Recoletos
25. Asian Center - University of the Philippines	
26. College of Education - University of Sto. Tomas	

Source: JFMO (2003)

Table 12. Per capita food intake per day (in Ap, gm*), Philippines, various years

Food Group	1978 ^a	1982 ^b	1987 ^c	1993 ^e
Energy-giving foods				
Cereal and cereal products	367	356	345	340
Starchy roots and tubers	37	42	22	17
Sugars and syrups	27 (19) ^d	22	24	19
Fats and oils	13	14	14	12
Body-building foods				
Fish, meat, and poultry	133	154	157	147
Eggs	8	9	10	12
Milk and milk products	33 (42) ^d	44	43	44
Dried beans, nuts, and seeds	8	10	10	10
Body-regulating foods				
Green leafy and yellow vegetables	34	37	29	30
Vitamin C-rich foods	47	36	36	21
Other fruits and vegetables	168	159	153	132
Miscellaneous	21	32	26	19
Total	396 (897)	915	869	803

Sources: ^aNSDB, FNRI. First Nationwide Nutrition Survey, Philippines, 1978 (Summary Report). 2nd revision, January 1981

^bNSTA, FNRI. Second Nationwide Nutrition Survey, Philippines, 1982, October 1984

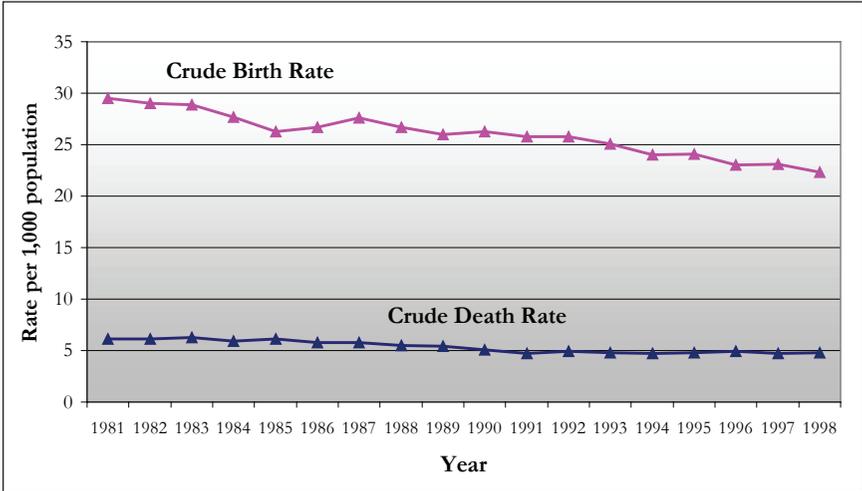
^cDOST, FNRI. Third National Nutrition Survey, Philippines, 1987 Preliminary Results

^dNumber in parenthesis refers to data given in Source B (from Florencio [1994] Nutritional Welfare of Filipinos in Population, Human Resources and Development)

^ePhilippine Nutrition Facts and Figures. FNRI-DOST, 2001

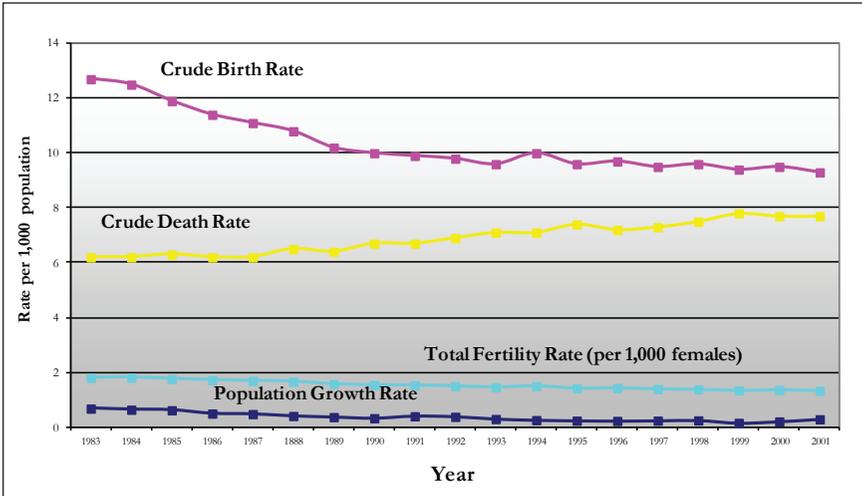
*Raw as purchased.

Figure 1. Crude birth rate and crude death rate, Philippines, 1981–1998



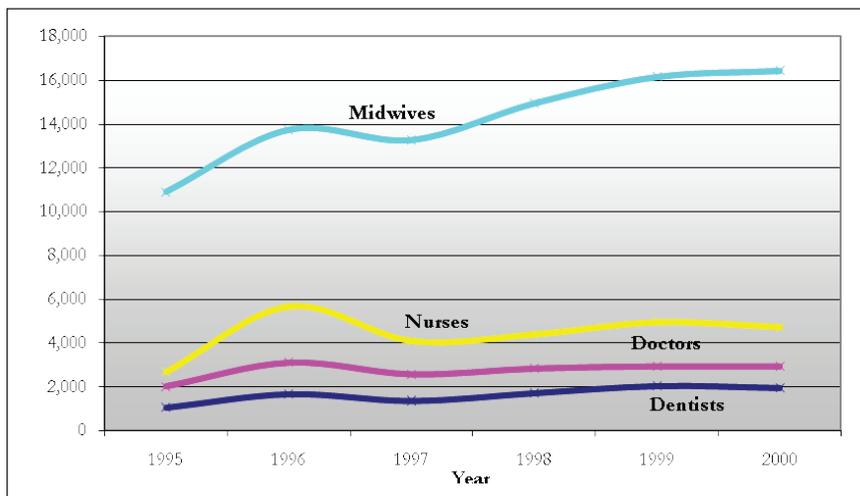
Sources: Philippine Statistical Yearbook (2002), National Statistical Coordination Board (NSCB); National Statistics Office (NSO)

Figure 2. Selected demographic indicators, Japan, 1983–2001



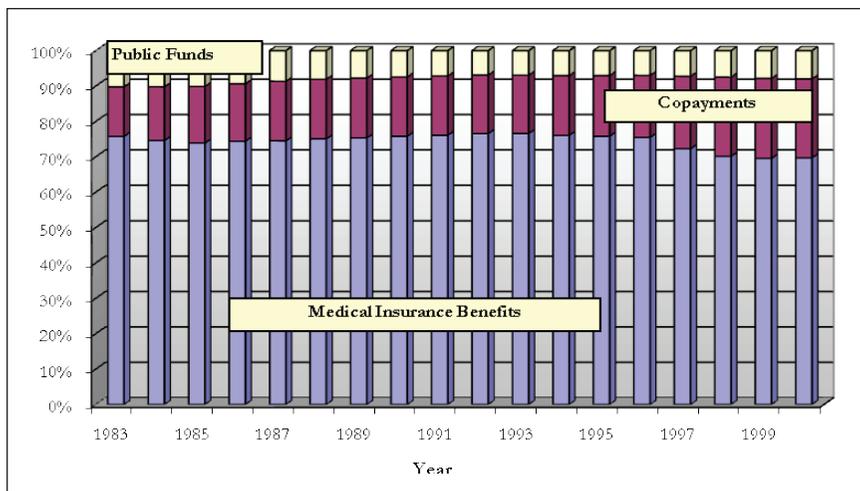
Sources: Statistical Survey Department, Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications; Summary of Vital Statistics, Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labour and Welfare (2002), Japan

Figure 3. Health human resources, Philippines, 1995–2000



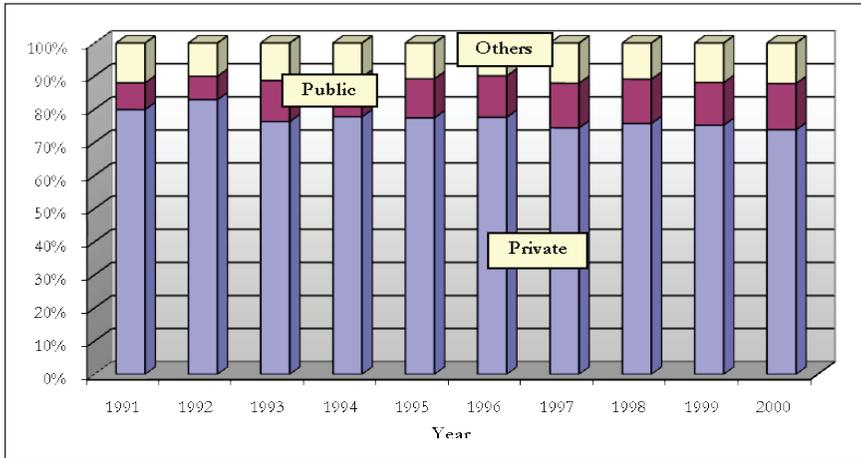
Source: Department of Health (DOH), 2003

Figure 4. Health expenditures by source of funds, Japan, 1983–2000



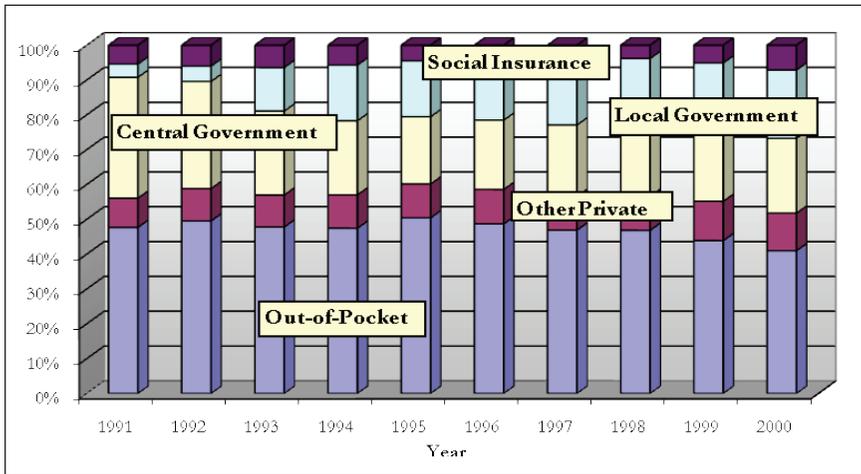
Source: Kokumin Iryohi no Gaikyo, Statistics and Information Department, Minister’s Secretariat, Ministry of Health, Labour, and Welfare (2002)

Figure 5. Health expenditures by use of funds, Philippines, 1991–2000



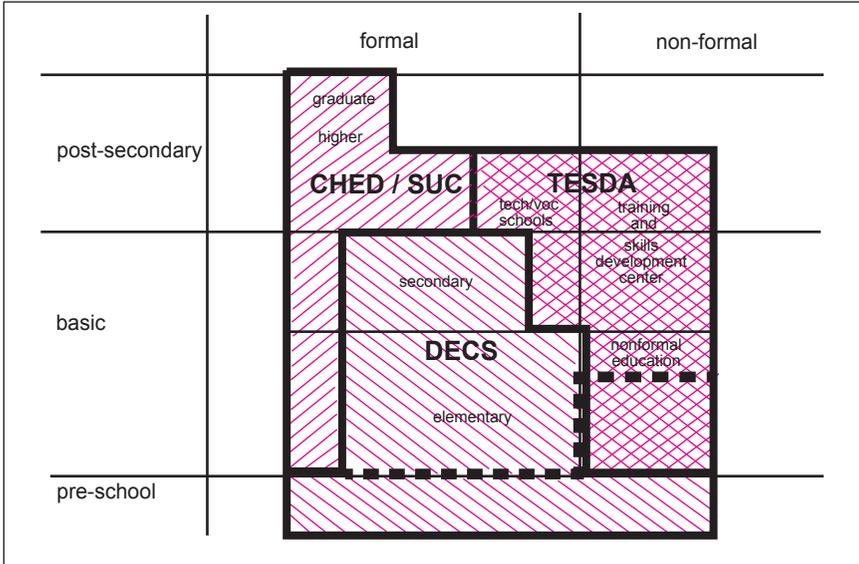
Source: NSCB (2003)

Figure 6. Health expenditures by source of funds, Philippines, 1991–2000



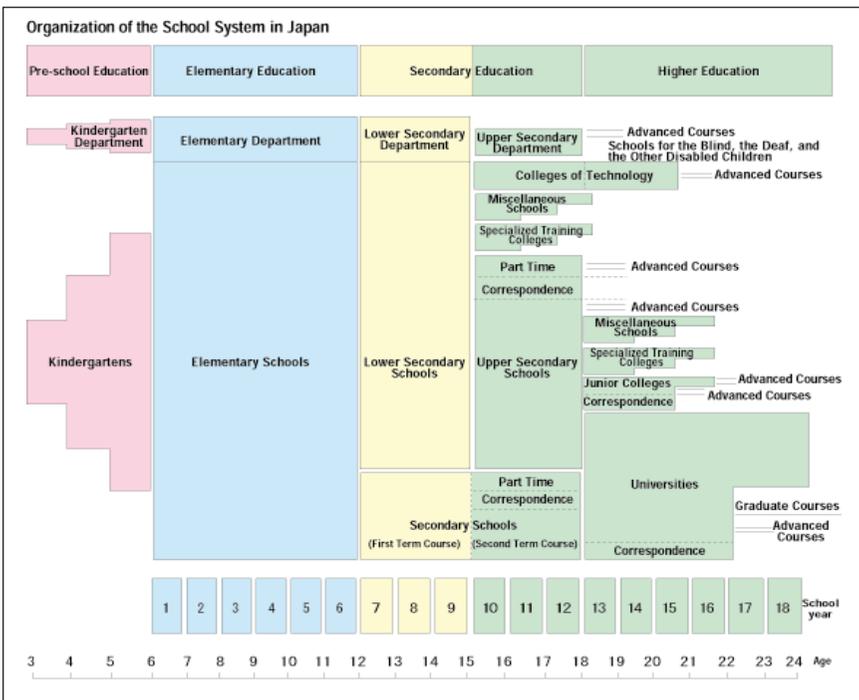
Source: NSCB (2003)

Figure 7. Organization of the Philippine education system



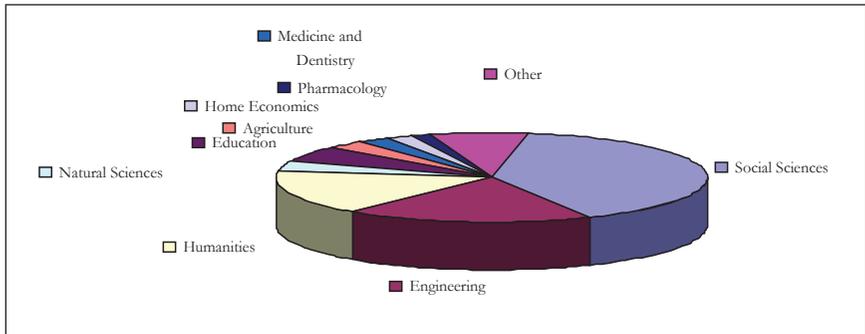
Source: Adapted from Maglen and Manasan (1999) in Manasan (2000)

Figure 8. Organization of the Japanese education system



Source: MEXT (2003)

Figure 9. Undergraduate courses by major fields of study, Japan, 2001



Source: MEXT (2003)

9 The Dynamics of a Philippines-Japan Economic Cooperation: The Case of Japan's ODA in the Philippines

Jose V. Camacho, Jr. and Agham C. Cuevas

Introduction

The economic relation between the Philippines and Japan is one of the most dynamic and vibrant in the Asia-Pacific region. Since the establishment of the Philippine-Japan Friendship Highway in 1968, Japan has become the Philippines' largest source of ODA, the second biggest trading partner and the second biggest source of investments. From 1969 to 1998 alone, total Japanese ODA to the Philippines had reached a huge sum of USD 8.426 billion. In the first half of 2002, Japan contributed 81 percent of the country's total ODA commitment or USD 634 million with the loan signing of seven projects under the 25th and Special Yen Loan Packages (Office of the Presidential Staff 2002). These amounts were able to facilitate and create the conditions that enabled the poor people to increase their incomes, improve their welfare, and live longer, healthier, and more productive lives. Over the years, the Japanese government has expanded its ODA to support Philippine development goals and to act as a catalyst for social transformation. This is based on the belief that cooperation through ODA is an important role that Japan should play in the international scene, and that ODA promotes Japan's national interests.

However, there are still some daunting tasks to do and challenges to confront, such as finding ways to slow down population growth, reduce poverty, sustain growth and human development, and empower poor people in regions with weak institutions and governance. How effective Japan is in helping the poor regions and the vulnerable groups as a response to these challenges will depend on continued learning and on improvements in the allocation, administration, and delivery of its ODA. The efficiency and effectiveness of ODA can only be sustained when the recipients are strongly committed to development and are in charge of the process.

This study highlights a broader perspective of the dynamic relationship between the Philippines, as an ODA recipient, and Japan, as an ODA donor country. The study examines the trends and patterns, issues, challenges, and prospects of Japan's ODA in the Philippines and their implications on the proposed Philippines-Japan bilateral trade agreement.

What are the most likely impacts of the proposed economic partnership on the Philippines' access and share in Japan's ODA? Should the Philippines forge a more dynamic economic partnership primarily through a bilateral trade arrangement with Japan? This is an important question to deal with as it relates to how this economic cooperation will change the extent and level of Japan's ODA to the Philippines. Will it increase further the total ODA allocated for the Philippines relative to its recipient neighbors? Should there be a further shift in sectoral and regional allocation?

The study is significant and timely as it coincides with Japan's effort to refocus and justify its development assistance, including a reevaluation of its efficiency and effectiveness based on broader development concerns of both the donor and recipient countries. As Japan encounters fiscal constraints and a continuing scrutiny of aid levels, ODA programs and projects must be implemented with greater efficiency bearing in mind the priorities of the recipient regions and the areas and types of aid they must deliver. In the case of the Philippine economy, a paramount concern deals with whether forging an economic alliance with Japan is consistent with the country's goals of reform programs and medium-term policy agenda (NEDA 2001) that include:

- poverty reduction and equitable distribution of income;
- macroeconomic stability and accelerated, broad-based, market-led growth;
- agricultural and fisheries modernization to achieve sustainable increases in rural incomes and to include improved access to land tenure, extension services, rural infrastructure, and credit;
- human resource development focused on the quality and access to education, health, and housing services; protecting the vulnerable; and addressing regional disparities and the particular challenges of Mindanao;
- good governance, judicial reforms, and institution building; and
- sustainable development and global competitiveness.

The paper presents, in general terms, the empirical evidences, the role of aid, and the impact of ODA. Section III reviews the principles, philosophy, and priority areas of Japan's ODA based on its ODA charter that was drafted in 1992. Section IV illustrates the trends and patterns of Japan's ODA in the Philippines. Section V details some likely impacts of the PJEP on Japan's ODA

allocation to the Philippines, citing empirical evidences. Section VI forwards some policy issues and challenges while Section VII concludes and lists down a set of recommendations.

The “Development” in ODA: The Role and Impact of ODA in Development

As the Japanese economy has demonstrated during its early growth years, ODA is crucially important in facilitating the process of economic development. ODA serves to enlarge the pool of capital available for investment and growth especially in countries that have the right policy environment but lack the infrastructure and capabilities necessary to mobilize sufficient domestic resources and attract private capital flows. It eases the constraints on public funds available for necessary public investments.

Aid draws in private investment, rather than crowds it out. Countries must therefore cultivate a good investment environment where the private sector flourishes and is able to make further investment to generate employment and enhance efficiency and factor productivity. A World Bank (WB) study cites that “each dollar of assistance provided through the bank’s concessional lending arm, the International Development Association (IDA), leads to nearly two dollars of additional private investment, including 60 cents of additional foreign direct investment.”

The literature also recognizes very strongly that ODA has both direct and indirect effects on poverty reduction and income distribution: the former through support projects and programs aimed specifically at the poor, and the latter through the promotion of long-term economic growth. Its poverty-reducing impact has increased in the past decade due to improved design and allocation—for instance, by investing in poor people with inputs necessary for them to contribute to and participate in the process of economic transformation such as education and health; and by giving them access to credit and other support infrastructure and services. Poor people are empowered when their choices are enlarged and given the potentials to shape their own lives.

Another channel through which aid might foster growth is through technical assistance and technology transfer. This type of aid promotes growth not by accumulating greater resources but by making existing resources more efficient and effective. Technical assistance programs may also include educating and training government officials who play a large role in creating the policy environment and in using foreign aid.

However, empirical evidence argues that the performance of ODA heavily depends on the recipient’s design of economic policies and the way it governs its economy. If the policy environment is not conducive to growth,

aid is ineffective and less likely to contribute to sustainable development. Development scholars believe that "in terms of growth prospects and performance, no amount of foreign assistance can substitute for a developing country's internal policies and incentives for increasing output and improving the efficiency of resource allocation."

Philosophy of Japan's ODA and Priority Areas in the Philippines

Japan primarily extends economic cooperation through its ODA by taking into account each recipient country's request, its social and economic status, and its bilateral relations with the recipient country. This cooperation, as outlined in its ODA charter, is consistent with the principles of the United Nations Charter and in accordance with the following principles (MOFA 2001a):

1. Environmental conservation and development should be pursued in tandem.
2. Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.
3. Full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms, among others.
4. Full attention should be paid to efforts in promoting democratization and introduction of a market-oriented economy, and the condition for securing basic human rights and freedom in the recipient country."

Japan recognizes the linkage between development assistance fostering economic growth and sustainable development on one hand, and poverty reduction and human development on the other. These priority areas are consistent with Japan's ODA philosophy that is largely based on the country's experience after World War II, when the WB extended loans to develop its core infrastructure and industry. Based on its ODA charter framework, aid is seen to support the self-help efforts of developing countries pursuing economic growth. Japan's provision of economic cooperation is based on the concepts of humanitarian and moral consideration and the recognition of interdependence among nations. Nishigaki and Shimomura (1999) outlined two crucial elements. First, they cited that "economic development can be possible only if the government and its citizens have continuous efforts to improve their present conditions. Without the help and sacrifices of the people, neither assistance nor development can be successful. Foreign aid has the supporting role to assure that those efforts can be productive and successful." On aid implementation, Japan believes that the donor country should not direct its aid recipient, "rather it should be the developing countries that will discover

and search for a promising project and then lend a helping hand to the more experienced and skillful ones.

Trends and Patterns of Japan's ODA in the Philippines

After World War II, Japan became a recipient of international development assistance. However, due to its unprecedented economic growth during the 1970s and 1980s, and due to the appreciation of the yen relative to the US dollar since 1972, Japan's status dramatically changed to become the world's largest ODA donor. Development scholars have described Japan's ODA in Southeast Asian countries, including the Philippines, in various patterns and distinct phases. As presented in Table 1, six phases can be identified with their corresponding features and characteristics (as cited in Rivera 2003). Mori (1995), in his study of Japan's ODA, merged these phases into five categories, namely: (i) as postwar reconstruction, (ii) as export promotion, (iii) as import promotion coinciding with the rise of multilateralism and diversification of grant aid, (iv) as comprehensive security, and (v) as period of economic cooperation and global contribution (as cited in Rivera 2003).

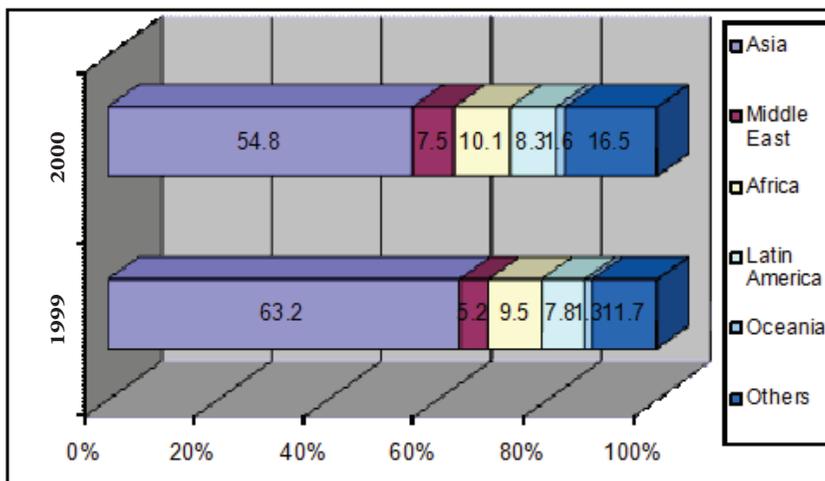
In geographical terms, Asia continues to be a priority region as it receives the largest ODA from Japan, although a considerable decline could be noted from 63.2 percent in 1999 to 54.8 percent in 2000 (Figure 1). Consistent with its ODA charter, Japan's special emphasis is in Asia as this region poses strategic linkages in its trade prospects. Priority aid areas include peace building and

Table 1. Phases of Japan's ODA in the Philippines

Phase	Feature/Characteristics
Phase 1 (1954–1957)	Reparations payments to Southeast Asian countries
Phase 2 (1958–mid-1960s)	Nonreparations financial aid and conscious tie-up with Japan's export promotion policy
Phase 3 (mid-1960s–early 1970s)	Rapid growth of ODA with East and Southeast Asia as the main destinations
Phase 4 (early 1970s–1977)	Geographical diversification of ODA to countries outside Asia in response to the first oil shock
Phase 5 (1978–late 1980)	Coincided with the implementation of three midterm plans that expanded significantly the amount of ODA
Phase 6 (1999–onward)	Japan as largest ODA donor

ODA = official development assistance

Source: Imai et al. (1992) as cited in Rivera (2003)

Figure 1. Geographical distribution of Japan's bilateral ODA (%)

Source: MOFA (2001b)

promotion of understanding of Japan, the development of basic infrastructure to promote economic integration and growth in Asia, environment and energy, poverty eradication. As presented in Table 2, the Philippines has consistently ranked in Asia's top 10 recipients of Japanese aid.

Japan is considered a model of aid-recipient countries due to its dramatic shift as the world's largest ODA donor. In 1964, when it became a member of the OECD, its ODA to the less-developed countries was valued at USD 15.8 million, about 3 percent of the United States' USD 3.56 billion, one-eighth of France's contribution, and only about one-fourth of the contribution of Germany or Great Britain.

When compared with other ODA donors, Japan contributed the largest ODA (Figure 2). In terms of ODA commitment, which includes top multilateral donors, from 1992 to 1999, Japan committed about 45 percent (USD 6.3 billion) of the total amount, followed by the Asian Development Bank (ADB) with 19 percent (USD 2.7 billion), and the WB with 18 percent (USD 2.5 billion).

As the top ODA donor, Japan outranked the Development Assistance Committee (DAC) member-countries that comprise the world's rich economies, such as the United States, Germany, Australia, France, Spain, and the Netherlands (Table 3). In 1995, for instance, the total net disbursement of the United States (USD 112 million) was nearly 25 percent of Japan's total disbursement (USD 416.1 million). This proportion declined to as low as 17 percent in 1999. The combined total disbursement of the four top DAC member-countries was just

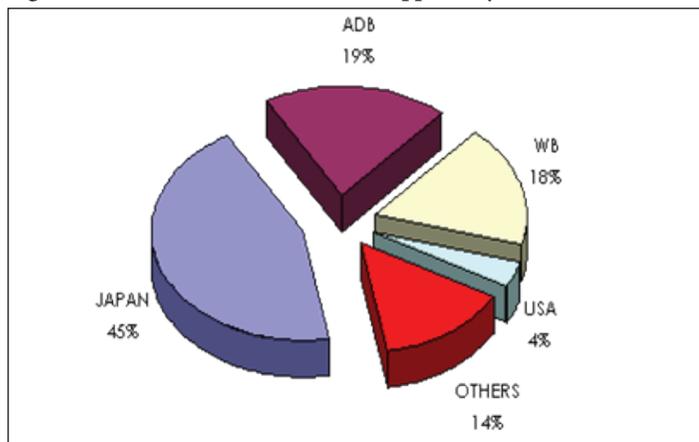
Table 2. Ten largest recipient countries of bilateral ODA (net disbursement, in USD million)

Rank	1999			2000			2001		
	Country	Amount	% Share	Country	Amount	% Share	Country	Amount	% Share
1	Indonesia	1,806.83	15.30	Indonesia	970.10	10.06	Indonesia	860.07	11.54
2	China	1,225.97	11.68	Viet Nam	923.68	9.58	China	686.13	9.21
3	Thailand	880.26	8.39	China	769.09	7.98	India	528.87	7.10
4	Viet Nam	679.96	6.48	Thailand	636.25	7.98	Viet Nam	469.53	6.17
5	India	634.02	6.04	India	368.16	3.82	Philippines	296.22	4.00
6	Philippines	412.96	3.93	Philippines	304.48	3.16	Tanzania	260.44	3.49
7	Peru	189.12	1.80	Pakistan	280.36	2.91	Pakistan	211.41	2.84
8	Pakistan	169.74	1.62	Tanzania	217.14	2.25	Thailand	209.59	2.81
9	Brazil	149.36	1.42	Bangladesh	201.52	2.09	Sri Lanka	184.72	2.48
10	Syria	136.17	1.30	Peru	191.68	1.99	Peru	156.52	2.10
	Total for above 10	6,083.45	57.95	Total for above 10	4,861.64	50.43	Total for above 10	3,855.50	51.74
	Total/ bilateral aid to developing countries	10,497.56	100.00	Total/ bilateral aid to developing countries	9,640.10	100.00	Total/bilateral aid to developing countries	7,452.04	100.00

Source: MOFA (2001b)

one-third of Japan's share. The situation is the same when one includes the contribution of international organizations and other donor agencies in 1999. Japan again took the lead in channeling 59 percent of the total volume of ODA in the Philippines. The United States contributed only 11 percent out of the USD 690 million while the combined ODA of Australia, Germany, and Spain only reached 9 percent.

Figure 2. ODA commitment to the Philippines by source, 1992–1999



Source: NEDA Public Investment Staff (2002)

Table 3. Amount of ODA disbursements to the Philippines from DAC member-countries (net disbursement, USD million)

Year	1	2	3	4	5	Total
1995	Japan 416.1	United States 112.0	Germany 67.6	Australia 56.0	France 35.8	748.8
1996	Japan 414.5	Germany 106.6	Australia 55.9	United States 46.0	France 27.4	748.2
1997	Japan 319.0	Germany 56.6	Australia 42.9	Spain 22.7	Netherlands 22.4	567.3
1998	Japan 297.6	Germany 45.4	Australia 45.0	United States 27.3	France 24.4	528.0
1999	Japan 413.0	United States 72.7	Australia 29.2	Germany 22.1	Spain 12.9	616.0

DAC = Development Assistance Committee

Source: MOFA (2001b)

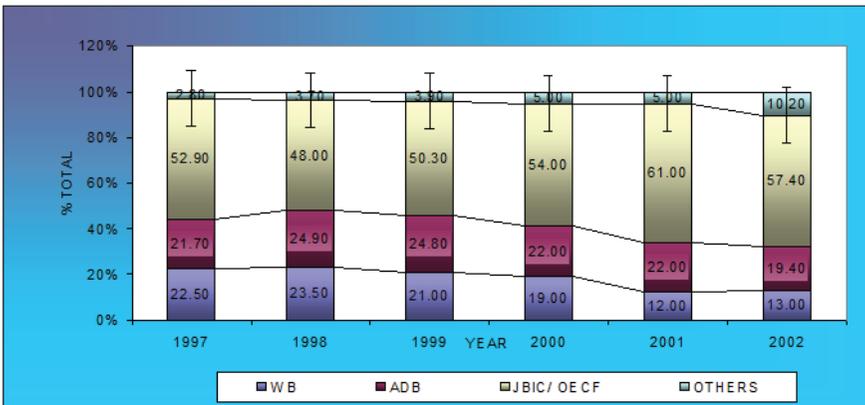
Japan extends its ODA in three forms: grants, loans, and contributions and subscriptions to multilateral donor agencies. A grant comprises a grant aid and technical cooperation or technical assistance. It does not require repayment of obligation from recipient countries.

Grants, mostly administered by the JICA, are allocated, for instance, to the health sector through an improvement and expansion of medical services and rural health facilities and the training of personnel. Technical cooperation or technical assistance programs are also focused on such sectors as agriculture, industrial technology, and transportation. Japan has also extended leadership and financial support of various technical studies aimed at improving productivity and rural development, with a long-term goal of improving farmers' livelihood and employment. Through its JOCVs, agricultural technologies and new science and mathematics teaching methodologies are rapidly diffused and implemented, particularly in the countryside. From 1988 to 2000, as shown in Table 4, the amount of grant averaged USD 183.29 million with 1994 as the peak year of grant. For the year 2000, Japan's total disbursement amounted to USD 157 million for both grant aid and technical cooperation (USD 57.58 million in grants and USD 99.52 million in technical assistance).

Table 4. Japan's ODA disbursement to the Philippines, 1988–2000 (USD million)

Year	Grant		Total	Loan	Total	Total Japanese ODA (as Percent of Total Bilateral Aid to RP)
	Grant Aid	Technical Cooperation				
1988	70.40	60.70	131.10	403.62	534.72	67.70
1989	115.32	60.74	176.06	227.69	403.75	53.30
1990	91.15	61.98	153.14	494.31	647.45	58.80
1991	110.91	63.43	173.62	285.30	458.92	53.50
1992	112.34	73.32	185.66	845.01	1,030.67	66.90
1993	158.23	87.19	245.42	512.97	758.39	57.00
1994	138.41	110.41	248.82	342.78	591.60	63.00
1995	121.08	114.43	235.51	180.62	416.13	56.00
1996	91.14	94.34	185.49	228.96	414.45	55.00
1997	68.21	89.25	157.47	161.51	318.98	56.00
1998	78.34	80.68	159.01	138.54	297.55	56.00
1999	82.23	92.08	174.31	238.68	412.98	---
2000	57.58	99.52	157.10	147.39	304.48	---

Sources: Rivera (2003), MOFA (2002, 1999)

Figure 3. Percentage distribution of ODA loans by source

ADB = Asian Development Bank, JBIC = Japan Bank for International Cooperation,

OECF = Overseas Economic Cooperation Fund, WB = World Bank

Source: National Economic and Development Authority (various issues), ODA Portfolio Review

On the other hand, bilateral loans or loan aid (widely known as “Yen Loan Packages”) have terms and conditions that are extremely concessional in nature. In general, loan aid allows recipient countries to invest in massive socioeconomic infrastructure and to respond to the demand for immensely large funds that grant aid cannot meet. These loan programs, mostly administered by Japan Bank for International Cooperation (JBIC), are utilized in building various economic infrastructure projects and for economic recovery. Moreover, the agricultural sector receives a continuous support through rural development and agrarian reform. Table 4 shows that the largest amount of loan was disbursed in 1992 with USD 845 million—the highest loan allocation for the period 1988–2000. This amount declined to USD 147.39 million in 2000. Japan holds the belief that ODA should be administered to support the self-help efforts of developing countries, hence, a sizable amount of Japanese ODA had been in the form of loans as compared to grants.

When compared with other ODA lenders, Japan through JBIC (formerly the Overseas Economic Cooperation Fund or OECF), remained as the largest source of ODA loans, accounting for 57 percent (USD 6.8 billion with 86 loans) of the total ODA. Japan is followed by ADB with 19 percent (USD 2.3 billion with 45 loans), and the WB with 13 percent (USD 1.5 billion with 27 loans) (Figure 3).

Most Likely Impact of PJEPA

The PJEPA is envisioned to further boost Japan’s ODA to the Philippines, particularly for capital formation in the infrastructure sector. It will

stimulate investment and capital accumulation to create more employment opportunities. Output capacity will expand with corresponding decrease in the cost of production. Moreover, export volume will increase at lower prices, thus enhancing competitiveness in the world market. Trade and business facilitation, particularly among Japanese firms in the Philippines, will be further enhanced due to an improvement in infrastructure and other support services, for instance, farm-to-market roads, energy, power and telecommunications, irrigation, and information technology. Overall, as a result of an increase in capital inflows, national output is expected to rise.

These bright prospects are depicted in a CGE analysis of Kawasaki (2002) on the impact of Japanese ODA and capital accumulation among selected Asian recipient economies, including the Philippines. As shown in Table 5, Japan's inflow of ODA in the Philippines will result in some positive gains. His simulation shows an increase in export and import volume in view of price and income effects. Previous CGE analysis asserts that, at the macroeconomic level, FDI and trade are likely to be complements. His simulation is consistent along this view as his calibration indicates, "capital inflows by means of Japan's ODA loans in Asian countries would create rather than destroy trade." In terms of allocative efficiency of resources, Kawasaki (2002) concludes that capital inflows augment the relative value of labor in recipient countries while a relative value of capital would drop, thus, leading to wage increase. He also notes that "if capital moves from capital-rich countries to capital-poor countries, the investor country gains a larger return on the capital and enjoys surpluses." He expects that, as a result of massive ODA capital inflows, substantial gains will accrue to production, energy manufacturing, and trade and transportation sectors.

Table 5. Impact of Japan's ODA loans (in percent)

Country	Real GDP	Export Volume	Import volume	GDP Deflator	Trade Balance	Utility
Japan	-0.10	-0.12	-0.01	0.03	-387.00	-0.07
China	0.12	0.14	0.05	-0.06	139.00	0.08
Indonesia	0.50	0.59	0.35	-0.22	67.00	0.41
Malaysia	0.20	0.19	0.16	-0.13	13.00	0.14
Philippines	0.71	0.90	0.54	-0.60	6.00	0.49
Thailand	0.49	0.34	0.20	-0.29	29.00	0.42
Viet Nam	1.65	2.53	1.24	-0.69	28.00	0.99
World	0.00	0.02	0.02	-0.01	0.00	0.00

Note: Deviations in USD million

Source: Kawasaki (2002)

The Philippine economy will derive huge potential economic gains as the proposed agreement gives importance and significance to technical assistance and development cooperation for capacity building in the fields of ICT, S&T, intellectual property, human resource development, and the enhancement of the country's capacity to design an appropriate competition policy. Furthermore, the proposed pact for economic partnership will be more beneficial to the Philippine economy as its institutions and their capabilities are upgraded, particularly through technical cooperation in trade and investment, energy infrastructure development, government procurement, e-commerce, and paperless trading. The Philippines' SMEs will capture immense economic benefits since the proposed economic cooperation will enhance greater trade and business facilitation, thus, enabling them to form strategic alliances and business partnership with Japanese firms. Indeed, technical cooperation and assistance as an integral part of Japan's ODA will strengthen institutions and human resources, and further catalyze capability building and capacity development. In the process, it will enhance linkage and networks, systems, and collaboration to achieve consensus and common objectives. It will stimulate a critical mass of human and institutional resources that can overcome constraints and barriers of development. This capacity will facilitate processes and mobilize indigenous resources that contribute to this critical mass.

Moreover, capacity building will be very crucial in public and sector reforms that will ultimately lead to responsible governance and sensitivity to national development goals. It will lead to an upgrade of competencies and systems in government and enhanced capabilities of NGOs to advocate for and monitor public sector reforms. Improved competencies will lead to satisfactory performance and vigilance to curb graft and corruption; ensure safety and peace and order; and cultivate transparency as national and local government units provide information online. It will help LGUs and national government agencies to build community organizations that will strengthen their institutional capacity to mobilize resources, cultivate social capital, and assist them in forging linkages and collaborations.

An increase in Japanese ODA channeled to the social sector will significantly help alleviate poverty and improve human resource development. Poor households will have greater access to basic education, primary health care, safe drinking water, and family planning and nutrition programs. More funds will be allocated to build additional classrooms and to provide more textbooks and learning materials, including other support programs and activities that will enhance teaching strategies geared toward improving learning output and educational performance, such as nutrition and feeding programs for malnourished school children, teacher training, and others.

These will translate to a lower dropout incidence, higher cohort survival, and sustained improvement in standard school test performance.

An increase in ODA allocated to technical and vocational education translates to enhancement of skills and IT literacy that will ultimately improve the quality of labor force needed by the various sectors, particularly the industry and services. This skilled and IT-literate labor force can fill up the demand for well-trained technical professionals in Japanese economy. This will be further explored if mutual recognition of performance standards and assessment procedures of technical professionals will be agreed upon under the PJEPA.

Policy Issues and Challenges

There is no arguing Japan's significant role in providing the Philippines with important ODA for the enhancement of the country's economic as well as social infrastructure. It is a well-known fact that Japan has contributed the largest ODA to the Philippines in recent years. With the advent of the PJEPA, Japan's ODA is expected to further increase, creating more windows of opportunities for the Philippines to improve its social and economic well-being through these loans, grants, and technical assistance.

The prospects are bright. Increased financial assistance for capital formation in the infrastructure sector will stimulate interest and encourage FDIs that will increase employment opportunities and a host of other forward and backward linkages as well as multiplier effects. Increased ODA channeled to the social services sector will significantly alleviate poverty and improve human resource development, and ODA allocated to technical and vocational education translates to an enhancement of skills and IT literacy, which has the potential for improving the quality of labor force needed by the various sectors and industries. Technical cooperation will boost institutional building and capacity development that can improve governance and lead to public sector reforms. However, to be able to realize the huge economic potentials that these opportunities present, several issues must be addressed. Among other things, these include

- 1) the allocation and disbursement of Japan's ODA;
- 2) ODA efficiency and absorptive capacity;
- 3) harmonization of goals and sectoral/geographical priorities; and
- 4) LGUs and NGOs' participation

Japan's ODA allocation and disbursement

While the total amount of Japan's ODA has increased dramatically through the years, there is still much to be desired in Japan's ODA allocation and

disbursement as indicated by its inability to fulfill the DAC's and United Nations' acceptable measure of burden-sharing. For instance, Japan ranked seventh in 1999 in terms of per capita ODA burden among DAC member-economies (Table 6). As seen in Figures 4 and 5, its ratio of ODA to gross national income (GNI) or GNP was at its peak at .34 percent in 1984 but continuously declined to as low as .22 percent in 1997. It went up to only .28 percent in 2000 and ranked 12th, way below the 0.7 percent acceptable ratio set by the UN and DAC.

It is generally considered that a higher ratio of grant share, grant element, and untied loans is better, since it minimizes the burden of repayment upon the recipient. Japan is widely criticized as it still prefers loan aid with concessional interest rates over grant aid and technical cooperation. As seen in Table 7, the grant share of Japan's ODA, at 45 percent in 1998–1999, is ranked 21st, the lowest in DAC, and way below the average pegged at 80.6 percent.

Table 6. Per capita ODA of DAC member-countries (USD)

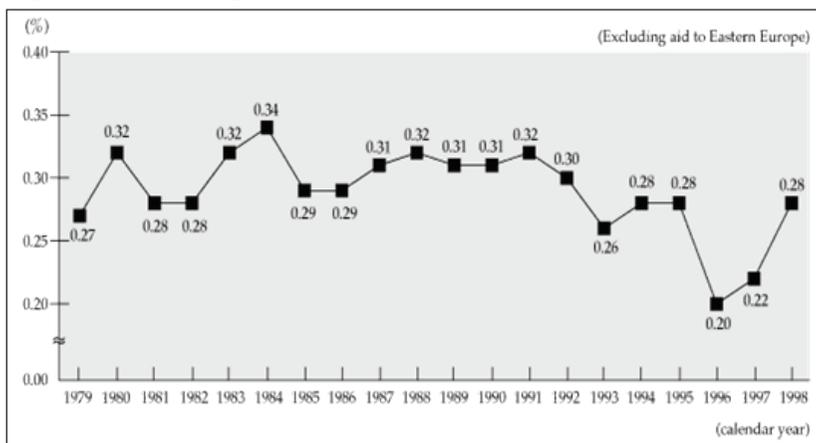
Country	Rank	1999	Rank	1998
Denmark	1	325.8	1	321.5
Norway	2	307.2	2	298.2
Luxembourg	3	276.7	3	260.5
Netherlands	4	198.2	4	193.8
Sweden	5	184.0	5	177.7
Switzerland	6	135.7	6	126.3
Japan	7	120.9	9	84.1
France	8	95.4	7	97.6
Finland	9	80.5	10	76.9
Belgium	10	74.2	8	86.6
Germany	11	67.2	11	68.0
Ireland	12	65.3	15	53.6
Austria	13	65.1	13	56.4
United Kingdom	14	57.2	12	65.2
Canada	15	55.7	13	56.4
Australia	16	51.8	16	51.3
New Zealand	17	35.2	19	34.3
Spain	18	34.6	18	35.0
United States	19	33.5	20	32.5
Italy	20	31.6	17	39.9
Portugal	21	27.6	21	26.0
Greece	22	18.4	22	17.0

DAC = Development Assistance Committee

Source: MOFA (2001b)

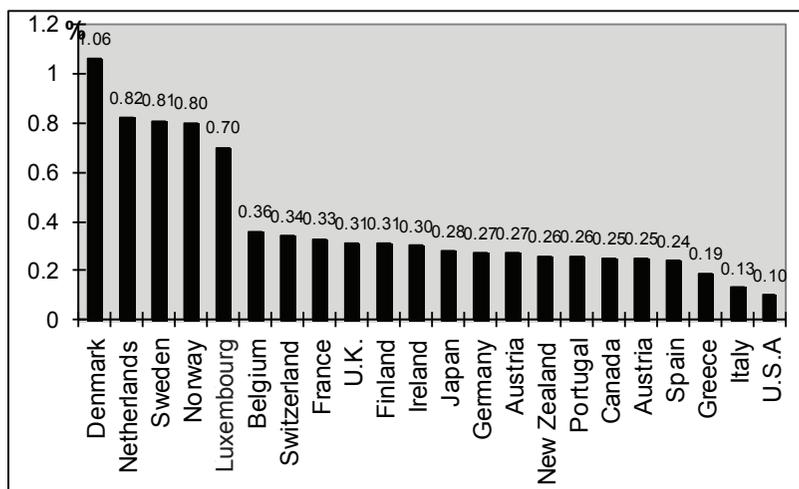
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Figure 4. Trends of Japan's ODA/GNP ratio



GNP = gross national product; ODA = overseas development assistance
 Source: MOFA, Japan ODA Annual Report (1999)

Figure 5. ODA/GNI ratios of DAC member-countries, 2000



GNI = gross national income; DAC = Development Assistance Committee
 Source: MOFA (2001b)

Table 7. Grant share of ODA provided by DAC member-countries

(Commitment basis: two-year average, %)				
Country	Rank	1998/99	Rank	1997/98
Australia	1	100.0	1	100.0
Ireland	1	100.0	1	100.0
Luxembourg	1	100.0	1	100.0
New Zealand	1	100.0	1	100.0
Netherlands	1	100.0	1	100.0
Denmark	1	100.0	1	100.0
Switzerland	1	100.0	9	99.6
Canada	8	99.9	7	99.9
Sweden	8	99.9	7	99.9
Norway	10	99.5	10	99.1
Greece	11	99.1		
Finland	12	98.8	11	98.9
United States	13	98.5	12	98.2
Belgium	14	98.3	13	97.9
Italy	15	98.1	15	93.4
Portugal	16	95.2	17	87.2
United Kingdom	17	95.1	14	95.8
Germany	18	86.3	18	86.1
France	19	78.0	19	80.3
Spain	20	77.7	20	75.9
Austria	21	74.2	16	87.4
Japan	22	45.4	21	43.5
DAC average		80.6		79.0

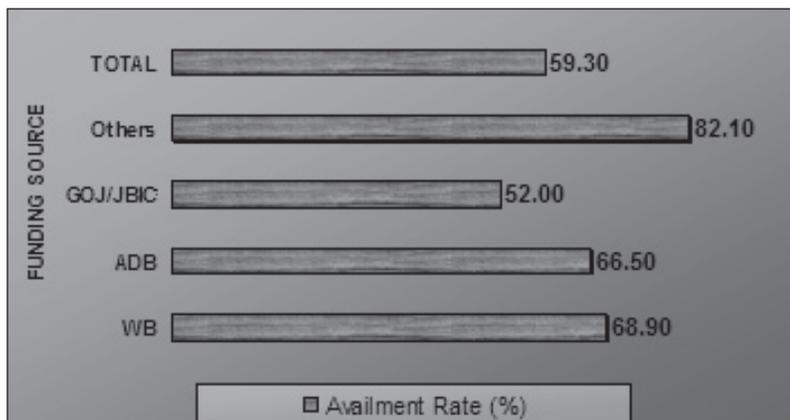
DAC = Development Assistance Committee

Source: MOFA (2001b)

ODA efficiency and absorptive capacity

Although there is an increase in the total amount of ODA due for availment, there is a lower rate of usage of Japan's ODA indicating a low absorptive capacity. Availment rate shows the cumulative actual disbursements as a proportion of cumulative scheduled disbursements per loan agreement, based from the start of implementation of all projects up to the end of the year (Figure 6). Availment rate for Japan's ODA is at 52 percent, lower than the country's overall availment rate of 59 percent. This problem is mainly due to

Figure 6. ODA loans availment rate, 2002



Source: NEDA (2002) 11th ODA Portfolio Review

backlogs in project start-up, an indication of inefficiency in project management of Japanese-funded projects. This can be attributed to the fact that JBIC does not charge commitment fees unlike multilateral institutions such as the WB (IBRD) and ADB. However, this should have been a boon rather than a bane.

Other factors prohibiting smooth project implementation include the problems of peace and order, relocation and securing of right-of-way, limited borrowing capacity, and the inability of the Philippine government to provide counterpart funding and comply with implementing procedures, such as bidding and procurement regulations. Other major obstacles are insufficient budget cover, poor project design, poor contractor performance, and graft and corruption among government officials involved in project implementation. To create a conducive and enabling environment, public sector reforms must be pursued coupled with an environment of accountability and transparency among government agencies tasked to implement ODA-funded projects; the reforms should include the institutionalization of an efficient monitoring and evaluation system.

At present, these problems are being addressed at different levels. Various agencies are doing initiatives and internal reforms on procurement and documentation processing. Executive and administrative orders (i.e., Executive Order 40 and 109, Administrative Order 42) have been issued aimed at streamlining various bureaucratic procedures on bidding and procurement. However, the results of these efforts have yet to be evaluated. It is imperative that the government should be able to increase its effectiveness in utilizing ODA so that it could concentrate on achieving efficiency in delivering services by reducing administrative, project management, and consultancy cost.

Harmonization of goals and sectoral/geographical priorities

Development scholars (e.g., Yanahigara and Emig 1991; Rivera 2003) have widely criticized the substantial amount of loan aid that is allocated to the development of economic infrastructure, especially on transport and power sector (Table 8 and Figure 7). While poverty alleviation falls under the second priority of Japan's ODA sector priorities, ODA funds for poverty alleviation, human resource development, social infrastructure, and other social services, which includes health and education, are given relatively smaller share mostly in the form of grants. In the same vein, development assistance is very minimal on programs and projects that will alleviate the plight of women and the environment. The share of technical assistance has also continuously declined through the years.

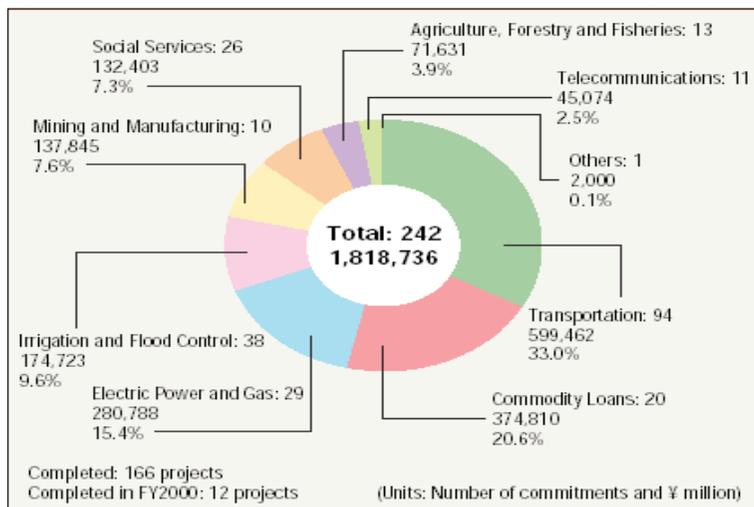
This trend supports the analysis of Manasan et al. (1996) that "health, education, and other social development projects accounted for only 11.4 percent of total ODA disbursements in 1991. This relatively low allocation was due to the donors' preference for other areas of assistance, a manifestation of the government's failure to push for the social sector in its negotiations, and official reluctance to use official loans to fund human development projects."

Table 8. Sector allocation of Japan's ODA to the Philippines (% of total)

Sector	1971-1995	1971-1982	1983-1986	1987-1995	1996-1998
Economic infrastructure	56.80	81.80	37.70	51.40	71.60
Power	13.10	31.50	15.20	10.40	12.70
Transportation	25.90	24.00	13.40	24.60	45.30
Irrigation, flood control	8.00	9.90	3.30	6.80	13.60
Social infrastructure	15.00	12.10	14.70	18.40	24.90
Education	2.10	0.30	1.20	3.30	4.90
Health	0.50	0.00	2.00	0.50	1.20
Water supply	3.60	6.10	3.30	3.40	2.70
Environment	3.20	0.00	0.70	5.20	15.20
Women in development	0.05	0.00	0.00	0.07	0.80
Grassroots/NGOs	0.01	0.00	0.00	0.02	0.11
Commodity loans	7.00	28.80	28.80	5.00	0.00
Rescheduling	15.00	9.80	9.80	20.30	0.00
Technical assistance	6.20	9.00	9.00	4.90	3.70

ODA = overseas development assistance

Source: Rivera (2003)

Figure 7. Japan's ODA loan commitments to the Philippines by sector, 2001

Source: Japan Bank for International Cooperation (JBIC) Annual Report, 2001

This strong bias toward economic infrastructure activities reinforces the link between investment and economic growth consistent with Japan's own experience of the postwar economic recovery and social transformation. As Rivera (2003) notes "Japanese government claims that the improved economic infrastructure financed by ODA attracts direct investment from various countries, which then helps ODA recipients to achieve healthy and steady economic growth and reach the so-called 'take-off' stage. In time, healthy economic growth will have multiplier effects: fostering more competitive local industries, improving the living standard of local communities, and narrowing the regional disparity between city and rural areas."

Furthermore, loan aid allocation is strongly biased in favor of relatively well-off regions and provinces as indicated by their record of having high HDI and low poverty incidence (Table 9). The Bicol Region and other Visayas and Mindanao regions have high poverty incidence and rapid population growth rate, but they were allocated small amounts of development assistance. Japan's ODA does not appear to have flowed to regions most in need of it.

LGUs and NGOs' participation

Ideally, there should be high participation of LGUs and NGOs for the development of grassroots and local government to take place. However, ODA projects with direct LGU participation accounted for only 8 percent (NEDA 2002) of the total ODA portfolio and less than 2 percent of the total loans distributed to implementing agencies (Figure 8). The performance of LGUs

Table 9. Distribution of ODA loan commitment, population share, poverty incidence, and HDI by region

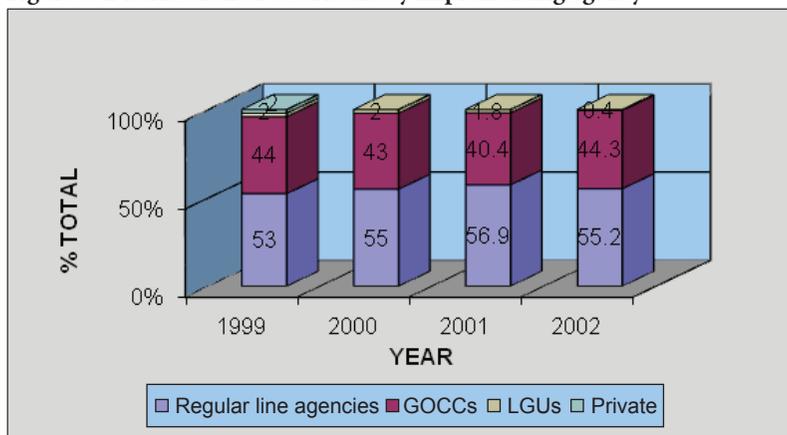
Region	ODA Commitment Share (%) 2002	Population Share (% total) 2000	Poverty Incidence (% families) 2000	HDI 2000
National Capital Region	14.10	13.00	5.70	0.830
Ilocos Region	2.30	5.00	29.60	0.646
Cagayan Valley	n.a	4.00	24.80	0.584
Central Luzon	7.30	10.00	17.00	0.635
Southern Tagalog	1.80	15.00	20.80	0.594
Bicol Region	0.70	6.00	49.00	0.525
Western Visayas	3.00	8.00	37.80	0.573
Central Visayas	3.60	7.00	32.30	0.547
Eastern Visayas	0.90	5.00	37.80	0.506
Western Mindanao	0.20	4.00	38.30	0.493
Northern Mindanao	1.00	4.00	32.90	0.451
Southern Mindanao	0.90	7.00	31.50	0.567
Central Mindanao		3.00	48.40	0.564
ARMM	1.10	3.00	57.00	0.386
Caraga	1.20	3.00	42.90	0.520
CAR	0.30	1.70	31.10	0.586

CAR = Cordillera Administrative Region; ARMM = Autonomous Region in Muslim Mindanao; n.a. = not available

Sources: NEDA (2002) 11th ODA Portfolio Review; UNDP (2002); and NSCB

and NGOs is affected by several factors, such as availability of counterpart funds, LGU counterpart staff and their capacity for project preparation and implementation, noncompliance with LGU commitments, and changes in LGU priorities. The fiscal deficit has further put strain on the LGU's capability to raise counterpart funds because relending to LGUs, supported by ODA funds, requires budget cover. This limits the availment and participation of LGUs and NGOs in ODA-funded projects.

To address these issues, the national government should transfer control and responsibility of a substantial part of the Department of Agriculture's ODA resources to LGUs in view of low absorptive capacity, thus empowering them to take primary responsibility for the development of their respective areas. In addition, a policy of cost-sharing scheme must be crafted among the national government, the LGUs, and the NGOs for the implementation of ODA projects.

Figure 8. Distribution of total loans by implementing agency

GOCCs = government-owned and controlled corporations; LGUs = local government units
Sources: NEDA (various years)

However, efforts should be made to improve the performance of projects with LGU and NGO participation. Trainings of LGU personnel in handling financial transactions and documentation should be conducted as well as capacity building on procurement and project implementation, including the integration of a system of project impact assessment and monitoring and evaluation system.

Other issues

There is a strong and growing demand for more comprehensive and well-targeted assistance in the area of capability building and capacity development. There have been severe problems of coordination, fragmentation, and discontinuity not only among projects and the permanent line agencies but also between donors. There is a growing sense that technical cooperation does not work well, that as presently practiced it is ineffective. It lacks positive impact on capacity building and institutional development. Thus, there are instances when ODA loans and technical assistance programs and projects ignore pressing needs and therefore yield counter-productive results. Here lies the issue on "ownership" of development projects when loans and grants are tied to conditions, for instance, the purchase of goods and services from Japan as ODA donor and the hiring of foreign consultants who "call the shots," proposing solutions that are not adaptable to local situations. Technical cooperation, often based on external expertise, has frequently involved costly overheads, limited local ownership, and paid insufficient regard to the macroeconomic environment. There is a tendency to introduce a new

technology that raises the costs of public services. At the same time, there is disregard for existing structures and local practices that should have been adapted rather than supplanted.

Policy Recommendations

In light of the above, pushing for the establishment of PJEPA is indeed consistent with the country's goals of reform, which include poverty reduction and human resource development, environmental protection, sustainable development, and global competitiveness. As a result of a broader economic cooperation with Japan through the PJEPA, the Philippines can further maximize the economic potential benefits of Japan's ODA through the following:

- 1) Negotiate ODA's allocation to regions and provinces where most poor households are found, as indicated by the HDI, poverty incidence, population growth rate, and income levels.
- 2) Negotiate ODA's allocation to sectors and basic services where most poor households can have greater access since this is seen to translate into improved school attendance and cohort survival, better health conditions and nutritional status, better access to employment opportunities, and eliminating gender disparities across functional literacy and access to income and livelihood.
- 3) Negotiate ODA's allocation that will result in an appropriate loan-grant-equity mix (for instance, a revision of the policies for counterpart funds). ODA loans, particularly for capital formation and infrastructure projects, should be well rationalized in terms of efficiency and effectiveness.
- 4) Increase ODA's allocation of grants and technical cooperation to areas identified above, all of which are geared toward human resource development.
- 5) Enhance coordination among various national and local government agencies, and communities and NGOs in terms of ODA projects and program implementation.
- 6) Strengthen the government's monitoring and evaluation system, develop capacities to actively carry out results monitoring and evaluation, and focus on the sustainability of completed projects.
- 7) Strengthen the participation of various stakeholders, implementers, and recipients of ODA projects and programs by ensuring accountability and transparency.
- 8) Appoint project implementation officers in each implementing agency to ensure timely implementation of projects in the field. The

Investment Coordination Committee shall take a more proactive role by convening a Project Action Group that will interface with the project implementation officers to move forward desired actions.

- 9) Expedite the enactment of Implementing Rules and Regulations for RAs 8974 and 8975 to facilitate right-of-way (ROW) and site acquisition for infrastructure projects, and to prohibit the issuance of temporary restraining orders on government projects.

Adopt the “friendly policy actions” of the Department of Budget and Management to facilitate the timely flow of funds to implementing agencies, such as the existing flexibility in reallocating budget among projects within the agencies. Implementing agencies should process all pending disbursement claims with efficiency and transparency. All pending contracts with procurement bidding and awards committees should be immediately reviewed, approved, and awarded. In addition, procurement regulations and standard bidding documents should be reviewed and simplified.

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PJEPA: Strengthening the Foundation for Regional Cooperation and Economic Integration

The two-volume publication, PJEPA: Strengthening the Foundation for Cooperation, copublished by the Philippine Institute for Development Studies (PIDS) and the Philippine APEC Study Center Network (PASCN), is composed of 17 studies that assess the potential impact of the Philippines-Japan Economic Partnership Agreement (PJEPA) on the Philippine macroeconomy and key sectors which include agriculture, manufacturing and trade, small and medium enterprises (SMEs), and tourism. As a result of a 2003 study done jointly by PIDS, the Department of Foreign Affairs (DFA), and the Department of Trade and Industry (DTI), these studies aided the Philippine representatives during the negotiations of the agreement with Japan from 2004 to 2006.

The PJEPA was ratified on October 8, 2008 after two years of grueling Senate investigation. The studies in this book helped pave the way for the ratification of the PJEPA (then JPEPA) as the contents of this study were cited and used as arguments as to how the country can benefit from this agreement.

Volume I contains papers that present an impact analysis on the macroeconomy and how the agreement works within the framework of regional economic integration. It also contains special papers tackling different political concerns surrounding the PJEPA such as issues on human resource development and movement of persons.



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