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The Japan-Philippines Economic Partnership Agreement (JPEPA):

Surrendering Sovereignty and Development

To hear its proponents speak, the Japan-Philippines Economic Partnership Agreement (JPEPA) is a magical deal that should have been sealed long ago. Department of Trade and Industry (DTI) Secretary Peter B. Favila says that “Benefits from the JPEPA will accrue to almost all sectors of the economy” and that it “[secures] export markets, [provides] jobs and [reduces] poverty for our farmers and fishermen”.**[1]** There are also research studies that estimate a positive impact on Philippine GDP from a tiny 0.09% to as much as 1.7% to 3.3%, with the higher figures based on the uncertain and hazy assumption that “potential foreign investment inflows and productivity gains arising from JPEPA can materialize”.**[2]**

These are amazing claims for such a patently destructive and unequal deal. The JPEPA's liberalization policies will further erode the Philippine economy which is already reeling from decades of "free market" reengineering. The deal is also patently unequal and ignores how advanced industrial capitalist Japan and backward agrarian Philippines are at vastly different levels of development with vastly different needs – not to mention that Japan even aims to meet many of its needs at the expense of the Philippines. The JPEPA maintains the "globalization" deceit that "free market" policies offer the path to development, even if the main impulse of such policies is really to further open up Third World human and natural resources as profitable opportunities for foreign corporate monopolies. The JPEPA even one-sidedly demands much greater trade and investment liberalization from the Philippines than Japan makes.

The JPEPA was negotiated away from public scrutiny for some four years until it was signed on the sidelines of the Asia-Europe Meeting (ASEM) in Helsinki, Finland in September 2006. In January 2002, then Japanese Prime Minister Junichiro Koizumi proposed the Initiative for Japan-Association of Southeast Asian Nations (ASEAN) Comprehensive Economic Partnership. Philippine President Gloria Macapagal-Arroyo immediately expressed her full support and later created a Philippine Coordinating Committee (PCC) co-chaired by the Department of Trade and Industry (DTI) secretary and Department of Foreign Affairs (DFA) undersecretary for international relations. Informal consultations, working groups and joint committee meetings were held between officials of the two countries and formal negotiations were launched in December 2003. Formal sessions took place from February 2004 to July 2005, followed by the legal review.

The Japanese Diet, or parliament, quickly approved the JPEPA in the first week of December. The Philippine executive in turn submitted the deal for ratification by the Senate where it has been pending since Congress went on recess in February 2007 in preparation for the May 2007 mid-term elections. Japan, according to Japanese Ambassador to Manila Ryuichiro Yamazaki, "look[s] forward to [the] prompt ratification and [the] going into effect" of the JPEPA which "will certainly make our bilateral economic relations more comprehensive, more interactive, and more mutually beneficial."**[2]** In her recent trip to Japan, President Arroyo in turn hailed the JPEPA as "a milestone in our relationship [with Japan]" and held that all that was needed to quell mounting opposition is to "explain very carefully the advantages of the agreement to our Filipino farmers, fishermen, food processors and our nurses and caregivers."[4] The deal is undoubtedly beneficial – for big Japanese corporations and elite corporate interests in the Philippines, and not for the Filipino people.

Japan's motives

The JPEPA is just one piece of Japan's larger plan for an eventual Comprehensive Economic Partnership Agreement in East Asia (CEPEA).**[5]** This is reminiscent of the "Greater East Asian Co-Prosperity Sphere" it aimed for when it invaded countries during World War II. In most essential respects regarding the economy, what was sought through invasion in the 1930s is apparently now being done through negotiation. Japan in any case already accounts for half of East Asian gross domestic product (GDP). The CEPEA is packaged in a positive way as about "cooperation" and "partnership" towards "an efficient, mature market economy for East Asia as a whole".

But its real intent is to ensure that Japanese monopoly capital is able to have as complete and free access to the markets, labor and natural resources of the region – even as it ensures that its advantages and protections in the home front are maintained. Japan aims to consolidate and expand its region-wide production base. Tariff cuts and liberal investment rules make this fragmenting of production processes across East Asia easier, allowing it to be set up according to what is most convenient and profitable based on location and the availability of cheap labor and natural resources.

The CEPEA is planned to cover as much as 16 countries including, aside from Japan, the ASEAN countries, China, South Korea, India, Australia and New Zealand. Towards this Japan has already: signed bilateral agreements with Singapore (2002), Malaysia (2005), Philippines (2006), Thailand (2007), and Brunei (2007); begun negotiations with South Korea (2003), Indonesia (2005), Vietnam (2007), India (2007), Australia (2007) and ASEAN as a whole (2005); and is in the preliminary study or exploratory stages of talks with China and New Zealand. At the same time it is exploring a trilateral Japan-China-South Korea deal as a "model" for the targeted East Asia-wide agreement.

In terms of policy coverage the CEPEA aims not just for the elimination of tariffs but also the liberalization of investment and the preservation of monopolies on intellectual property. The JPEPA as forced on the Filipino people is consistent with and advances these larger strategic economic objectives of Japan.

The Agreement

The JPEPA is a 965-page agreement whose 16 chapters, 165 articles and eight annexes cover 14 major areas of economic cooperation: 1) Trade in Goods, 2) Rules of Origin, 3) Customs Procedures, 4) Paperless Trading, 5) Mutual Recognition, 6) Trade in Services, 7) Investment, 8) Movement of Natural Persons, 9) Intellectual Property, 10) Government Procurement, 11) Competition, 12) Improvement of the Business Environment, 13) Cooperation, and 14) Dispute Avoidance and Settlement.

It is Japan's fourth "economic partnership agreement" (EPA) after deals with Singapore (2002), Mexico (2004) and Malaysia (2005) and, significantly, the Philippine's first full-fledged post-colonial free trade agreement. Japan calls its free trade agreements EPAs to highlight their being so-called "new-age" FTAs with so-called partnership, capacity- and capability-building measures. However no matter how they are re-packaged or embellished to make them appear more acceptable, they are first and foremost still trade and investment liberalization deals. And it is the JPEPA's provisions regarding these that have the greatest ramifications for the Philippine economy.

The JPEPA deprives the Philippines of vital policy tools for its economic development: trade barriers and investment controls. It does this initially in relation only to Japan which is, in any case, already one of the country's biggest trade and investment partners. This in itself already causes problems because Japan and the Philippines are such extremely unequal economies that the Philippines naturally falls into a subordinate position. However the JPEPA also sets a precedent that will eventually deprive the country of these policy tools even in relation to the rest of the world. This will result in greater and greater social and economic devastation for Filipinos.

Japan has much to gain from entering into free trade deals with weaker economies than it such as the Philippines – and the weaker the economy then the better for giving Japanese capital and corporations greater leverage in profiting from the weaker country's labor, natural resources and markets.

Japan and the Philippines are certainly as unequal as can be. The Japanese economy's GDP of US$4.4 trillion in 2006 is 50 times larger than that of the Philippines and its GDP per capita of US$34,155 is 30 times larger. Japan is the biggest foreign investor in the Philippines with a cumulative US$3.9 billion as of 2005, constituting over one-fifth of the country's foreign investment stock; the Philippines in turn has a negligible presence in Japan. Japan accounted for 17% of the Philippines' total trade in 2005 and is its second largest trading partner, while the Philippines accounted for just 1.4% of Japan's total trade. Underlying these figures are economies of vastly different industrial, agricultural and service sector strength. The myth of "comparative advantage" and the so-called "level playing field" between such economies is merely a smokescreen for giving the stronger economy freer play to profit from the other.

Given such unequal circumstances a genuinely "equalizing" and developmental deal would necessarily have to be biased for the weaker agricultural and industrial sectors of the Philippines. This means not just fully equal trade and tariff terms but, on the contrary, greater protection for the Philippine economy at the same time as it gives greater access to the Japanese economy. The actual deal resulting from Philippine short-sightedness combined with Japan's political and economic clout is very different. The country is disadvantaged by JPEPA twice over: first, because they remove trade barriers and investment controls that the country needs for its development; and second, because the backward Philippine economy even bizarrely liberalizes more than advanced monopoly capitalist Japan.

Surrendering trade and investment

Trade barriers are essential for creating a domestic economic environment in which Philippine producers can develop and grow. When competition from abroad is carefully controlled, domestic industry and agriculture are given the opportunity to engage in economic activity and gradually build up their capacity to produce. This opportunity is lost and such capacity forever stifled if more advanced or subsidized competition from abroad were indiscriminately allowed into the domestic economy. Filipino producers need to be given this opening as well as the proper fiscal, financial and technological support. The JPEPA's trade liberalization and eventual zero tariffs denies domestic producers this chance.

In general, the JPEPA ostensibly commits both countries to comprehensively eliminate or reduce agricultural and industrial tariffs within 10 years. Most tariffs are removed once the JPEPA takes effect with the others staggered over the coming years. The agreement identifies products for exclusion from any immediate or future commitments to reduce tariffs and here the JPEPA's inequity is stark (Annex 1 of the agreement). It turns out that the Philippines excludes only two items – rice and salt – while Japan appears to exclude 239 items, among them various species of fresh, frozen, cured and processed fish, seaweeds, livestock and their by-products, vegetables, fruits; food preparations such as cereals and breads; alcoholic beverages, cigarettes and leather.

This inequity becomes even more glaring if the actual conditions of the respective economies are considered. Agriculture is far more important to the Philippine economy than to Japan's, and Philippine agriculture is much more backward – yet the JPEPA apparently still protects Japan's more than it does that of the Philippines. The Philippines has 4.8 million agricultural farms on 9.7 million hectares of farm land, and the sector gave jobs to 11.8 million or 36% of the employed labor force in 2006 (although as much as 70% of the population can be said to depend on agriculture if all other agriculture-related economic activity is also considered).**[6]** Agriculture directly accounted for 15% of the country's GDP. Production is backward – with agricultural per capita income of just US$638 annually – and for instance there are only 1.2 tractors and 0.1 harvester-threshers per 1,000 hectares in use nationwide.**[7]** Just 867 out of 4.8 million farms nationwide were mechanized enough to be using combined harvester-threshers.**[8]**

Japan in contrast has 2.2 million commercial farms on 4.8 million hectares of agricultural land, with only 2.4 million of the people living here engaged primarily in farming.**[9]** Although there is agricultural per capita income of US$20,814 the sector accounts for just 1.7% of Japan's GDP. Production is extremely mechanized and advanced with Japan having 461 tractors and 237 harvester-threshers per 1,000 hectares.**[10]** Japan's fishing industry, one of the most subsidized in the world with billions of dollars in support annually, accounts for 15% of total global catch and is second only to China.

Yet despite all this Japan still protects its advanced agricultural sector even more than backward Philippines which is in far greater need of such protection. The situation is essentially the same in manufacturing with powerful Japanese industry treated the same way, in trade and tariff terms, as weak Philippine manufacturing. To be sure, high-technology Japan can well afford to be confident in opening-up to competition from non-existent Philippine industry that is unlikely to ever be built in the face of JPEPA and other such economic pacts.

The JPEPA's investment provisions are likewise debilitating and further disconnect TNCs from the domestic economy. Government controls on how foreign investment operates in the country are necessary to ensure that the Philippines gets concrete and substantial benefits, instead of being one-sidedly exploited for its labor and natural resources. Among others this means ensuring control over their operations such as through equity and ownership requirements or joint ventures. It also means ensuring benefits to the domestic economy through local content requirements that link the TNC to local entrepreneurs, technology transfers and obliging productive domestic reinvestment. These linkages have to be consciously built yet it is precisely these measures which the JPEPA disallows so that Japanese capitalists can make as much profit as possible.

The JPEPA has investment provisions on "National Treatment" and "Most-Favored-Nation (MFN) Treatment" which prevent the Philippines from favoring Filipino enterprises over Japanese investors. There are also explicit "Performance Requirement Prohibitions" that prevent the Philippine government from obliging Japanese investors:

a) to export a given level or percent of goods/services
b) to achieve a given level or percentage of domestic content
c) to purchase goods/services provided in its area
d) to relate the volume or value of imports to the volume or value of exports
e) to restrict sales of goods/services in its area by relating such sales to the volume or value of its exports
f) to appoint officials of any particular nationality
g) to hire a given level of its nationals
h) to transfer technology, a production process or other proprietary knowledge to a person in its area
i) to achieve a given level or value of research and development in its area
j) to locate the headquarters of that investor for a specific region or the world market in its Area
k) to supply one or more of the goods/services of investor to a specific region or world market (Chapter 8, Article 94)

All these are designed to give Japanese investors greater protections, to ensure that they retain their advantages, and to enable them to extract the maximum profit from their operations. They forfeit Filipino gains that might have otherwise been attained.

Making things worse is, again, the JPEPA's glaring inequity. Japan protects numerically more sectors of its economy from investment liberalization than does the Philippines, and is in addition also very specific in protecting what it deems as vital sectors.

The JPEPA provides for reservations "[where] it may maintain existing, or adopt new or more restrictive, measures that do not conform with… [National Treatment, MFN Treatment, Prohibition of Performance Requirements]." Advanced Japan lists at least 16 specific sectors to be so protected, many of which even require a minimum of 66% or full nationality. (See **Table 1**) Japan rightly includes such strategic areas as mining, telecommunications, air and water transport, shipping, and banks and financial institutions for small business. Underdeveloped Philippines, on the other hand, lists just five (5) specific sectors: mining, rice and corn, geothermal energy, atomic energy and shipping. The other items are just formulated generically and are meaningless in terms of explicitly supporting and protecting specific sectors of the economy. In any case, the moves for charter change even mean to dilute or outright do away with such nationality requirements.

The JPEPA's provisions on trade and investment liberalization are its main content and they are designed to give Japan's monopoly capitalists the greatest benefit, even if this is at the expense of the greatest damage to the Philippine economy and the most harm to the Filipino people.

The deal however also contains other measures which complement that central thrust. While they are packaged as aimed at developing domestic productive capacity, their real objectives is to make it even easier for Japanese firms to trade with and invest in the Philippines and then on terms that are most beneficial to them. These include the supposed cooperation in trade and investment promotion, trade facilitation (i.e., simplification and harmonization of customs procedures), technical assistance to meet Japanese requirements and regulations, capacity building in paperless trading, training to facilitate improvements in the competitiveness of workers, human resource development and language proficiency trainings.

Table 1: JPEPA Reservations for Future Measures

Japan	Philippines
1. Agriculture, fisheries and forestry 2. Mining* 3. Drugs/medicine manufacturing 4. Leather/leather products 5. Oil industry 6. Telecommunications* 7. Water supply and waterworks 8. Heat supply industry 9. Air transport* 10. Road transport 11. Water transport* 12. Shipping* 13. Railways 14. Freight forwarding* 15. Banks and financial institutions for small businesses* 16. Security guard services	1. Mining** 2. Culture, production, milling, processing, trading excepting retailing, barter and sale of rice and corn** 3. Geothermal energy, natural gas and methane gas** 4. Atomic energy** 5. Shipping** 6. Water rights** 7. Private land lease and ownership** 8. Lands of public domain** 9. Small and medium enterprise ownership** 10. Cooperative ownership** 11. Condominium ownership** 12. Manufacturing export requirement 13. Divestment requirement

** Minimum 66% or full nationality required*
*** Minimum 60% or full nationality required*

There are others that are sheer rhetoric. For instance, there are measures supposedly about skills upgrading, mutual personnel exchange and fellowship programs, and research and development in science and technology. Their tokenism is however betrayed by how among the JPEPA's prohibition of performance requirements on Japanese investments are the most important mechanisms of technology transfer.

Overall, the JPEPA is a hypocritical deal because it prevents the Philippines from using the very protectionist trade and investment measures that Japan itself used for decades at the time it was building up its own local economy. From the end of the 19th century to as late as the 1980s – and particularly during its post-World War Two reconstruction years – the Japanese government heavily protected and supported its domestic industries. Japan's car, truck, shipbuilding, computer and consumer electronics industry were built up over a century of sustained intervention and protection, especially in their early stages. The average weighted industrial tariffs it imposed on imported inputs were up to 30-40% and required technology transfers from US, French and UK investors or were copied through so-called "reverse engineering". In addition, government procurement of goods and services was done strictly with Japanese firms. Yet Japan bars the Philippines from doing the same.

False export gains

The government claims "Philippine" gains from export growth. However the real "gainers" will be foreign transnational companies (TNCs) based in the Philippines and their domestic partners and not genuinely Filipino industry and agriculture, much less Filipino workers and farmers as a whole. These corporate elites will be profiting from providing Japan with cheap labor, minerals and agricultural raw materials.

At any rate, in 2004 some 73% of all Philippine exports (measured by value) already entered Japan tariff-free and will not be affected by the JPEPA.**[11]** This is because many "Philippine" exporters are actually just TNCs based in the Philippines that assemble inputs using cheap Filipino labor that are destined for factories in Japan. This is not a concession for Philippine industry so much as the Japanese government merely making sure that Japanese industry has an easy time bringing in its inputs from Japanese firms and affiliates based in the Philippines. Japanese industry has been focused on building a "factory Asia" since the 1980s where various stages of its production lines are located in different Southeast Asian countries such as the Philippines but also in Thailand, Malaysia and Vietnam.

There is nonetheless much hype about the supposed export gain from a more open Japanese market for Philippine bananas and pineapples. Tariffs on these items will be reduced on a staggered basis in the coming years. However food exports are actually a small and even diminishing share of total Philippine exports to Japan and accounted for only 7.4% of total exports to it over the period 2001-2006.(See **Table 2**) And while food exports potentially have high local content and significant linkages to the local economy, grassroots farmers and farm workers are in practice unlikely to benefit.

This is because the actual benefits to Filipino peasants are severely limited by two circumstances of the local banana and pineapple industry. The first is that agricultural production in general – including of bananas and pineapples – is very backward and underdeveloped because of the lack of true land reform and the absence of government support and extension services. For instance, almost half of the banana farms in the Philippines are still under tenanted or lease arrangements.**[12]** The backward production methods means that most farms are not really being in a position to access the Japanese market; the fruits produced are unable to meet strict Japanese aesthetic, sanitary and other quality standards. Freshness is also a problem because the transport, storage and marketing infrastructure to bring the fruits from Filipino farms to Japanese consumers are not in place. None of these issues is likely to be resolved anytime in the near future.

The second and actually more decisive factor is that Philippine agriculture is grossly inequitable with corporate agri-business and rural elites cornering the benefits from production at the expense of landless tenants, farm workers and other agricultural labor. Feudal or otherwise exploitative economic arrangements still persist in the vast Philippine countryside. So, even in the case of any farms actually in a position to take advantage of the Japanese market, the gains will not really be going to the poorest peasants.

In the end the greatest benefit from any increased banana and pineapple exports resulting from JPEPA will go to the big foreign agri-business TNCs (and their big

Table 2: Philippine Merchandise Trade with Japan by Selected Major Product Grouping, 2001-2006 (CIF Value in US$)

	Exports		Imports	
	Value	%Share	Value	%Share
CONSUMER MANUFACTURES	**2,141,971,868**	**5.2**	**582,548,951**	**1.2**
GARMENTS	384,251,762	1.0	2,268,589	0.0
FURNITURE	120,020,153	0.3	37,197,204	0.1
Parts Of Furniture	57,162,885	0.1	30,582,743	0.1
BUILDERS' WOODWORKS	957,277,558	2.2	602,318	0.0
OTHER CONSUMER MANUFACTURES	233,749,146	0.6	488,763,374	1.0
Paper And Other Paper Products	15,684,291	0.0	168,609,119	0.4
FOOD AND FOOD PREPARATIONS	**2,951,708,645**	**7.4**	**59,045,893**	**0.1**
PROCESSED FOODS	299,658,657	0.7	32,842,750	0.1
FRESH FOODS	2,005,158,699	5.0	2,575,416	0.0
Fresh Fruits	1,844,115,917	4.6	276,723	0.0
MARINE PRODUCTS	646,891,289	1.7	23,627,727	0.1
RESOURCE-BASED PRODUCTS	**2,858,517,165**	**6.9**	**1,132,316,839**	**2.4**
MINERAL PRODUCTS	1,691,056,812	4.1	122,883,220	0.3
TEXTILE YARNS, TWINE AND CORDAGES	181,908,702	0.4	472,719,809	1.0
PETROLEUM PRODUCTS	347,029,726	0.9	159,485,739	0.3
OTHER RESOURCE-BASED COMMODITIES	240,392,758	0.6	245,862,807	0.5
INDUSTRIAL MANUFACTURES	**30,915,383,475**	**74.8**	**44,775,936,596**	**95.0**
ELECTRONICS	25,183,192,977	61.1	18,398,992,118	38.9
MACHINERIES/TRANSPORT EQUIPMENT/ APPARATUS AND PARTS	3,806,084,666	9.2	7,669,017,174	16.4
Machineries/Equipment/Apparatus	143,436,156	0.3	1,972,623,416	4.2
Metal Machinery/Equipment/Apparatus Parts	417,470,346	1.0	2,073,906,842	4.4
Transport Equipment	3,245,178,164	7.8	3,622,486,916	7.7
Automotive Parts	3,122,195,522	7.5	2,572,017,675	5.5
METAL MANUFACTURES	134,086,682	0.3	1,649,838,954	3.5
Iron And Steel	15,724,275	0.0	1,279,648,721	2.7
CONSTRUCTION MATERIALS	367,472,583	0.8	716,092,237	1.5
Construction Materials, Metal-Based	71,990,444	0.2	593,088,044	1.3
CHEMICALS	449,194,169	1.0	2,719,166,547	5.8
Inorganic Chemicals	170,529,150	0.4	238,957,273	0.5
Petrochemicals	148,732,966	0.4	1,459,275,042	3.1
Other Chemical Materials And Products	5,256,375	0.0	505,313,068	1.1
OTHER INDUSTRIAL MANUFACTURES	975,352,398	2.3	13,622,829,566	29.0
SPECIAL TRANSACTIONS	**2,265,641,322**	**5.6**	**544,911,354**	**1.2**
TOTAL	**41,133,222,475**	**100.0**	**47,094,759,633**	**100.0**

Source: Department of Trade and Industry - Bureau of Export Trade Promotion (DTI-BETP) On-line database

domestic corporate growers) which account for virtually all banana and pineapple exports from the Philippines. These include Dole – the world's largest exporter of fresh bananas and the second largest in fresh pineapples – and Del Monte – the world's largest fresh pineapple exporter and the second largest in bananas. These TNCs have vertically integrated operations spanning the growing of the products in plantations, specialized packaging and storage, transportation, shipping and distribution. They also have total control of the associated capital and technologies.

For bananas, the five firms which account for some 95% of the country's total exports are Dole (27% share), Del

Monte (26%), Chiquita/Unifrutti (21%), Fresh Asia Produce Co. International (12%) and Sumitomo (9%); they also account for some 97% of total banana exports to Japan.**[13]** Dole, Del Monte and Chiquita are also known as the "Big Three" banana corporations and between them control over two-thirds of world banana exports. The local corporate grower counterparts of these TNCs which provide 95% of the bananas for export are Stanfilco-Dole (25% share), Lapanday Foods Corp. (22%), Tagum Development Corp of the Anflo group of companies (22%), Soriano (13%), Marsman-Drysdale (10%)and La Frutera (3%).**[13]**

The Philippines exports pineapples either processed or as fresh. Dole and Del Monte again are the main players in the domestic pineapple industry and, along with Chiquita, are the biggest agri-business TNCs in the global pineapple industry. Del Monte for instance accounts for over half of the global pineapple market. Apart from directly company-managed farms their domestic partner producers include Lapanday, Davao Agricultural Ventures and T'boli Agricultural Development Inc.**[13]** Dole exports 95% of its canned products with only the remaining 5% sold locally. Del Monte's Philippine operations in turn include one of the world's largest pineapple processing and canning facilities; its capacity to process some 700,000 tons of pineapples represents around 20% of the world's processed pineapple production.**[13]**

These agri-business TNCs have moved from direct growing to contract growing and farm lease arrangements, including with big domestic corporate grower counterparts. These firms will be the ones benefiting from JPEPA and not the actually laboring farm workers or small peasant contract growers. The oppressiveness of contract growing arrangements is well-known where, to maximize the profits of the agri-business corporations, the small farmers: shoulder all the risk in cultivation; are forced to buy over-priced inputs; face rigid or even arbitrary "quality controls"; and are paid unfairly depressed prices for their produce. This is also the reason why rural poverty remains widespread even if the country's banana and pineapple production reportedly account for 8% and 11% of world production, respectively.

The possibility is raised of technical assistance to upgrade the standards of Philippine farm output, precisely to meet the exacting standards of Japan. Although seemingly beneficial on paper these will not mean anything in terms of breaking the TNC monopoly over the country's banana and pineapple exports. And so despite the promise of a supposedly vast Japanese market, the overwhelming number of the country's poor peasant producers will be as bad off as before.

The matter of manufactured exports is especially illustrative. The biggest part of "Philippine" exports to Japan consists of industrial manufactures which accounted for 74.8% of total exports in the period 2001-2006. (See **Table 3**) Semiconductors and other electronics inputs accounted for over four-fifths of these industrial manufactures with auto parts taking up most of the remaining balance. But it is important to stress how these are mainly products of foreign TNCs and their

Table 3: Simulated Foregone RP Tariff Revenues from Japanese Imports

Tariff Rates (%)	RP Exports (% share)	Japan Exports (% share)	RP Imports from Japan (US$ M)	Tariff revenues	
				(US$ M)	(P M)
0	79.0	51.0	3,755.0	0.0	0.0
1 – 3	3.4	32.5	2,392.9	71.8	3,683.7
4 – 5	4.1	2.9	213.5	10.7	547.8
6 – 10	1.4	10.2	751.0	75.1	3,853.7
11 – 15	1.4	2.0	147.3	22.1	1,133.4
16 – 20	6.1	0.6	44.2	8.8	453.4
21 – 25	0.1	0.0	0.0	0.0	0.0
28 – 30	0.1	0.8	58.9	17.7	906.8
Total	95.6	100	7,362.8	206.2	10,578.8

Source: IBON calculations on data from PIDS, DTI-BETP and BSP subsidiaries based in the Philippines – many of which are even Japanese TNCs – that take advantage of cheap Filipino labor while importing the greatest bulk of their inputs from abroad. As it is, TNCs account for 79% of gross revenues of all the manufacturing firms in the top 1,000 corporations of the country.**[14]** In particular the "manufacture" of electronic components is dominated by Toshiba, Fujitsu, Panasonic, Epson and Hitachi while Toyota, Honda, Mitsubishi and Isuzu are the leading manufacturers of transport equipment and auto parts.

Yet the country's greatly liberalized foreign investment regime means that these TNCs are largely disconnected from the domestic economy. Outside of the few thousand direct jobs created – with workers even working under exploitative and restrictive conditions – there is no real linkage and contribution to the domestic economy. Much as in the case of banana and pineapple exports, any export "gains" will accrue to foreign TNCs and domestic elites rather than to Filipinos and the local economy.

If anything, the JPEPA actually raises the danger that some electronics and auto parts suppliers based in the country, whether TNCs or any genuinely Filipino enterprises, will be adversely affected. There is to be sure no truly Filipino electronics or auto industry to speak of. But there are still electronics and auto parts suppliers based in the country that import raw materials or components and assemble them either for re-export or as inputs to other electronics and auto assemblers in the country. Such firms may end up having to close down if the removal of tariffs on these items makes them cheaper to import than procure from locally-based manufacturers. Likewise with local steel manufacturers who will be facing stiffer competition from Japanese producers. The plant closures and layoffs could well result in some tens of thousands of job losses.

False investment gains

One of the government's most prominent arguments for JPEPA is that it will lead to increased Japanese investment because of an improved business climate. This is certainly likely because the agreement is crafted precisely to be favorable for Japanese investors in the Philippines. But it is an entirely different matter if this will have genuine benefits for the country as the argument implicitly claims.

At an aggregate level it certainly does not seem as if foreign investment delivers the benefits that are claimed. Since 1973 and especially during the FDI surge of the 1990s, some US$4 billion worth of Japanese FDI has entered the Philippines with the bulk going to manufacturing. Yet there has been no development of Philippine industry to speak of and, indeed, the share of manufacturing in the country's GDP has gone down from a peak of 26.6% in 1973 to 23.1% in 2006. Moreover, this is even manufacturing that has become increasingly dominated by foreign TNCs and is by no means national industry.

The reality is that development gains cannot be taken for granted as the inevitable and necessary result of increased foreign investment – indeed, the opposite is true where it is the costs of FDI that come naturally. Foreign investors invariably operate in the ways most profitable for them which means hiring the least labor, paying the cheapest wages, conveniently importing the most inputs, avoiding taxes and other government charges, and keeping a tight hold on their technologies to pre-empt the emergence of competitors. The benefits from foreign investment then do not come spontaneously and determined government intervention is needed to ensure that these benefits materialize. Foreign investment is not an end in itself as the government, mainstream economists and corporate propagandists make it out to be. It is merely a means for the end of development and should at all times be measured against this.

Japanese investment will not benefit the economy and the Filipino people in the absence of national policies which ensure that national productive capacity is built up. Any increased investment will be developmentally meaningless if this is merely a Japanese TNC entering or expanding operations which are disconnected from the domestic economy. Economic policy has to link the TNC with the rest of the economy such that it adds local value, develops domestic skills and technologies, and contributes to the stock of productive capital.

Yet such policies are what the Philippine government completely gives up through the JPEPA. This will make an already bad situation of disconnectedness even worse. A survey of Japanese TNCs in Asia had three-fourths of Japanese firms in the Philippines saying that they locally procured less than 30% of all their parts and materials in the country, importing the rest (although this survey does not distinguish the size of the firm responding).**[15]** These are the second lowest rates of local procurement in the region after Japanese firms in Vietnam. Another survey that covers industries as a whole in turn reveals only 10% local content for electronics assembly industry and 15-20% for the automotive industry.[16] This disconnectedness is why the JPEPA will have such a developmentally negligible impact on the Philippine economy.

The supposed employment gains because of the entry of Japanese FDI will be mostly jobs in export processing zones. These are very marginal when measured against the country's epic joblessness. In 2006, 11.6 million Filipinos, a historic high, were looking for jobs either because they did not have one (4.1 million unemployed) or even if they had a job they still weren't earning enough for decent living and so looking for additional work (7.5 million underemployed).

Foreign investment does not even create that many jobs and an impossible amount would be needed if FDI rather than the painstaking effort of building domestic agriculture and industry was relied on to give enough jobs for the people. For instance, government claims of FDI job creation in the period 2003-2006 give an average one (1) job created for every US$39,110 in FDI – estimated by dividing the total approved investment by the number of supposed jobs created, according to various reports by the Board of Investments (BOI) and Philippine Economic Zone Authority (PEZA). This implies that to give jobs to just one-tenth (1/10) of the 4.1 million unemployed in 2006, over US$16 billion in FDI is needed – or nearly as much as the cumulative US$17.8 billion in FDI into the country in the three-and-a-half decades since 1973. Put another way, if FDI is relied on it will take an impossible US$160 billion in FDI to give jobs to just all of last year's unemployed.

In any case, an economic and foreign investment strategy that fails to ensure benefits from FDI actually destroys more jobs in the long-run – by stifling the local economy – than it creates in the short-run. The JPEPA is also a vivid example of how national development priorities are given up by the Philippine government in a "race to the bottom" with other Southeast Asian countries which "compete" with each other to give the most liberalized investment regime that is most favorable for Japanese FDI.

False gain for nurses and careworkers

There is similarly much hype about the benefits for Filipinos under the JPEPA insofar as the "movement of natural persons", a euphemism for global cheap labor export, is concerned. The JPEPA allows for the entry and temporary stay of persons who engage in supplying services as nurses or certified careworkers for one to three years (which may be extended). There are however very strict requirements which must be fulfilled as well as regulations which must be followed according to Japanese laws. Among the prerequisites of nurses and caregivers under JPEPA is that they should:

1. Be qualified nurses and caregivers under Philippine laws;
2. Be graduates of an appropriate 4-year degree program (in the case of caregivers, must be graduate of any 4-year degree program and recognized professional caregivers by the Philippine government);
3. Proficient in both written and spoken Japanese language; and
4. Qualified "*kangoshi*" (Japanese nurse) or "*kaigofukushishi*" (Japanese caregiver).

Although these professional and language requirements are not necessarily unreasonable from the point of view of ensuring decent and appropriate care for Japanese, they are limiting and should temper any hype of a sudden wave of Filipino nurses and caregivers to Japan (with the associated remittances back to their families in the Philippines). In all likelihood very few nurses and careworkers will be able to surmount the considerable language, technical and cultural barriers to working in Japan. Even assuming that Japan lifts its quota limits on those it will allow to work in the country these will perhaps be some thousands at best – perhaps enough for propaganda about the "benefits" of JPEPA but certainly not enough to compensate for the strategic economy-wide losses that will result from the deal.

At any rate, the basic issue is that the real interest of any overseas Filipino worker lies in finding decent work in the Philippines and not being forced to look for this abroad. The JPEPA merely reinforces how the ostensibly stop-gap measure of overseas work has become chronic and bizarrely enshrined as a cornerstone of national development strategy. Instead the Philippine economy has to create the needed jobs for its people for both social and economic reasons. Families should not be broken up and Filipinos need to have the choice to work in the country. At the same time, having Filipinos work in the Philippines better ensures that the fruits of their labor accrue to the domestic economy and not to those of other countries.

Real tariff and tax revenue losses

The extreme inequity of the JPEPA is also stark when looking at tariff revenues foregone. Poor and resource-starved Philippines will be foregoing more tariff revenues than industrialized and capital-rich Japan. This is all the more iniquitous especially considering that the Philippine government, given the country's overall backwardness, already has much less sources of revenue than the Japanese government to begin with.

The Philippines imported some US$7.4 billion from Japan in 2006 (from a yearly average of US$8.0 billion in the period 2001-2005). Most of these are imported duty-free (51%) and are mainly electronic parts and auto components that fall under government incentives schemes. Other products are levied tariffs of in the 1-30% range. Using the distribution of imports per tariff bracket obtaining in 2001, trade levels in 2006, and assuming that all tariffs are reduced to zero (which is anyway the eventual target), we can come up with a rough approximation of an annual revenue loss of as much as US$206.2 million or PhP10.6 billion (at the average exchange rate for 2006). (See **Table 4**)**[17]** Using the same method, the equivalent figure in tariff revenues foregone for rich Japan is a much smaller PhP8.0 billion (US$156.7 million).

The Tariff Commission in turn estimates PhP4.2 billion in foregone revenues and the Philippine Institute for Development Studies (PIDS) between PhP3 billion to PhP5 billion. It appears that these estimates are lower in taking tariff reduction schedules into account. The estimate in **Table 4** rather aims to illustrate the effect of the ultimate aim of JPEPA and other such FTAs which is the complete removal of tariffs, and the reduction to virtually nothing of Philippine government revenues from tariffs.

Even as the Philippines foregoes even more tariff revenues, Japanese investors in the country will be gaining from lower production costs because of lower or reduced duties on imported raw materials and parts. These include Japanese electronics, auto and auto parts manufacturers in the country.

It has been argued that the tariff cuts will actually benefit consumers who will face lower prices. This is a very much overstated "gain". It is also untrue especially since so much of the imports from Japan are not consumer goods for Filipinos but rather industrial inputs to be assembled by Japanese firms in the Philippines – using cheap Filipino labor – for subsequent export. So essentially what happens is that the Philippine government loses income that it might have, and should have, earned from Japanese TNCs using the Philippines as a location in a region-wide production network. It is also important to note that these Japanese firms based in the Philippines and who use it as an export base already benefit from a host of tax and other fiscal incentives from the government.

And even granting that some Japanese consumer goods will become cheaper, there is a more fundamental issue and far-reaching problem: the JPEPA strategically compromises the Philippine economy and Filipino jobs. In that larger context, jobless Filipinos with no incomes are not in a position to afford hypothetically cheaper imports of Japanese consumer manufactures and food items.

The Philippine government's future revenue stream is actually also compromised in an insidious manner. In the

Table 4: Simulated Foregone Japanese Tariff Revenues from RP Imports

Tariff Rates (%)	RP Exports (% share)	Japan Exports (% share)	Japan Imports from RP (US$ M)	Tariff revenues	
				(US$ M)	(P M)
0	79.0	51.0	6,406.2	0.0	0.0
1 – 3	3.4	32.5	275.7	8.3	424.4
4 – 5	4.1	2.9	332.5	16.6	853.0
6 – 10	1.4	10.2	113.5	11.4	582.6
11 – 15	1.4	2.0	113.5	17.0	873.8
16 – 20	6.1	0.6	494.7	98.9	5,076.6
21 – 25	0.1	0.0	8.1	2.0	104.0
28 – 30	0.1	0.8	8.1	2.4	124.8
Total	95.6	100	8,109.1	156.7	8,039.3

Source: IBON calculations on data from PIDS, DTI-BETP and BSP spirit of protecting Japanese investors in the Philippines, the JPEPA has a strict expropriation and compensation clause which declares:

> Neither Party shall expropriate or nationalize investments in its Area of investors of the other Party or take any measure equivalent to expropriation or nationalization (hereinafter referred to in this Chapter as "expropriation") except: (a) for a public purpose; (b) on a non-discriminatory basis; (c) in accordance with due process of law; and (d) upon payment of prompt, adequate and effective compensation." (Chapter 8, Article 95)

It is moreover explicitly stated that taxation measures may be considered as tantamount to expropriation:

> Article 95 shall apply to taxation measures, to the extent that such taxation measures constitute expropriation as provided for in paragraph 1 of Article 95. (Chapter 8, Article 104)

Although it is elsewhere noted that "A taxation measure which is applied in a non-discriminatory manner shall not be considered to constitute expropriation" (Chapter 8, Article 104), the JPEPA nonetheless lays the basis for legal challenges on the Philippine government if it reneges on previously granted tax and customs duty exemptions. The term "non-discriminatory" for instance remains open to interpretation and it does not necessarily permit the Philippine government to raise taxes at will. Put another way it is possible that if the government imposes added taxes in the future, Japanese firms can invoke the JPEPA to demand compensation for these taxes on the ground that these were not in place when the investors first came in and so did not factor in when they drew up their business plans, revenue streams and profit estimates.

This is a severe restriction and a brazen impingement on the sovereign right of the Philippines to tax economic activity within its jurisdiction. Indeed, it is also possible for "expropriation" to be broadly interpreted to mean not just the usual sense of a takeover of property but also the "virtual" takeover or incidental loss in profits by Japanese firms for instance as a result of new regulations being instituted. This might for instance be as a result of price controls on utilities or of additional environmental requirements.

Toxic waste dumping

One of the most controversial aspects of JPEPA is that the country risks being converted into a big dumping site for Japanese waste materials, not only of the recyclable kind but even those fit for disposal such as clinical, chemical, municipal sewage wastes and other toxic materials. These imported wastes become customs-free, from their original tariffs of 3%-30% under the MFN treatment of the World Trade Organization (WTO), upon ratification of the agreement.

The Philippine government denies that it entered into a bilateral agreement blatantly violating local laws and its international commitment under the 1989 Basel convention on the trans-boundary movement of hazardous and toxic materials. Relevant local laws include the Constitution (Article II, Sections 15 and 16), Republic Act 6969 or the Toxic Substance and Hazardous and Nuclear Waste Act of 1990, and Republic Act 8749 or the Clean Air Act of 1999, The country's negotiators declared that the action was only a negotiating mechanism because the JPEPA is an all-or-nothing deal and that a bilateral economic partnership/free trade agreement such as JPEPA will anyway not supersede existing constitutional provisions or international obligations.

The two governments have since agreed on coming up with a side-agreement to the JPEPA that supposedly addresses these issues. However this does not detract from how the Philippine government, under the pretext of developing our waste treatment and disposal capacity, did concede to the entry of these wastes by lowering existing tariffs to zero notwithstanding the existence of a so-called "non-relaxation of environmental protection" provision. The simpler, more convincing and more decisive effort would have been to remove the questionable provisions entirely.

Forsaking policy sovereignty and development

Economic sovereignty is critical to economic development. The historical experience of every comparable country to the Philippines that has achieved any degree of development is that foreign trade and investment must be strategically restricted and strictly controlled. This is the case with the US, Western Europe and Japan from the late 19th century to the 1950s, with South Korea and Taiwan in the decades since the 1960s, and indeed with China and Russia in their periods of Socialist construction.

The country's backwardness is not due to the lack of foreign trade and investment. Indeed these have reached unprecedented levels in the last two to three decades because of "free market" policies of "globalization". Yet these have been accompanied by more volatile growth, historic joblessness, worsening domestic capital accumulation, shrinking manufacturing, declining agriculture and the freefall of the peso. Foreign trade and investment can play a role in development but government must set the terms for this. In particular these policies must support genuine programs of agrarian reform and national industrialization. The country is also so backward that even more important than protecting the industries it has is creating the conditions to develop those the country needs but actually still doesn't have. Sovereignty also means "liberalizing" only when the domestic economy is ready to do so and always on terms beneficial to it and to the people.

The JPEPA is akin to the first step off a very high cliff. It is the country's first full-fledged post-colonial FTA in an era when multilateral and bilateral trade agreements are the main vehicles for imperialist manipulation of Third World economic policies and their economies. It is dangerous for setting a benchmark for liberalization that will determine the shape of all FTAs to come, which greatly magnifies the adverse effects far beyond just the country's transactions with Japan. This is an extremely critical matter that pro-JPEPA arguments based on the Philippine and Japanese economies allegedly being "complementary" – where the goods produced by the two economies supposedly do not compete with each other – are completely and dangerously blind to.

The problem is that the trade and investment liberalization measures agreed to by the Philippine government in JPEPA set a high standard that it is going to be obliged to also give in subsequent FTAs, lest it be accused of discrimination. The country's negotiating position in all subsequent trade and investment agreements is then gravely undermined. The end result of the JPEPA and other such agreements will be to prevent any real Filipino agricultural and industrial development. Yet developing these sectors are essential for overcoming mass poverty, achieving sustained and rapid economic growth, and attaining real economic independence.

The JPEPA is a serious step backward for the Philippine economy. It deprives the country of vital policy tools that, ironically, Japan itself used to develop and industrialize. The long-term implication is to assure Japanese and other monopoly capitalists of cheap labor and raw materials as well as a captive market for their goods. The country won't be able to provide jobs for tens of millions of Filipinos and will continue to remain poor, backward and pre-industrial.

More than it seems

The JPEPA is significant for the damage it will do to the Philippine economy, both directly and in the long-run. The direct damage will be: in the job displacements resulting from the inevitable closure of otherwise Philippine-based manufacturing or pseudo-manufacturing firms (i.e., electronics, auto and auto parts, steel, textile and apparel); in the fisherfolk livelihoods lost following the greater incursion of big Japanese fishers; and in the billions of pesos in tariff and other tax revenues foregone. But this is only the beginning.

The most dangerous and far-reaching impact of the JPEPA is that it ushers in an era of unmatched defeatist economic policy-making. Its unprecedented trade and liberalization measures formalize complete government abdication of the country's sovereign right to benefit from foreign economic relations. It surrenders the economy and its resources to the needs, demands and profits of foreign monopoly capital. Vast opportunities are created for foreign corporate monopolies – beginning with giant Japanese businesses – at the expense of the Filipino people's livelihoods, welfare and national patrimony. The ultimate result is to condemn the Philippines to chronic industrial and agricultural backwardness, and to deny tens of millions of Filipinos decent work, incomes and livelihoods in their own country.

This damage is certain and affirmed by historical and recent economic experience with "free market" policies not just in the Philippines but in the rest of the world. They are little off-set by the spurious or otherwise overly hyped gains for Filipino farmers, fishermen and health workers that are invoked. The deal is the most recent affirmation of how narrow foreign and domestic elite interests dictate Philippine economic policy-making where the welfare of the largest number of Filipinos is sacrificed for the profits of a privileged few.

The global backlash against "globalization" is well-founded – yet the JPEPA that the Philippine government has signed takes this destructive "globalization" further than it has ever been for the country. It is a trade and investment liberalization deal to its very core and, for this reason, is not amenable to any sort of improvement or fine-tuning. The Philippines' economic pacts with other countries on the other hand must be such as to always recognize economic sovereignty and the primacy of the people's welfare.

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