



PHILIPPINE
INSTITUTE FOR
DEVELOPMENT
STUDIES

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

DEVELOPMENT RESEARCH NEWS

Vol. XXIV No. 6

November - December 2006

ISSN 0115-9097

Editor's Notes

Through a modern invention called the Internet, shopping or selling of goods via cyberspace has become possible, making business transactions more convenient and even cheaper. System enhancements addressing security issues—still the biggest threat to e-commerce—are also persistently being pursued and have led to significant improvements. Thus, more and more people and businesses are using the Internet these days as an alternative platform for doing trade. E-commerce has definitely come of age. Unfortunately, not yet for the Philippines.

As this issue's main article shows, we have been left behind by our Asian neighbors in e-commerce activity, ranking even lower in a number of areas than Thailand and Indonesia, which started using the Internet at around the same time or even much later than the Philippines. This translates to trade losses that our own economy could have captured had we been more swift, focused, and aggressive in improving our technical and human capacities and the access to telecommunications infrastructure of the large majority of the population, as well as in fixing the gaps in our current legal and regulatory framework.

Indeed, quickness of action is an important element to gaining strategic advantage against our competitors in this globalized trading environment. This could also be said of the Japan-Philippines Economic Partnership Agreement (JPEPA). The short article in the inner pages of this issue, which

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E-commerce in the Philippines: a preliminary stocktaking

Gloria O. Pasadilla and April Lacson*

With the rapid advancements in information and communication technology (ICT) and the equally rapid spread of the Internet, a new system has emerged to revolutionize international trade and business—e-commerce¹.

In 2002 alone, various estimates place the value of e-commerce between US\$823 billion and US\$2 trillion while Forrester (2001) forecasts that the value of total e-commerce transactions would have reached nearly US\$12.9 trillion by 2006. Although about 94 percent of these transactions occur in developed countries, UNCTAD (2002) estimates that as their infrastructures and businesses develop, transactions in developing countries are likely to grow even faster than those in developed countries in the following years. Asia, in particular, is forecasted to increase its share of worldwide e-commerce in 2004 (IDC as quoted by Andam 2003).

In light of these developments, how is e-commerce faring in the Philippines? How does the country compare vis-à-vis other Asian economies? What challenges inhibit it from doing better?

Philippine developments in e-commerce

E-commerce infrastructure

The ICT industry, in general, and e-commerce, in particular, got its initial boost from the liberalization of the telecommunications sector. By 1998,

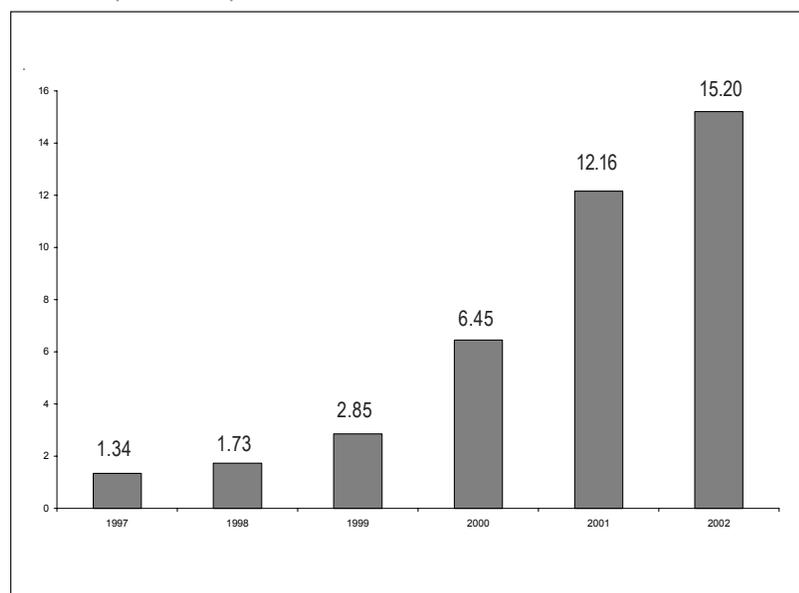
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¹ In this paper, e-commerce will be limited to the sale or purchase of goods and services through the Internet. A broader definition involving computer-mediated networks exists (see Andam 2003), but the limited definition is sufficient for this article.

Table 1. Number of mainlines and telephone density, 1995-2002

Year	No. of mainlines	% Increase	Telephone density
1995	1,409,639	47.50	2.01
1996	3,352,842	237.85	4.66
1997	5,775,566	172.25	8.07
1998	6,641,480	114.90	9.08
1999	6,811,616	2.56	9.12
2000	6,905,692	1.38	9.05
2001	6,938,762	0.48	8.91
2002	6,914,235	-0.35	8.70

Source: National Telecommunications Commission as cited in Institute for Labor Studies-Department of Labor and Employment (2004).

Figure 1. Cellular mobile telephone service subscription, 1997-2002 (in millions)

Note: Data from 2002 are preliminary.

Sources: National Telecommunications Commission; Socio-Economic Report 2002.

87 percent of cities and municipalities have access to telephones (Mercado 2004) while teledensity increased from 2 phones for every 100 persons in 1995 to nine telephones per 100 persons by 2000 (Table 1, (Institute for Labor Studies- DOLE 2004).

With the advent of mobile telephony, though, the rate of increase of fixed lines

in the country started to slide such that by 2002, fixed lines actually posted a negative growth (Table 1). On the other hand, cellular mobile phone penetration has maintained an uptrend as Figure 1 shows. In 2000, there were about 6.45 million cellular mobile phone subscribers. Two years later, their numbers more than doubled and have swelled to 15.2 million (NTC as cited by Mercado 2004).

Albeit at a slower pace, personal computer (PC) penetration and Internet penetration have also been increasing. PC penetration, in particular, increased from 1.69 in 1999 to 2.2 PCs per 100 people in 2001 (ITU as cited by Mercado 2004). While the exact data on the number of Internet users in the country are not available, the International Data Corporation estimates that there were about 4.31 million Internet users in the country in 2001, up from 2.88 million in 2000 (Mercado 2004). Parallel to this increase is the rise in the number of Internet service providers from barely more than 10 in 1997 to 56 by 2002 (Mercado 2004) and 177 by 2004 (Virola n.d.).

Policy environment

While e-commerce does not change the essence of commercial transactions, it radically modifies its form, allowing real-time exchanges among businesses, consumers, and client governments regardless of spatial distance. If this cross-national nature brings a host of advantages, it also poses a number of jurisdictional and legal issues, highlighting the importance of harmonizing laws across countries. Toward this goal, the United Nations (UN) introduced the UN Commission on International Trade Law (UNCITRAL) Model Law on E-commerce in 1996. Several countries have adopted it since, including the Philippines.

The law introduces three major principles: functional equivalence, media and technology neutrality, and party autonomy. The first mandates that electronic data be given the same level of recognition as information on paper; the second requires

equal treatment of transactions and techniques, whether electronic or paper-based, regardless of whether it is done through email, fax, short message sending, or the Internet. Finally, the third upholds the freedom of parties to decide whether and how to use e-commerce according to their required level of security (UNCTAD n.d.).

The Philippine's E-Commerce Law of 2000 basically follows the UNCITRAL Model Law and its major provisions although regulations on service provider liability were added based on Singapore's Electronic Transaction Act. But while the E-commerce Law is widely hailed as the landmark legislation for ICT in the country, it only provides the basic framework for e-commerce transactions. In general, the law (1) legalized electronic transactions and e-banking; (2) gave legal recognition to electronic signatures, documents, data, and contracts; (3) mandated government use of ICT; and (4) criminalized piracy and hacking. However, in order to speed up the passing of the bill, it left out issues of intellectual property rights, certification, digital signatures, privacy, domain names, and jurisdiction. Clearly, much remains to be done to get the country's legislative framework up to par with the realities and advances in ICT. The E-Commerce Law is merely the first step.

Nevertheless, the Philippine government has promulgated several policies and launched several programs to support the spread not only of e-commerce but of ICT in general. Several bodies were created to focus on ICT development. Foremost among them is the Information Technology and Electronic Commerce Council (ITECC) created in year 2000. The ITECC is composed of 15 representatives—eight from the public sector and seven from the private sector. Originally chaired by the Department of Trade and Industry (DTI) secretary, President Gloria Macapagal-Arroyo assumed the chairmanship of the ITECC in 2001 through Executive Order 18, presumably to enable her to directly oversee the development of ICT in the Philippines. The council was further subdivided into five committees, each focusing on a spe-

cific area or sector for ICT development and application. These are: Business Development Committee; eGovernment Implementation Committee; Information Infrastructure Committee; Human Resource Development Committee; and Legal and Regulatory Committee. A sixth auxiliary committee was also formed to serve advocacy and information dissemination purposes (ITECC 2002).

The creation of the Commission on ICT (CICT) was one of ITECC's major victories. Although ITECC's original recommendation involved the creation of a department for ICT, the CICT was established to serve as a transitory body while Congress deliberates upon the creation of a department. At present, the commission serves as the primary policymaking and administrative body for ICT development in the country working toward building the country's ICT infrastructure, resources, and legal and policy framework (CICT 2006).

Apart from these bodies, the government also instituted several policies to help spur the growth of e-commerce and ICT use throughout the country. As early as 1998, the National Information Technology Plan (NITP), also known as IT 21, was promulgated, superseding NITP 2000. In it, the government announced its target of making the Philippines "the knowledge center of Asia" by 2010 by developing the country's local IT industry (e.g., promotion of business process outsourcing in animation, medical transcription, call center, and other IT-related services).

Unlike IT 21, ISP.com, meanwhile, is focused specifically on creating an environment conducive for e-commerce in the country. The program was launched in 2000 and involves improving the country's infostructure, legal and policy framework, human resources, and business support services (ASEAN 2003). Even the country's Medium-Term Development Plan has a section on ICT development and e-commerce.

Regardless of their approach or syntax, however, what is noticeable among these poli-

E-commerce in the country is still underdeveloped and highly concentrated in big conglomerates and major companies (Torral n.d.)...In the 2002 Survey of Information and Communication Technology, foremost among the reasons given for the nonusage of ICT resources are lack of capital to finance ICT use, lack of equipment, low priority given by management, and lack of technical expertise.

cies and programs is their overlapping functions and jurisdictions², even among the government bodies, such that examining the effects of one of these policies on the country's e-commerce becomes an arduous task. Thus, the next section instead looks at where the country is now in terms of e-commerce activity while the section following it benchmarks the Philippines against the rest of the world.

The scale of e-commerce in the country

In 2005, e-commerce in the country was estimated at US\$3.5 billion (Torral n.d.). The bulk of these transactions are business-to-business exchanges (B2B) involving major retailers (e.g., ShoeMart and Makro) and multinational corporations (MNCs) such as Nestle and Unilever. As early as July 2001, barely a year after the E-commerce Law was passed, online market trading involving B2B transactions amounted to as much as US\$40 million. Bayan Trade, a site devoted to e-procurement, dominates the e-marketplace. A joint venture among six major conglomerates (i.e., PLDT, Aboitiz, Ayala Corp., United Laboratories, JG Summit, and Benpres), Bayan Trade boasts of a buyer base of 150 companies supplied by 350 other corporations (Lallana et al. 2002). The medical and pharmaceuticals industry, meanwhile, also has its own e-marketplace in Asiarx.com while Philippine cooperatives

trade online at B2Bpricenow.com (EIU n.d.)

Business-to-consumer (B2C) transactions, on the other hand, are dominated by book and software purchases that are mostly processed through international sites such as amazon.com. Unlike B2B transactions, B2C transaction is particularly hampered by the limited number of credit card subscribers in the country (i.e., only 3 million) although a number of online malls (e.g., estoreexchange.com, ayala.com, and infinitymalls.com) are now offering alternative modes of payment through reloadable e-cards, COD, bank deposits, and ATM cards through PayFree, Load.com.ph, and Payplus or mobile phone payment through Globe G-Cash, SmartPadala, PayFree, and Load.com (Torral n.d.)

Aside from online shopping, a number of other B2C transactions have emerged through the years. PinoyAuctions.com and Bidshot.com offer online auctions similar to eBay. Rustan's and SM Department Store offer online grocery shopping. LoyolaPlans sell life and nonlife insurance online while Philippine Airlines, Cebu Pacific, and Air Philippines allow online booking and ticketing for international flights. Finally, as of February 2006, 45 banks in the country offer online banking and financial services, allowing clients not only to inquire about their balances but also to pay bills and transfer funds through the Internet (EIU n.d.)

Despite these developments, however, e-commerce in the country is still underdeveloped and highly concentrated in big conglomerates and major companies (Torral n.d.). Quite a number of establishments still do not use ICT resources (e.g., computers, Internet, ICT personnel such as a programmer or webmaster). In the 2002 Survey of Information and Communication Technology, foremost among the reasons given for the nonusage of ICT resources are lack of

² Apart from the CICT and ITECC, for instance, the E-commerce Law also gives the Department of Trade and Industry some policymaking and regulatory powers over ICT development in the Philippines.

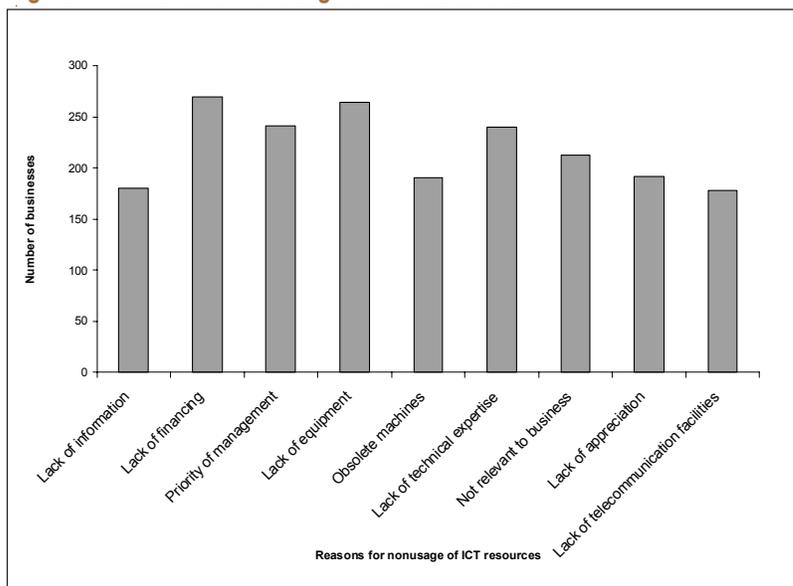
capital to finance ICT use, lack of equipment, low priority given by management, and lack of technical expertise (Figure 2).

In 2001, among industries, electronic selling was being done in manufacturing, wholesale and retail trade, telecommunications, and computer and related services (Figure 3). Even then, the propensity to sell online was only 2.2 percent of all ICT business users. Revenue from e-commerce was also quite small. Sixty-nine percent of those who engaged in e-selling had less than 15 percent of their sales from it (UNPAN 2003)

Online purchasing is slightly higher than e-selling. Almost 3 percent of ICT business users purchase online—against only 2.2 percent of e-selling activity. Those industries that do e-selling also do e-purchasing but other industries such as ICT education, motion picture, radio and TV also participate in e-purchasing (Figure 4). Apart from them, those engaged in health and social work; agriculture; and electricity, gas, and water practice e-purchasing but to a lesser degree. Of total ICT users, though, 70 percent of those who report purchasing online indicate that their e-purchasing constitutes only less than 15 percent of their total purchases (UNPAN 2002).

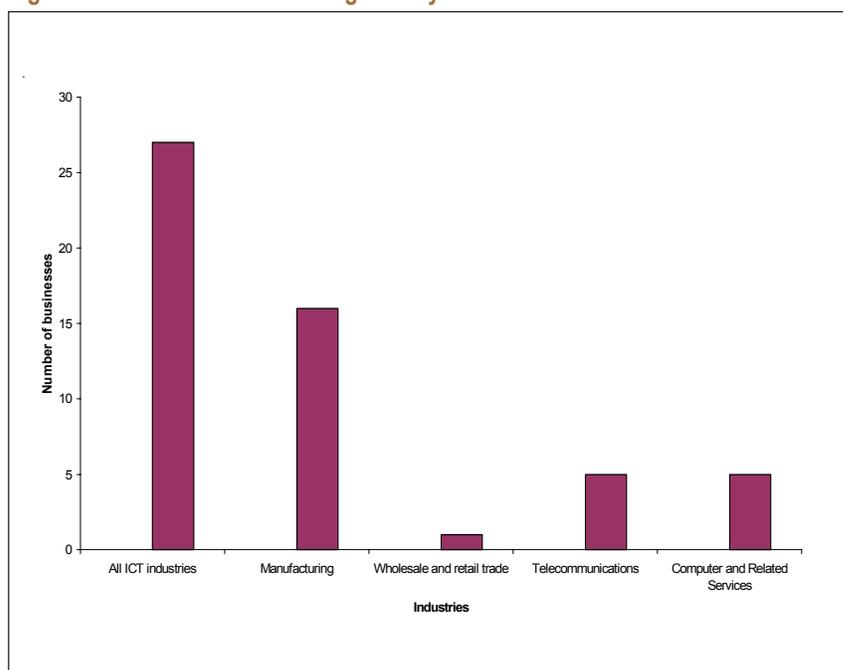
Not surprisingly, SMEs lag behind multinationals and large enterprises in terms of e-commerce transactions. In fact, while nearly all of the SMEs surveyed by Lallana et al. report using telephones (99%) and facsimile machines (94%), only 69.7 percent own PCs with Internet access (although 90% have computers) and only 42.6 percent own PCs with local area networks. Also, although 85 percent of those surveyed say that e-commerce is at least important today, only 27 percent (95 firms out of 352) of those who use the Internet use it to sell or purchase goods and services online. This reveals that despite perceiving the significance of online transactions, most firms would rather not participate in e-commerce. Of those who use the Internet for online selling and purchasing, 43 percent are in Metro Manila, 44 percent are in Cebu, and 13 percent are

Figure 2. Reasons for nonusage of ICT resources



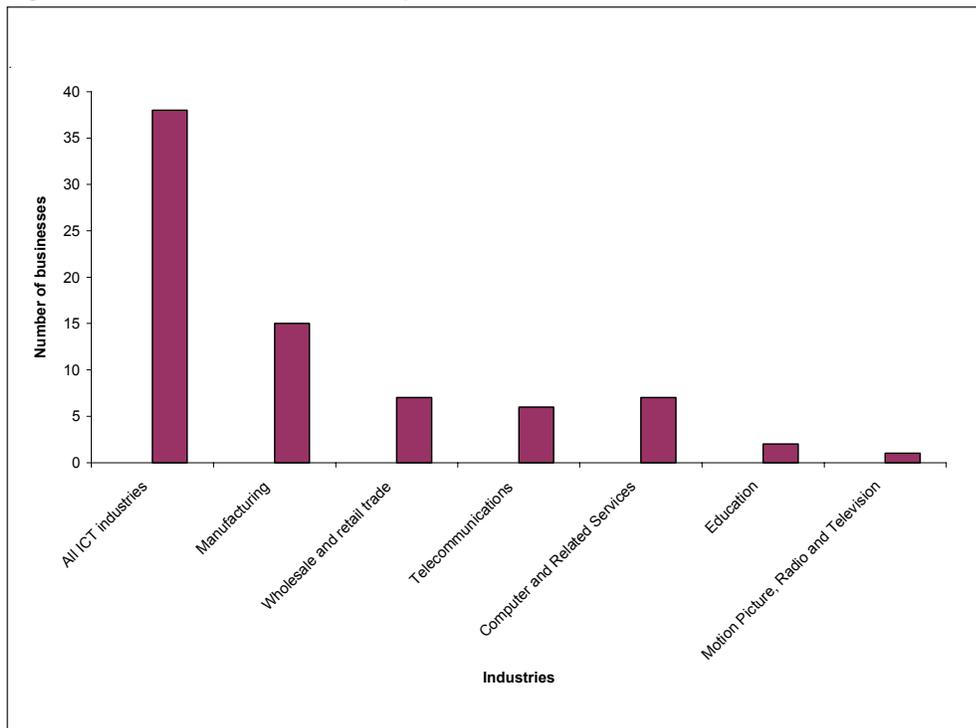
Source: SICT survey, 2001, Industry Statistics Division.

Figure 3. Industries with e-selling activity



Source: SICT survey 2001, Industry Statistics Division.

Figure 4. Industries with e-commerce purchases



Source: SICT Survey, 2001, Industry Statistics Division.

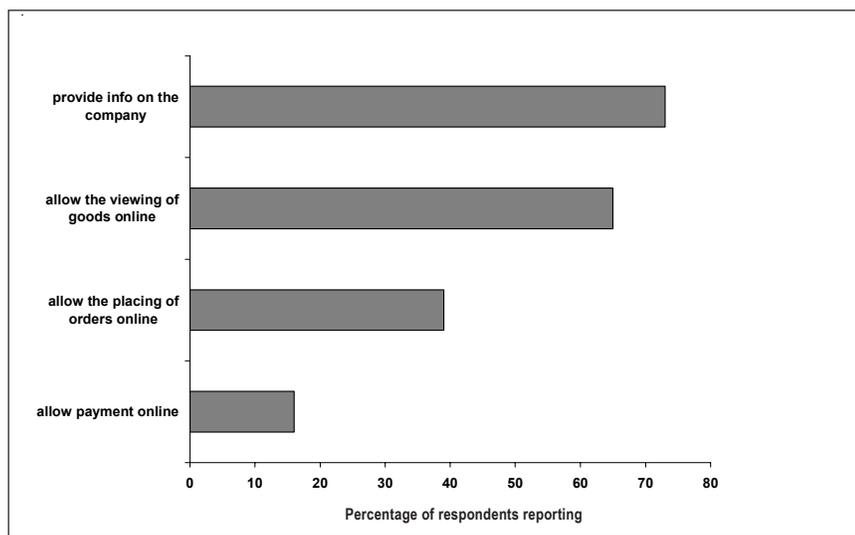
in Davao, partly revealing the urban concentration of e-commerce transactions. Of those who use the Internet for selling their products, less than 20 percent allow online payment while majority of companies using the Internet prefer to stay at the bottom rung of the e-commerce ladder and merely promote the company or the product online (Figure 5) (Lallana et al. 2002).

Reasons abound with regards to SMEs' reluctance to fully participate in e-commerce transactions. Apart from their hesitance to join an e-commerce site, concerns over security—whether of information, payment, or delivery—dominate. Other reasons include the lack of resources, either human

capital to construct, manage, and maintain the necessary infrastructure, or financial capital to fund the e-commerce venture (Figure 6). Although the liberalization of the telecommunications industry led to significant price deflations in fixed-line services, the cost of getting a server and maintaining a bandwidth is still high. Yehey.com, one of the country's major search engine and e-commerce sites, uses servers located abroad because of the cheaper rates despite the fact that maintenance and management would be easier had these servers been located domestically.

Apart from the low adoption of e-commerce by SMEs, the dearth of information on consumer-to-consumer transactions is also a problem. This is despite the fact that a number of websites such as tsikot.com and eBay Philippines allow private individuals to auction off, purchase, or sell products from other private individuals.

Figure 5. How companies sell their goods over the Internet



Source: Lallana et al. (2002).



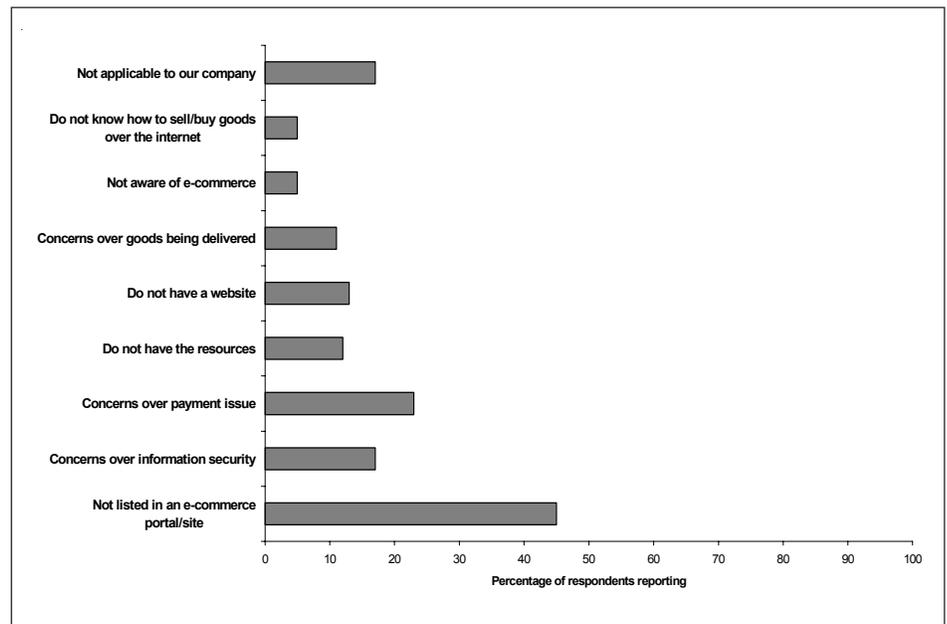
Internet cafés help in broadening PC and Internet access thus facilitate participation in e-commerce.

http://www.pttc.gov.ph/images/facility_iac_picL.gif

Benchmarking: Philippines against Asia and the rest of the world

Merely looking at domestic developments is not enough. Progress is best seen when compared with others. Unfortunately, because of the novelty of e-commerce, cross-country indicators are hard to find. A number of countries have yet to map the extent of e-commerce and IT use in their jurisdictions while those indicators that exist may not be comparable across other economies. Despite this difficulty, a number of organizations have come up with several e-readiness indices. The index by the Economist Intelligence Unit (EIU) is, by far, one of the most comprehensive, comparing 65 major countries across 100 indicators under five major criteria: connectivity and technology infrastructure, business environment, consumer and business adoption, legal and policy environment, and supporting e-services. Thus, the EIU e-readiness index is the best place to start for gauging the Philippines' capacity to support and promote e-commerce in the country.

Figure 6. Reasons for not using e-commerce in the next 12 months



Source: Lallana et al. (2002).

In the EIU's latest index, the Philippines ranked 51st out of 65 countries, down from 49th the previous year. To get a better understanding of the country's situation, the country lags behind Malaysia, Thailand, Mexico, and India. In Asia Pacific, the Philippines ranked 11th out of 16 Asia Pacific economies, ranking above China, Indonesia, Vietnam, Sri Lanka, and Pakistan, yet also placing below Malaysia, Indonesia, and India, among others (EIU 2005). Clearly, despite changes in the country's laws and policies, improvement in the penetration rates and ICT infrastructure, and increase of e-commerce activity, the Philippines still has a lot of catching up to do especially if it were to pursue its goal of becoming Asia's e-services and knowledge center.

For instance, even with improvements in the Philippines' telecommunications infrastructure, the country still has one of the lowest fixed telephone lines per 100 population among ASEAN countries, managing only to rank higher than Cambodia, Lao PDR, and Myanmar. Subscribed lines even suffered 2 percent of disconnections in 2004.

In terms of PC penetration rates, on the other hand, the country ranks below Singapore, the ASEAN leader at 62.2 per 100 persons, Malaysia (19.6), Brunei (8.47), and

Thailand (6). Internet diffusion is also relatively low, at 5.32 users per 100 population, lower than Iran's (7.88) and Zimbabwe's (6.9) penetration rates (Virola n.d.).

Thus, given the relatively lower infostructure penetration rates, it is not surprising to find that based on UNCTAD's e-commerce report and Forrester's (2001) estimates, the country has one of the lowest total values for e-commerce transactions (Table 2).

Comparing the Philippines, Thailand, and Indonesia in terms of e-commerce usage by businesses, the Philippines lags behind the two in the areas of Internet banking and e-buying despite the fact that e-commerce and Internet usage in the Philippines started around the same time as Thailand and much earlier than Indonesia. However, the country leads in e-commerce usage in the areas of communication, research, and promotion-related activities (Figure 7).

Conclusion

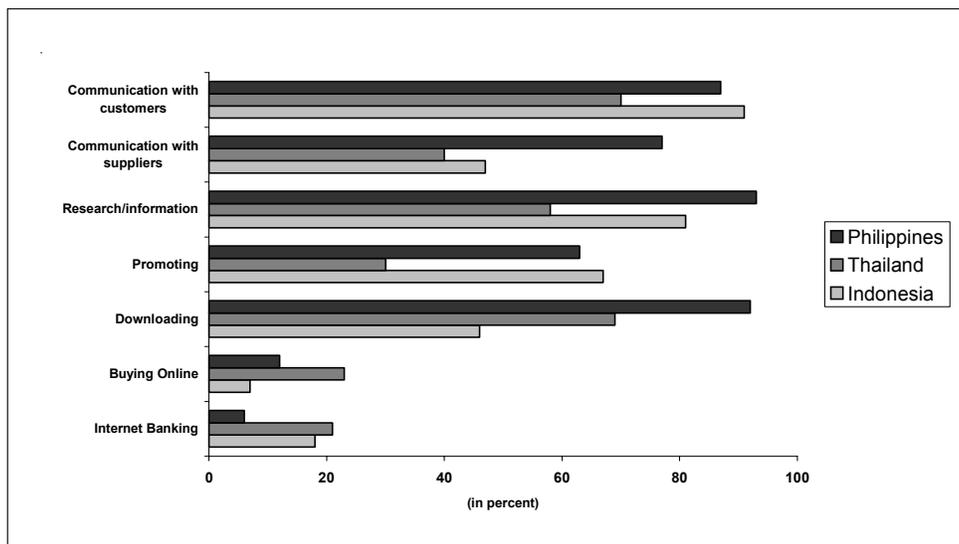
Although e-commerce in the Philippines is gaining momentum, the country still has a number of hurdles to face before it could become Asia's knowledge center and e-services hub. First, the capacity and knowledge of domestic SMEs to effectively utilize e-commerce is still underdeveloped. Most SMEs lack the capital and human resources to launch their own websites or maximize their use. Second, the E-commerce Law is silent with regards to domain names, intellectual property rights, and a host of other security issues, effectively discouraging many entrepreneurs and even consumers. Third, the country lacks a more comprehensive set of indicators for measuring usage, readiness, and the impact of e-commerce. And fourth, while the infrastructure exists, telephone density and Internet and PC penetration in the country are not as high as in other countries. Unless immediate and appropriate measures are undertaken to address these shortcomings, the Philippines will continue to linger at the bottom of the e-commerce economy.

Table 2. Total value of e-commerce transactions in selected Asian countries and territories (B2C and B2B), in US\$ billion

Country/ Territory	2002	2006
Hongkong, China	15.6	98.8
Indonesia	0.1	1.6
Malaysia	1.7	18.4
Philippines	0.1	1.4
Singapore	10.5	66.4
Taiwan	29.0	223.8
Thailand	0.2	2.9
Combined Total	57.2	413.3

Source: UNCTAD E-commerce Report and Forrester (2001) estimates.

Figure 7. Comparison of Internet usage by businesses in Thailand, Indonesia, and the Philippines



Source: Castleasia (2002) as cited in Pascual (n.d.).

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Japan-Philippines Economic Partnership Agreement (JPEPA)

Some questions and answers

Josef T.Yap, Erlinda M. Medalla, and Rafaelita M. Aldaba *

1 *What are the major potential benefits that the Philippines could gain from the JPEPA?*

The PIDS study by Dr. Caesar Cororaton shows (using a static model) that the proposed JPEPA would result in a small yet positive impact on the gross domestic product (GDP) (0.09%) arising from better resource allocation, accompanied by a reduction in poverty incidence. The GDP impact could be much higher (from 1.7% to 3.3%) using a model that allows for foreign investment inflows and productivity gains that could arise. These are just gains from free trade agreement (FTA) provisions.

The more substantial gains would come from the enhancement provisions of the

Agreement related to various areas of cooperation and capability building such as:

- cooperation and technical assistance to cope with sanitary and phytosanitary (SPS) requirements in Japan;

- cooperation in trade and investment promotion;

- capacity building in paperless trading;

- technology transfer and cooperation that could facilitate improvements in the competitiveness of our workers through cooperation in human resource development, language proficiency trainings, technical assistance in skills upgrading, mutual personnel exchange and fellowship programs, and research and development in science and technology; and

- trade facilitation measures such as simplification and harmonization of customs procedures.

It is also noteworthy that in the final Agreement, Japan granted concessions in agriculture by giving immediate removal of tariffs on shrimps and prawns, asparagus, leguminous vegetables, dried bananas, guavas,



Philippine agriculture will benefit the most from the immediate removal of tariffs once the JPEPA is implemented.

* PIDS President, Senior Research Fellow, and Research Associate, respectively.

mangoes, mangosteens, fresh papayas, refined or unrefined coconut (copra), dried durians, jackfruit, and rambutan, as well as on knitted and crocheted fabrics. Gradual tariff elimination toward zero tariff will also be implemented in the following products: frozen yellowfin tunas, prepared or preserved tunas, fresh bananas, dried pineapples, fruits containing added sugar, and articles of apparel and clothing accessories. The gains, aside from market access, can be summarized in terms of more sustained and increased inflow of foreign direct investments, productivity increases, improvements in regulatory environment and processes, and capacity building.

2 *In a bilateral trade agreement with any industrialized country, how can we gain an advantage given the "uneven playing field?" Would the JPEPA have any adverse effects on the local industry?*

The economies of the Philippines and Japan are complementary, with Japan specializing in high-technology industrial products. On the whole, the costs in terms of adjustment implementation of the JPEPA are expected to be low, largely because our prevailing tariff rates are already low.

Perhaps the most sensitive sector is automotive. To ease the adjustment, gradual tariff reduction is pursued, and for certain automotive products that are assembled in the country, no tariff reductions will be implemented and negotiations will be held in 2009. For instance, for vehicles of cylinder capacity exceeding 3,000 cc, the tariff rate remains at 30 percent. For secondhand vehicles, the Philippines is allowed to impose import duties. For buses with gross vehicle weight of 6 to 18 tons, tariffs will be reduced gradually from 14 percent to 0 percent in 2010. For vehicles of cylinder capacity not exceeding 3000 cc, tariffs will be eliminated from 29 percent to 20 percent in 2009, subject to negotiations. For components, parts and/or accessories under the motor vehicle development program, the

most favored nation (MFN) rate will apply and tariff elimination will be subject to negotiations in 2009. It is also important to note that the Philippines is committed under the ASEAN Free Trade Area (AFTA) to eliminate all tariffs on the automotive sector by 2010 for the ASEAN-6. This is consistent with how the global automotive industry is shaping up, increasingly characterized by global production networks and process and product segmentation.

Gains from trade rest on comparative advantage, which is bound to differ between the trading partners. If "uneven playing field" refers to differences in stages of development and capabilities, the additional features of the JPEPA, which go beyond FTA, are primarily aimed at addressing these differences and "equalizing capacities."

3 *Why have the Philippine exports penetrated so little of the Japanese market? Would the JPEPA change this?*

Japan is one of our major export markets. In 2000, Japan accounted for 14.73 percent of total Philippine exports and 19.1 percent of total Philippine imports.¹ Meanwhile, the Philippines remains as an important potential market for Japan as well as a potential export base for Japanese companies planning to operate in the Southeast Asian market. In 2000, the Philippines comprised around 2.14 percent of total Japanese exports and 1.9 percent of its total imports.² Our top exports to Japan consist of agricultural products such as fresh bananas, pineapples, and asparagus along with industrial goods like semiconductor and electronic products.

While Japan is an important trading partner for us, market analysis shows that we could still do better. There is a long list of products with export potential that had been classified as high-potential competi-

The gains, aside from market access, can be summarized in terms of more sustained and increased inflow of foreign direct investments, productivity increases, improvements in regulatory environment and processes, and capacity building.

¹ PC-TAS

² Ibid

tive, and "lost opportunity" products. The JPEPA, with its enhanced features, would open these opportunities. As mentioned earlier, trade between the Philippines and Japan is complementary. A major obstacle in penetrating the Japanese market is the exacting Japanese consumer taste, reinforced by strict regulations, and in agriculture, the high tariffs. The major potential gainers are therefore those in the agricultural sector where concessions through the immediate removal of tariffs have been granted by Japan. Prospects are even brighter considering the possible technical assistance that will be extended to the Philippines to cope with the strict Japanese SPS regulations and the possible joint ventures and investments that could result from trade and investment promotion.

4 *On environmental issues, is the JPEPA allowing entry of toxic wastes into the Philippines?*

The categorical answer is no. Both the Philippines and Japan are signatories to the Basel convention, which requires the parties to make prior notice and consent before governments allow the export and import of hazardous waste.

Article 11 of the JPEPA provides that "The Parties reaffirm their rights and obligations under the WTO Agreement or any other agreements to which both Parties are parties." As such, Japan and the Philippines are obligated to control transboundary movement of hazardous waste.

On the other hand, the Philippines has very limited capacity and capability to treat hazardous wastes. As such, Japanese companies would resort to export such wastes to Japan for proper treatment. Indeed, Japan has allowed import of hazardous waste such as copper sludge, printed circuit board, and fluorescent lumps from the Philippines for this purpose. Zero tariff of hazardous waste would support these companies trying to ensure proper hazardous waste treatment.

In addition, the JPEPA includes provisions for cooperation in environmental concerns. Through JPEPA's environment cooperation initiatives, JPEPA would help by designing technology transfer programs to manage hazardous wastes along with capability-building programs to improve the capacity of our regulators to implement environmental laws. With JPEPA as well, closer coordination among the customs and environment people between the two countries in order to effectively regulate and prevent illegal wastes trade could also be pursued.

5 *What about foregone revenues? The Ibor Foundation estimates P9 billion annual foregone revenues because of the JPEPA.*

Based on trade weighted tariffs using imports from Japan, preliminary calculations (we are still refining our estimates) that assume overnight removal of tariffs for imports from Japan yield an estimate of around P3 to P6 billion of foregone tariff revenues.³ It should be noted, however, that these foregone tariff revenues are essentially just transfers from government to consumers. In addition, the revenue is expected to be (possibly more than) offset by tax revenue gains from increased economic activity that would result from the partnership.

Estimated (static) economic gain from the JPEPA in terms of GDP growth is calculated at around P5.85 billion, in 2006 prices, using Cororaton's estimate of 0.09 percent GDP increase. The benefits, however, could be much higher, calculated at around P112.5 billion (at 1.7% GDP increase)⁴, as

³ The estimate is in the high range considering that there would be gradual removal of tariffs for a number of sectors. In addition, the calculation did not include possible cases of tariff exemptions, for example, for inputs into export production.

⁴ Kawasaki, K. 2003. Impact of FTAs in Asia. RIETI Discussion Paper Series 03-E-018, Research Institute of Economy, Trade, and Industry.

Japan and the Philippines are obligated to control transboundary movement of hazardous waste...the JPEPA includes provisions for cooperation in environmental concerns.

suming capital accumulation (and even much higher at 3.3% if productivity gains are included). Even a P9 billion revenue foregone (as estimated by the Ibon Foundation) is still not large compared to the estimated (static) gain above and definitely small compared to the higher estimates of the GDP impact.

6 *Have the two-and-a-half years of government consultations and negotiations regarding the JPEPA been enough?*

If you will include the preparation period, the entire process really took four and a half years and not just two and a half years. Below is a brief history of the evolution of the JPEPA:

- * January 2002 – Prime Minister Koizumi proposed the initiative for a Japan-ASEAN Comprehensive Economic Partnership
- * May 2002 – President Arroyo proposed to set up a Working Group
- * August 2002 – Informal Consultations
- * 2002-2003 – Working Group and Joint Committee Meetings
- * May 2003 – Creation of the Philippine Coordinating Committee, with the Department of Foreign Affairs Undersecretary for International Economic Relations and the Department of Trade and Industry Undersecretary for International Trade as Co-Chairs
- * November 2003 – Presentation of studies on the proposed economic partnership by the Philippine Institute for Development Studies
- * February 2004 to July 2005 – Formal negotiating sessions
- * July to October 2005 – Legal review
- * September 9, 2006 – Signing of the Agreement in Helsinki, Finland

Compared with the North American Free Trade Agreement (NAFTA), the JPEPA has fewer complex issues. Furthermore, the JPEPA represents what has been called today as “new age FTA.” New age FTAs have been developed in response to the pressures arising from the growing trend in regionalism along with the increasing globalization and technological progress. New age FTAs entail efforts that go beyond traditional FTAs’ liberalization of trade in goods and services. They include measures toward the smooth transborder flow of people, capital, and information along with areas like investment, competition, government procurement, trade facilitation, as well as cooperation in science and technology (S&T), human resource development (HRD), small and medium enterprises (SMEs), and the environment.

Moreover, two countries in the ASEAN (Singapore in 2002 and Malaysia in 2005) and Mexico (in 2004) already signed an economic partnership agreement with Japan way before the Philippines did. The negotiators were thus able to draw lessons from these countries’ experiences that helped them speed up the negotiation process.

Suffice it to say that JPEPA yielded a comprehensive agreement that included important provisions such as dispute settlement mechanisms. This, even by itself, makes the partnership valuable.

Another important feature of the JPEPA is that it has a provision for the creation of various subcommittees to refine its provisions, cooperation mechanisms, and other elements. This should provide a venue for further discussion and analysis of the various aspects of the Agreement, making it a truly dynamic partnership.

Forging a bilateral agreement with Japan is a very strategic move considering the emerging trend toward the integration of East Asian economies (ASEAN + China, Japan, and South Korea). 

PIDS, ANU team up in international conference



Foreign economists attended the first East Asian Bureau of Economic Research international conference in the Philippines last November. From right (standing): Dr. Peter Drysdale of the Crawford School of Economics and Government; From left (sitting): Dr. Malcolm Edey, Assistant Governor of the Reserve Bank of Australia; Dr. Philippa Dee of Australian National University; Dr. Shankaran Nambiar of Malaysian Institute of Economic Research; Prof. Jenny Corbett of Australian National University, Prof. Stephen Cheung of City University of Hong Kong; Mr. Vuthy Chan of the Private Sector and Competitiveness Economic Institute of Cambodia; Dr. Haryo Aswicahyono and Dr. Diony Ardiyanto of Centre for Strategic and International Studies Indonesia; and Dr. Jesus Felipe of Asian Development Bank.

The Philippine Institute for Development Studies (PIDS) and the East Asian Bureau of Economic Research (EABER) based at the Australian National University jointly sponsored an international conference on “Advancing East Asian Economic Integration: Microeconomic Foundations of Economic Performance in East Asia” at the Hotel Philippine Plaza, Manila on 23-24 November 2006. It was the first time the EABER conference was held in the country. About 37 high-level foreign economists from 13 countries came to the conference: some presented papers while others were session chairs and discussants. Among them were Dr. Peter Drysdale of the Crawford School of Economics and Government (Australia); Dr. Malcolm Edey, Assistant Governor of the Reserve Bank of Australia; Dr. Pang Eng Fong, Professor and Dean at the Singapore Management University; Dr. Masahiro Kuroda, President of the Economic and Social Research Institute (Japan); Mr. Hiroshi Watanabe, Vice-Minister of the Ministry of Finance, Japan; and Mr. Tae-

Kyun Kwon, Commissioner of the Ministry of Finance and Economy (South Korea). Leading the local participants were Dr. Josef Yap and Dr. Gilberto Llanto of the PIDS, Dr. Mario Lamberte, and Dr. Eduardo Gonzalez, among others. Asian Development Bank President Haruhiko Kuroda and Undersecretary Roberto Tan of the Department of Finance also addressed the conference.

The EABER is an organization that conducts economic research on issues facing the economies of East Asia. It has 16 member-institutions from Japan, China, South Korea, Vietnam, Cambodia, Laos, Thailand, Malaysia, the Philippines, Indonesia, and Australia. According to its website, the rationale for its creation is that “(T)he rapid development of the East Asian economies, the growth of intra-regional trade, financial and other economic interaction, and East Asia’s new role in the global economy all underline the need for access to a vastly increased range of quality economic analysis on East Asia.” It said further that “such analysis from

2nd PIDS Corner rises in Antipolo City

PIDS has a new partner in research dissemination—the University of Rizal System in Antipolo City (URSAC). On 14 December, the second PIDS Corner was launched at the URSAC campus with the active support of the local government of Antipolo City.

URSAC is one of 10 campuses of the University of Rizal System and the only state university in Antipolo City. It offers degree courses on business management, public administration, education, tourism, computer technology, food service, as well as postgraduate degrees.

The story of how URSAC was selected as site of the second PIDS Corner is worth mentioning. After all, it was the university itself, through its campus coordinator, Ms. Florence Amarille, who contacted PIDS to explore the possibility of donating publications for their library. It so happened that



PIDS President Dr. Josef T. Yap (third from left) gets a plaque of appreciation from the University of Rizal System for choosing its Antipolo campus as site of the second PIDS Corner. With him are Antipolo First Lady Josefina G. Gatlabayan (extreme right), URSAC Campus Director Dr. Rowena Laroza (extreme left), and University President Dr. Olivia F. de Leon (second from left).

PIDS at that time was considering possible sites for its succeeding PIDS Corners. Thus, upon the invitation of URSAC's campus director, Dr. Rowena Laroza, the PIDS staff headed by Research Information Director Jennifer P.T. Liguton visited the URSAC campus in October to discuss the proposed undertaking and determine the requirements needed. Since the aim of the PIDS Corners is to make the results and findings of PIDS studies more visible and accessible at the local and community levels, as well as to help expand the base of available development-oriented research materials in those areas, the priority sites are provincial libraries and university/college-based libraries outside of the major metropolises. URSAC's strategic location in Antipolo City and the ease by which students from other URS campuses and other schools in Rizal province could access the place was one of PIDS' primary considerations when it decided to put its second PIDS Corner at the URSAC campus. Although the main campus of the URS is located in Morong, the most accessible is still the Antipolo campus. PIDS also saw the commitment and enthusiasm of URSAC's key officials in building the research capacity of their faculty members and students.

The launching of the PIDS Corner at URSAC was held in conjunction with the unveiling of their concrete multipurpose stage, a donation of the City Government of Antipolo headed by Mayor Angelito C. Gatlabayan, and the launching of URSAC's newest campus development projects.

Present at the event were Antipolo First Lady Josefina G. Gatlabayan, PIDS President Josef T. Yap, URS President Olivia F. de Leon, URSAC Vice President for Research, Development and Extension Hermy D. Estrabo, Dr. Rowena Laroza, Ms. Florence Amarille, and Ms. Jennifer Liguton. Also in attendance from PIDS were Publications and Circulation Chief Sheila V. Siar, Public Affairs Chief Edwin Martin, PIDS Board Secretary Nitz Tolentino, Information Officer Gizelle Manuel, PIDS Librarian Tina Tabayoyong, and Research Analyst Fatima del Prado. **SVS**

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Editor's Notes...from page 1

discusses the economic gains from the JPEPA in a question-and-answer format—shows that we could lose more if we do not forge an economic partnership with Japan. Delaying it would mean substantial loss of economic opportunities for the Philippines. The market cannot and will not wait for us. Admittedly, the agreement is not perfect. Critics say the government could have done better when it negotiated with Japan. Perhaps they have forgotten that negotiating is about compromise. You give some to the other party, it gives some in return; you discuss the conditions until you reach an agreement. We cannot have it all. There is a quote that reads, "When you can't have what you want, it's time to start wanting what you have." Perhaps, it's about time to think that way. DRN

DEVELOPMENT RESEARCH NEWS

Vol. XXIV No. 6
November - December 2006
ISSN 0115 - 9097

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Reentered as second class mail at the Business Mail Service Office under Permit No. PS-570-04 NCR. Valid until December 31, 2006. Annual subscription rates are: P200.00 for local subscribers and US\$20.00 for foreign subscribers. All rates are inclusive of mailing and handling costs. Prices may change without prior notice.

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both inside and outside government is essential to assist policymakers in responding to, and anticipating, issues confronting the East Asian economy."

The two-day conference focused on important economic issues of practical relevance to macroeconomic policymakers. On the first day, a series of presentations and discussions on a set of issues relevant to microeconomic policymakers in East Asia were held while the second day was devoted to policy dialogues on regional cooperation of institutions for the regulation of markets and macro developments in the Philippines and Korea.

However serious the topics were and short the time was, the PIDS staff made sure that the foreign guests, most of whom were first-timers in the Philippines, got a taste of Filipino hospitality. On the night before the conference, the foreigners were treated to a brief jeepney ride going to dinner of native dishes at Gerry's Grill at the Mall of Asia. They enjoyed the ride, food, and interaction with some of the PIDS staff immensely. At the end of the conference, the PIDS also arranged for them to go on a historical tour of Intramuros and other prominent and historical sites in the vicinity of Makati and Manila. BFG

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