

**JAPAN-PHILIPPINE
ECONOMIC PARTNERSHIP
AGREEMENT**

**JOINT COORDINATING TEAM
REPORT**

December 2003

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I . Background

(1) During the visit of the Japanese Prime Minister H.E. Mr. Junichiro Koizumi to the Philippines and four other ASEAN countries in January 2002, he proposed the “Initiative for Japan-ASEAN Comprehensive Economic Partnership” to which President Gloria Macapagal-Arroyo gave her full support.

(2) Consequently, at the Japan-ASEAN Forum held in Yangon in April 2002, Vice-Ministerial level representatives of Japan and ASEAN discussed ways to follow-up the “Initiative for Japan-ASEAN Comprehensive Economic Partnership” and decided to explore economic partnerships in a bilateral framework, as well as to study possible areas and frameworks for partnership between Japan and the whole ASEAN.

(3) Thereafter, in the May 2002 visit of President Gloria Macapagal-Arroyo to Japan, the President proposed to Prime Minister Koizumi the setting up of a working group in order to study the possibility of establishing an economic partnership agreement between the Philippines and Japan.

(4) Subsequently, in June 2002, Trade and Industry Secretary Manuel Roxas wrote to Japanese Minister Takeo Hiranuma in order to put in place a mechanism by which bilateral discussions could commence between the Philippines and Japan on the possibility of forging a Japan-Philippines Economic Partnership Agreement (JPEPA).

(5) An initial informal consultation between the Parties was held in Tokyo in August 2002 to discuss the modalities for proceeding with the bilateral consultations, and decided on the establishment of the Working Group (WG) and its Terms of Reference (TOR). The WG on the JPEPA, a body composed of representatives from concerned government agencies of Japan and the Philippines, was formed in October 2002 to study the possible content, substance, and coverage of a mutually beneficial economic partnership between the two countries, including the possibility of forming a free trade agreement (FTA) The initial plan was to assess the feasibility of

adopting the model of the Japan-Singapore New Age Partnership Agreement (JSEPA), particularly to examine provisions that may have to be modified to suit the particular economic relationship between the Philippines and Japan.. The WG also examined the granting of concessions in the areas of trade in goods and services, investments, and movement of natural persons, ensuring that the respective sensitivities in different sectors will be properly addressed. It examined texts in most of the Chapters in JSEPA for reference on the JPEPA. The WG mentioned that all the areas to be included in the proposed JPEPA should bring about short- and long-term economic benefits to both countries.

(6)The WG on JPEPA has held five (5) meetings since October 2002—four (4) of which were held in Manila and one (1) in Tokyo. The 5th WG meeting held on 8-9 July 2003 indicated both countries' readiness to proceed to the next level of discussions

(7)The two leaders met in Tokyo in June 2003 during President Arroyo's visit to Japan and took note of the progress of the WG. They shared the view that the next stage should be an expanded participation from academic and private sectors on consultation regarding the JPEPA. Thus, also as agreed in the 4th Meeting of the WG in April 2003, the Philippines and Japan embarked on separate independent research studies to assess the sustainable impact of the JPEPA. The inaugural meeting of the Joint Coordinating Team (JCT) for JPEPA was held on 26-27 September 2003 and the 2nd JCT meeting on 13-14 November 2003, and exchange of views on various sectors including their sensitivities in both countries was made. Further action is to be discussed when the JCT presents a concise report on its work to the two Leaders.

II. Overview

(1) Regional economic integration has become a dominant feature of the world economic environment, particularly in the last decade. The European Union (EU) enlarged its members from 15 to 25, steadily expanding its free trade networks with Mediterranean, African and Middle Eastern countries. Members of the North American Free Trade Agreement (NAFTA) have been attempting to achieve a Free Trade Area of the Americas, incorporating 34 Latin American countries. Similar trends are evident in almost all over the world.

(2) Also in East Asia, such trend has recently come to surface. Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership was concluded and took effect on 30 November, last year. The ASEAN Free Trade Area (AFTA) should also become effective this year. China and ASEAN concluded a framework agreement towards the establishment of their free trade agreement. In line with the joint declaration of the leaders of Japan and ASEAN on the Comprehensive Economic Partnership in 2002 ASEAN and Japan signed the Framework for Comprehensive Economic Partnership at the ASEAN-Japan Summit last October.

(3) Along with these regional frameworks, Japan and the Philippines are making serious efforts to conclude Economic Partnership Agreement. After signing its first EPA with Singapore, Japan is now under the negotiation with Mexico, decided to start the negotiation with Republic of Korea within this year, and is discussing possibilities of EPA with Thailand, Malaysia, and Indonesia.

(4) Japan and the Philippines have already cultivated positive and amicable partnership as well as strong bilateral trade and investment linkage.

The bilateral trade had expanded significantly during the past decades. According to the Japanese Trade Statistics in 2002, trade between the Philippines and Japan totaled 1.87 trillion yen. For the Philippines, Japan has been the 2nd largest trade partner, and for Japan, the Philippines ranks the

14th largest trade partner. The Statistics shows that in 2002, 86 percent of export from the Philippines to Japan consists of industrial goods, while the remaining 14 percent being agricultural, forestry and fishery items. Almost all the exports from Japan to the Philippines are industrial goods, with agricultural, forestry and fishery items currently occupying only 0.31 percent of the entire export amount from Japan.

For the Philippines, Japan has been the largest investor. In 2002, according to BOI Philippines, investment from Japan to the Philippines amounts to 17,053.80 million pesos, namely 37.03% of the total foreign investment in the Philippines, while the inflow of investment from the Philippines to Japan is yet to be substantial compared to those from various major investors.

(5)The Economic Partnership between Japan and the Philippines also recognizes the significance of bilateral economic cooperation. Japan's Official Development Assistance (ODA) to the Philippines amounts to 41.76 billion yen in 2002 while the total amount of the assistance has reached 2.58 trillion yen since 1968. Through this ODA, Japanese Government has been sending hundreds of experts to and accepting trainees from the Philippines year by year in variety of fields such as agriculture, health, environment, education, ICT and so on.

Also in private sector, Japanese Chamber of Commerce and Industry, for instance, has been active in sending missions and exchanging views on trade and industry in the Philippines, while JA-Zenchu has been also providing training opportunities for hundreds of agricultural cooperative leaders of the Philippines since 1963.

The JPEPA is aiming to further enhance and deepen the cooperation in wide range of areas concerned, so as to develop not only a simple FTA but more comprehensive economic partnership relations for the better future between the two countries.

III. Economic Impact Analysis

(1)The Philippine side formed an independent research committee and conducted the study on the economic impact of JPEPA. The study concluded that JPEPA would provide positive impact both on the Philippine economy and on poverty reduction on the whole, while the impact is differential among sectors. The study pointed the need for adjustment measures to maximize benefits of JPEPA, including mutual recognition, the promotion of movement of natural persons between the two countries and various cooperation programs. The Japanese side provided studies of macroeconomic impact of JPEPA.

(2)According to Kawasaki's study (* 1) , JPEPA would increase Japan's GDP by 0.01~0.03% and the Philippines' GDP by 1.73~3.03% in the long run. Urata and Kiyota conducted another analysis (* 2) and estimated the economic impact of JPEPA on the respective growth rates. They concluded that JPEPA would accelerate Philippines' GDP growth rate by 0.04% annually and would provide positive but minimal impact on Japan's growth rate.

(* 1) Kawasaki.K (2003), "The Impact of Free Trade Agreements in Asia," RIETI Discussion Paper Series03-E-018, Research Institute of Economy Trade and Industry

(* 2) S. Urata and K. Kiyota (2003) "Prospective Economic Impacts of Japan-Philippines Bilateral FTA," submitted to the Joint Session on the Economic Impact Analysis of JPEPA, Ministry of Economy, Trade and Industry and the Philippine Institute for Development Studies

IV. Summary of Discussions

The following is a summary of the discussions during the five WG meetings and two JCT meetings. One of the significant results of the JCT was, among others, the recognition by the JCT of sensitivities of agriculture and fishery sectors of both countries through participations and presentations of private sectors representatives as members of JCT.

1. Trade in Goods

- a. The WG/JCT stressed that tariff reduction and elimination is important for strengthening Japan-Philippines economic partnership and that it is an important component of the JPEPA, including an element of a possible free trade agreement, to be fully consistent with Article XXIV of the General Agreement on Tariffs and Trade. The WG/JCT reaffirmed that the two countries are important trade partners with each other.
- b. The WG/JCT exchanged bilateral trade statistics and observed the complementary nature of the Philippines' and Japan's economies. While recognizing that improving market access should be a part of the JPEPA, the WG/JCT considered the need to address the sensitivities of both countries in certain traded items in future negotiations.
- c. The Japanese side referred to the difficulty of tariff elimination in the agriculture and fishery sectors in the light of multi-functionality of these sectors. The Japanese side emphasized that there still are many sensitive agricultural and fishery products other than those might be recognized by the Philippine side. As the example, the representative of Japan explained the situation and sensitivities, such as banana and pineapple which dominate the Japanese imports of agricultural products from the Philippines. The Philippine side requested the further explanation about these items.

The representative of the agricultural and fishery sectors of Japan reiterated that the EPA should not focus only on tariff elimination and raised the following points:

- i. The JPEPA should benefit both countries' agriculture and fishery sectors.
- ii. It should take into account the sensitivity and multi-functionality of the sector. They mentioned that especially in Asian monsoon economies, it is perceived that trade liberalization results in imbalances – devastates agricultural farms, reduces exports and increases imports. Farmers also would not be able to take advantages of trade liberalization because the sector in this area consists mainly of small scale farmers and is still not competitive in the international market. Hence it is necessary and important to consider food security and multi-functionality of agriculture because it could not be easily recovered once it were collapsed while paying continuous efforts for structural reforms in the sector are being addressed.
- iii. In addition to its request to exempt fish from tariff elimination, its fishery sector representative stated that the JPEPA should have regard to resource management and conservation in support of several initiatives of international bodies like the International Commission for the Conservation of Atlantic Tunas (ICCAT), which is responsible for the conservation of tunas and tuna-like species in the Atlantic Ocean and adjacent seas.
- iv. The JPEPA should be comprehensive and take balance between tariff reduction and cooperation in the agriculture and fishery sectors of both sides, based on the principles of mutual benefits and co-existence.

- d. Japanese side also mentioned that leather, leather products and footwear are highly sensitive items for Japan.
- e. Safeguard measures are by and large classified as a multilateral safeguard measure under the WTO applied indiscriminately to all countries according to the rules of WTO Agreement and a bilateral safeguard under the FTA measure applied only between FTA countries. WG/JCT examined whether it would be necessary to incorporate a bilateral safeguard mechanism in the JPEPA to respond to increased imports from the other party to the extent of causing serious injury to the domestic industry.
- f. Japanese side noted that the bilateral safeguard measure would allow suspension of further reduction of customs duties or allow the raising of customs duties to not more than the MFN applied rate.
- g. On emergency measures, the Philippine side cited that the country seeks flexibility from Japan to accept other kinds of re-balancing instruments if and when emergency measures are invoked.
- h. The Philippines proposed that bilateral safeguard should be allowed even beyond the transition period and the duration of investigation should be sufficient as the situation requires. The Japanese side responded that investigations should be completed within a relatively short period, i.e. less than one year and that the concrete scheme of bilateral safeguard should be considered in the future negotiation.

2. Rules of Origin

- a. Rules of Origin (ROO) are criteria to be decided between the two sides applied to determine what the country of origin of a certain product should be. The JCT concurred that the ROO in the JPEPA

should allow goods of Japanese and Philippine origin to benefit from the tariff liberalization of the JPEPA. The JCT also viewed that JPEPA ROO should pay due attention to cumulative rules of origin among ASEAN countries and Japan, to be discussed in the future.

- b. The JCT identified three major rules, i.e., wholly obtained rules, change in tariff classification (CTC) rules, and value-added rules. The JCT concurred that CTC is a clear, transparent and predictable rule to use in conferring origin to a certain good. The JCT also viewed that both countries would basically adopt the CTC with the possible adoption, if appropriate, of other rules such as the value-added rule while wholly obtained rules could be more appropriately used mainly on [unprocessed](#) agricultural products. Product specific rules of origin should be considered and determined in the future.
- c. Under CTC rules, a certain product which falls under a HS classification different from the HS classification applicable to any of the materials used is considered to be an originating good because the change in tariff classification represents that the used materials have undergone sufficient manufacturing or processing. Both sides viewed that appropriate digits should be considered and determined in the future.
- d. The value-added rule allows the applicability of JPEPA trade liberalization benefits, by determining its country of origin through reference to the value-added to goods in its manufacturing or processing undergone in the country. Both sides viewed that appropriate percentage of the value-added requirements should be considered and determined in the future.
- e. The JCT confirmed important guidelines in deciding the ROO for the JPEPA as follows:
 - i. not creating unnecessary hindrances to trade;

- ii. developed and applied in impartiality, neutrality and consistency, and with due transparency, clarity and predictability; and
- iii. simple for customs authority to implement and easy for traders to understand.

3. Customs Procedures

- a. The JCT took note of remarkable progress towards more swift and simple customs procedures through the introduction of electronic systems in both countries, especially in Japan. In Japan, the Nippon Automated Cargo Clearance System (NACCS), which currently handles over 90 percent of import/export declaration, has been in operation since 1978, and single window system, in which traders can complete import/export procedures and port-related procedures with a single data input and a single transmission, has been introduced since July 2003.
- b. In order to promote trade facilitation while enhancing appropriate border controls, the customs administrations of both countries have implemented a risk management system which categorises cargoes into high-risk and low-risk ones and thereby allocates customs resources to controlling high risk ones. The JCT shared the view that co-operation between Japan and the Philippines in the areas of exchange of information and harmonisation of customs procedures to international standards etc., would enhance trade facilitation between the two countries.
- c. The JCT found that continuous co-operation between the two customs authorities and information exchange of the latest development in customs procedures in both countries would help to address concerns of businesses such as transparent and consistent interpretation and application of customs rules and regulations.

4. Paperless Trading

- a. Despite the advent of information and communication technology, cross-border trade is still paper-based, relying heavily on postal and courier services for the transfer of trade related documentation. The JCT recognized that electronic transfer of trade documents reduces both the apprehension of losing paper documents and business transaction costs, thereby increasing safety and efficacy of trade. In this regard, the JCT noted considerable advantages to be gained through an agreed formula in the JPEPA.
- b. Both sides discussed current efforts of both countries to develop paperless trading system. The Japanese side explained the development of paperless trading system such as the Trade Electronic Data Interchange (TEDI) system and the process of putting it into practical use among private companies in Japan. The Philippine side showed great interest in enhancing its own capabilities for paperless trading and recognized the imperative need for this. It requested for meaningful cooperation programs to be able to equip both sides to fully maximize the use of paperless trading and eventually link the systems of the two countries.

5. Mutual Recognition and Standards and Conformity Assessment

- a. The issue of Mutual Recognition and Standards and Conformity Assessment was one of the most lengthily discussed. Both sides shared the view that the inclusion of mutual recognition in the JPEPA is important to enhance the overall level of competitiveness of both countries, to facilitate trade and reduce trade barriers.

- b. Part of the difficulty rests on the differences in regulatory systems and procedures of both countries. For example, in electrical products, Japan has the Electrical Appliance and Material Safety Law; the Philippines has Republic Act No. 4109.
- c. Experts of both countries discussed the possibility of mutual recognition of mandatory certification in the field of electrical products. They shared the view to utilize, or if necessary to establish, a scheme whereby each country would accept the results of conformity assessment procedures conducted by certification bodies it designates in the other countries. The experts shared the view to continue discussion on this matter.

6. Trade in Services

- a. The JCT shared the understanding that Trade in Services should be included in the JPEPA.
- b. The JCT highlighted the following:
 - i. The Japanese side proposed that the legal framework should be consistent with Article V of the General Agreement on Trade in Services (GATS). In this regard, the Japanese side encouraged the Philippines to make more commitments under the JPEPA. Japan noted that the Philippines made 43 commitments under the GATS; while Japan made 102 commitments.
 - ii. The Philippines expressed recognition of the GATS provision. Furthermore, it requested flexibility as a developing country, which is allowed under the GATS.

- iii. As regards the wish list of Japan, the Philippines side pointed out that it was basically the same as the request list submitted under the on going negotiations on trade in services in the WTO. Responding to the Philippines' request for prioritization of Japan's wish list, the Japanese side will expedite the consultations among related ministries and organizations in order to present its priorities. For its part, the Philippines submitted its [preliminary wish list at the 2nd JCT](#).
- iv. Japan showed its interest in the elimination of foreign equity limitation by the Philippines. The Philippines reiterated its position that such elimination might require amendments to the Constitution [or specific laws](#).
- v. The Philippines proposed the inclusion of air traffic rights in the JPEPA, and stated that this is in consideration of the significant role that air service play in the expected increase in the rate of movement of goods and services between the two countries as a result of the JPEPA and that the inclusion would complement and not supplant existing agreement. The Japanese side opposed this proposal and stated that traffic rights should be excluded from the JPEPA, on the ground that they have been and should be handled within the framework of existing bilateral air transport agreements, in accordance with the international regulatory regimes based on the Chicago Conventions.

7. Investments

- a. In the JCT, both sides shared a view that Investment should be one of the essential parts of the JPEPA, realising high-level investment rules that stipulate elements for protection, promotion and liberalisation of investment.

- b. In this context, both sides expressed their intention to maximize efforts to achieve high-level investment rules covering, inter-alia, the following:
 - i. National Treatment and MFN treatment in both pre-establishment and post-establishment phases
 - ii. Extensive prohibitions on performance requirements
 - iii. Negative list approach for the reservation lists
 - iv. Transparency
 - v. Expropriation and Compensation
 - vi. Transfers
 - vii. Dispute Settlement
- c. The Philippines insisted that there should be relevant consideration on the current status of the Philippine economy. Also the Philippines requested that the right to request information regarding investment should be given to the Governments of both countries solely for statistical purposes.
- d. To give the Philippines an edge over other potential investment destinations among neighboring countries in the region, participants from the Japanese business sector emphasized the importance of enhancing transparency of rules and regulations as well as strengthening investment protection and liberalisation in the Philippines.
- e. Both sides had different views on some elements, such as certain provisions on the prohibition of performance requirements, condition for MFN treatment among others. They shared the view to continue to discuss these issues in the future.

8. Movement of Natural Persons

- a. The JCT shared a common understanding that the Movement of Natural Persons is one of the most important issues of the JPEPA.
- b. The Philippine side expressed its keen interest in opening the Japanese labor market to Filipino workers, especially in the field of healthcare services, because additional health care workers may be required as a result of Japanese population's age profile and in the field of information technology IT professionals and engineers will be needed in Japan for Japanese companies.
- c. The Japanese side responded that capability of communication in Japanese language as well as medical knowledge and skills is essential for health care professionals in Japan, and therefore obtaining national qualification of Japan is a minimum requirement for not only Japanese but also foreigners to work in Japan as health care professionals.

The Japanese side also stressed that the influence on domestic labor market should be duly considered regarding health care professionals.
- d. The Philippine side provided the Japanese side, upon its request, with the following data: copy of agreements with other countries on recruitment of nurses and **other workers**, data on deployed nurses and caregivers overseas, procedures and guidelines in the deployment of workers overseas, and training regulations for caregivers. The Philippine side also provided the Japanese side with the curriculum for nursing education in the Philippines and a comparison of nursing education and training between the two countries.
- e. On the other hand, the Philippines requested for information on human resource needs of Japanese economy; the Japanese side responded that under severe employment circumstances, it is difficult to identify needs for foreign workers in specific areas, and

explained the Japanese government policy that it actively accepts foreign workers in professional or technical fields.

- f. The Philippine side explored possible areas of cooperation in:
 - i. Expanding the present coverage of the JITCO arrangement to cover auxiliary health/medical services
 - ii. Technical assistance to improve the JITSE passing rate
 - iii. Exploring all possibilities of technical exchange
- g. The Philippine side requested the Japanese side to facilitate Philippine nationals' application for Japanese visas. The Japanese side responded that it would take note of it, while keeping attention to the need to prevent the inflow of illegal immigrants and over-stayers.
- h. The Philippine side expressed concerns on the difficulty of obtaining working visa for Filipino service suppliers to work in Japan. Current Japanese legislation allows foreign skilled labor in limited fields. The Philippines side requested for these conditions to be relaxed.
- i. The JCT realized that the process of discussing the JPEPA helped to provide a friendly and cooperative environment for considering the facilitation of work permit and visa issuances. Both sides will continue to address these issues in the future.

9. Intellectual Property Rights

- a. The JCT recognized the growing importance of Intellectual Property Rights (IP) as a factor in enhancing economic competitiveness in a knowledge-based economy, and of IP protection in this new environment. Therefore, Japan and the Philippines will pursue to achieve the improvement of their IP system.

- b. Both sides will consider, from the viewpoint of increasing the level of protection of IP, the significance of the following international agreements on the protection of IP, especially Strasbourg Agreement Concerning the International Patent Classification, Protocol relating to the Madrid Agreement Concerning the International Registration of Marks, Trade Mark Law Treaty, and Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks.
- c. The JCT recognized the concerns of their IP system users and, having in view the IP system of both sides, considered the need to:
 - i. Reduce undue burden on the IP system users;
 - ii. Take appropriate measures to accelerate examination; and
 - iii. Have public access to IP related documents such as laws, regulations, gazettes, judicial or administrative decisions, and statistics made available by concerned agencies, in whatever form.
- d. The JCT exchanged views and opinions on the lists of requests from both sides for the purpose of sharing the same understanding on the issues in the field of IP between both sides.
- e. The Japanese side noted with appreciation Philippines' continuing efforts and progress made in its enforcement of IP laws and regulations in accordance with its international obligations. The Japanese side expressed its hope for further progress in this field.
- f. The Japanese side also expressed its appreciation on Philippines' ongoing efforts to create IP related guidelines, such as Trademark Examination Guidelines. The Japanese side again expressed its hope for further progress in this field.
- g. The Philippines side informed Japan that it is considering accession to the UPOV Convention. On the areas for cooperation, the Japanese

side suggested inclusion of plant breeders' rights. The Philippines side suggested that farmers' rights be included in order to balance plant breeders' rights and farmers' rights, and emphasized that it is important to consider the Philippines Plant Variety Protection Act which gives protection to small farmers. The Japanese side emphasized that farmers' rights should be consistent with the UPOV convention.

10. Government Procurement

- a. The JCT discussed several issues on government procurement for the purpose of finding out an appropriate framework of government procurement between JPEPA.
- b. The Philippine side presented a preliminary proposal to the Japanese side on Government Procurement which included exchange of information and technical cooperation from Japan to the Philippines for capacity-building.
- c. In response, the Japanese side has provided the Philippine side with a concept paper, which has contained various elements of the WTO Agreement on Government Procurement, for an ideal framework between Japan and the Philippines to create transparency, value for money and fair dealing,.
- d. Preliminary comments have been provided by the Philippine side on the concept paper, especially concerning the relationship between certain portions of the concept paper and corresponding provisions of the laws and regulations of the Philippines. Both sides shared the importance of conducting dialogue with a view to harmonizing the framework with domestic regime of both countries.

11.Competition

- a. The JCT recognized the different levels of development of each country's competition law and policy. The Philippines proposed that the possible contents of this area reflected on this difference and that other FTA agreements should not be used as models.
- b. For the Philippine side, there are major reform challenges in instituting and implementing laws related to competition. At present, the country is working towards (1) providing a better understanding of the positive implications of competition policy, (2) galvanizing political support to competition policy legislations, (3) enhancing technical and legal expertise, (4) forging agreement for a common approach and a central competition authority, and (5) accumulating experience and knowledge in competition policy issues among members of the judiciary.
- c. The Philippines actually has pieces of competition policy found in different laws and regulations. However, even if these can conceptually be identified; if they remain uncompiled into a single law, it will continue to be difficult to administer and enforce them.
- d. The Japanese side proposed to state the premise on Competition Policy to help ensure (realize) that the benefits accruing to the two countries from the "liberalization of trade and investment" under the JPEPA would not be undermined by anti-competitive activities. The Philippines side expressed strong reservations in referring to "liberalization of trade and investments."
- e. The Japanese side expressed willingness to assist the Philippines in preparing for the formulation and implementation of competition policy; and to help advocating and educational campaign.

- f. The JCT recognized the need to continue exchanging views on situation of competition policy, and approaches how to accommodate the interest and concerns of both sides.

12. Financial Services Co-operation

- a. The JCT recognized that cooperation on Financial Services might possibly be at two levels: between the Philippines and Japan; and, at a Regional level.
- b. The Philippines' Bangko Sentral ng Pilipinas (BSP) reiterated its proposal to limit the provisions of financial services cooperation to bilateral concerns/issues between the two countries. The BSP also emphasized the need to maintain confidentiality of certain information. It also proposed to highlight the need to maintain the soundness and stability of the banking system in the course of promoting financial market innovations.
- c. The Japanese side responded that the JPEPA will eventually impact on the whole Asian region and urges the Philippines to reconsider its position.
- d. On the BSP proposal to highlight the need to maintain the soundness and stability of the banking system in the course of promoting financial market innovations, the Japanese side indicated that the proposal could be generally acceptable.
- e. The JCT decided to continue discussions and to explore areas for technical assistance and cooperation.

13. Information and Communication Technology (ICT)

- a. The development of information and communication technology has transformed the structure of economic activities, and provided new modes of business operations and venues for cooperation between the two countries, which would contribute to further capitalization of the emerging opportunities.
- b. After these discussions, the JCT recognized the necessity of engaging in cooperation and collaboration on ICT in the framework of the JPEPA, with a view to strengthening the competitiveness of the two countries. Specific areas of cooperation will be defined through further bilateral consultations.
- c. Upon such an understanding, the JCT discussed and explored concrete future cooperation in such areas as promoting circulation of digital content over broadband platform; developing a broadband network in Asia, and promoting electronic commerce, in particular the development of legal and policy framework.. The participants of JCT also exchanged views on the need for technical cooperation in the broad area of ICT.

14. Energy

- a. Both sides recognized the role of Energy in economic, social and environmental development.
- b. The JCT observed the need to continue and enhance the existing cooperation in the field of energy, covering: trade and investments on energy infrastructure, capacity building and technology transfer, exchange of experts, policy dialogues, promotion of private sector cooperation, and cooperation in international energy fora.
- c. The JCT would continue to implement existing cooperation activities and explore new initiatives and collaborative efforts that would be mutually beneficial to both countries.

15.Science and Technology

- a. Both sides shared the view that science and technology would assume greater importance in the expansion of the economy, in the medium- to long-term. Scientific and technological innovation has become one of the prime determinants of competitive advantage in knowledge-based economies. Japan has been effectively developing such technologies and successfully making use of them for its prosperity.
- b. The Philippines is also determined to make full use of the benefits to be reaped from the development of science and technology for the prosperity and welfare of the country. It has sought to expand its potential in these efforts to become a center and a locomotive in this region for the promotion of science and technological development appropriate for its specific developmental situation.

16.Human Resources Development

- a. Human Resource Development is considered as a vital and key factor for developing economies to achieve rapid and sustainable growth. The Philippines has been intensifying its efforts to develop its less developed regions through the strengthening of human resource development.
- b. It is human capital that can mainly provide the key competitive advantage in knowledge-based economies. Primary importance lies in educating children and in training and re-training adults to equip them with knowledge and skills necessary to adapt themselves in such emerging economic necessities. Nurturing creativity in them should not only help the two economies gain

competitive edge, but should also enrich the societies of the two countries.

- c. The Human Resource Development Experts' Group recognized the high importance of enhancing Japanese language training in the Philippines. Unless people are able to converse in a language where both will be comfortable in, it will be difficult to engage in economic cooperation. In recognition of this important requirement for enhancing economic cooperation, significant effort is necessary by way of providing Japanese language training and familiarization to Filipinos. A project proposal is already being developed by the Philippines for possible technical assistance from Japan.
- d. Cooperation in Human Resource Development should also include exchange of persons and cooperation among academic and research institutions. Regarding the exchange of persons, the Japanese side elaborated its government's on-going Plan to Accept 100,000 Foreign Students in Japan and under this Plan approximately 480 Philippine students studied in Japan, and Philippine also accepted 12 Japanese students under Japanese government financial support in 2002.
- e. The Philippine side also expressed interest in training and internship opportunities including apprenticeship and on-the-job training in private companies in Japan.

17. Trade and Investment Promotion

- a. The JCT recognized that conscious steps to promote trade and investment should be included in the framework of bilateral economic partnership building. Numerous measures have already been undertaken between the two countries, including organizing trade fairs, trade and investment missions, seminars and

dispatching experts, as well as giving advance notice of the newly enacted laws and regulations.

- b. The Philippine side specifically acknowledged the recent setting-up by the Japanese government of a “Japan Business Support Center” which is aimed to assist prospective Japanese companies that want to establish businesses in the Philippines.
- c. The JCT recognized that elaboration considering the uniqueness of the Japanese market is required; at the same time, a mechanism on joint trade and investment promotion should be included.
- d. Japan proposed the establishment of a new mechanism or a monitoring committee that would lead to the resolution of problems in the business environment. The following problems were presented by Japan: relatively poor infrastructure, labor disputes, social order, environment, and delayed VAT refund.
- e. The Philippine side welcomed Japan’s proposal.

18. Small and Medium Enterprises

- a. Small and Medium Enterprises (SMEs) have played a pivotal role in economies. In Japan, SMEs account for 99.7% of all firms; employ 70% of the labor force; and contribute more than 42% of value added in the manufacturing sector. In the Philippines, SMEs also play an integral role in the economy. They account for 99.6% of all registered firms; employ 70% of the labor force; and contribute 32% to the economy.
- b. Compared with big industries, however, SMEs have fragile access to their markets, technology, and human and financial resources. These weaknesses were highlighted during the Asian Financial Crisis.

- c. In this light, the JCT realized that the areas for cooperation on SME development appear vast and that joint efforts of the two countries to nurture such co-operation for partnerships and linkages are of extreme relevance in the framework of the JPEPA.
- d. The Philippine side, in recognition of Japan's progressive SME sector, requested for assistance in the following:
 - i. Capacity building of entrepreneurs and institutions through apprenticeships, visiting programs, dispatch of experts, provision of equipment and assistance in technology acquisition
 - ii. Development of IT-technological services and IT-enabled services for SMEs; including SME database management, SME registry and credit scoring.
 - iii. Facilitation of investments of Japanese firms in Philippine SMEs and vice-versa, with a view to establishing business partnerships and alliances
 - iv. Strengthening or development of specialized financing and non-financing institutions for SMEs.
- e. The Japanese side stressed that it would be important for both parties including affiliated bodies to make continuous efforts for mutual benefits. The Japanese side also expressed willingness to further exchange views towards making existing efforts more effective.

19. Broadcasting

Both sides shared the view that they would further discuss cooperation on Broadcasting in the next meeting. [The Philippines requested for information on programming and content application.](#)

20. Tourism

- a. The Philippine and Japanese sides stressed the importance of tourism in propelling the growth of each economy. Both sides also espoused the need to increase inbound traffic and travel movement to generate more jobs and livelihood as well as foreign exchange and investments.
- b. Japan is a major (tourism) source market for the Philippines. In the last five years, visitors from Japan accounted for 18% to 20% of the total inbound traffic. However, there is a need for the Philippine side to increase the capability of Philippine tourism frontlines to understand the Japanese culture and speak the Japanese language; thus, providing for the needs of the Japanese market.
- c. The number of inbound tourists from the Philippines to Japan is approximately 130 thousand, which is ranked the 9th in the Japan's inbound tourism market, while that from Japan to the Philippines is approximately 340 thousand, which is ranked the 2nd in the Philippines's inbound tourism market. In order to correct this disparity of number of tourists, promotion of two-way tourism transaction is urgently necessitated. Therefore, the Japanese side expressed its eagerness to promote inbound tourism to Japan, thus seeking mutual cooperation in tourism promotion campaign in each country.

Both sides exchanged views on the proposed areas of cooperation such as joint marketing and promotion, exchange of experts, capacity building (including Japanese Language Program) and

investment. JCT noted possibilities that cooperation along the said fields might utilize existing mechanisms such as the JICA, ASEAN Japan center, and JETRO.

Both sides also exchanged views on various issues affecting tourism, namely: transport and visa relaxation (for Filipinos visiting Japan).

21. Dispute Avoidance and Settlement

- a. The divergence of views might be raised concerning the interpretation and application of the JPEPA. The JCT considered it appropriate in future application for the two sides to initiate efforts to narrow the divergences before they become disputes.
- b. As distinct from the WTO's dispute settlement mechanism, the JCT realized that the JPEPA should equip itself with both a consultation mechanism and, in case where consultations could not settle the differences of views, a dispute settlement system. The two-layered approach should help the two sides to make the utmost to provide an early detection and orderly resolution of disputes, and would contribute to the amicable management of the JPEPA.

22. Improvement on Business Environment

- a. The elements of Improvement on Environment Enhancement are being considered, upon proposal of the Japanese side.
- b. The proposal is based on the recognition that to facilitate and expand business activities in both the Philippines and Japan, various problems could be raised in the future. These problems are not necessarily covered by legal commitments stipulated in a

bilateral economic partnership agreement. Taking into account the benefits for the business sector of both sides, it should be worth addressing the issues under the framework of the JPEPA.

- c. The Japanese side signified the items for its consideration, based on the requests of Japanese business sectors. These include the following issues:
 - i. Securing transparent and stable systems and application of regulations;
 - ii. Simplification of procedures for business activities; and,
 - iii. Creation of an appealing business structure.
- d. In order to tackle these issues, the Japanese side also proposed to include the elements of Business Environment Enhancement in the JPEPA. The Philippine side responded by proposing the possible establishment of a council that would function as a kind of “first aid window” and discuss solutions to various problems that both sides’ business sectors are confronted with.
- e. The Japanese side indicated that such a council should include inter-agency members and requested that the Philippine side be chaired by the Department of Trade and Industry.
- f. The Philippine side appreciated the Japanese proposal and stressed that it has always been the Philippine government’s policy to improve the business environment. Thus, while it welcomes the Japanese proposal, care should be exerted so that it does not duplicate current efforts on improving the business environment. However, considering the importance of the JPEPA to both Japan and the Philippines, such a structure is well worth considering.

-End

Major Export Items(Top 50) to the Philippines(CY 2002)

(unit:1000YEN)

HS	Item	Tariff rate <Philippines>	Export	Share (total export)	Share (total trade)
847330000	Parts and accessories of automatic data processing machines	Free	110,603,489	11.3%	6.2%
854221390	IC, Monolithic integrated circuits (digital, MOS technology, other)	Free	49,409,437	5.0%	2.8%
854290000	Parts of electronic integrated circuits and microassemblies	Free	44,164,790	4.5%	2.5%
854229100	IC, Monolithic integrated circuits (other, uncased)	Free	39,213,252	4.0%	2.2%
853400000	Printed circuits	Free	28,316,087	2.9%	1.6%
852320900	Prepared unrecorded magnetic discs	Free or 7%	19,802,057	2.0%	1.1%
847989900	Other machines and mechanical appliances	Free or 1%	15,638,401	1.6%	0.9%
854229900	IC, Monolithic integrated circuits (other)	Free	14,088,909	1.4%	0.8%
870899900	Parts and accessories of the motor vehicles (other)	3 or 10%	13,508,186	1.4%	0.8%
854221310	MPU(Microprocessor unit), cased	Free	12,995,590	1.3%	0.7%
852990900	Other parts (for television, telephone, etc.)	Free or 1%	10,826,662	1.1%	0.6%
690919000	Ceramic wares for laboratory (chemical or other technical uses)	1%	10,373,547	1.1%	0.6%
870333100	Motor cars and other motor vehicles for the transport of persons (exceeding 2,500 cc, unassembled or disassembled)	30%	9,425,649	1.0%	0.5%
847170500	Optical disc units	Free	8,290,734	0.8%	0.5%
900691900	Parts and accessories for cameras, excluding tripods	3%	7,898,678	0.8%	0.4%
853690210	Connector	Free	7,514,624	0.8%	0.4%
901380000	Other liquid crystal devices, optical appliances	3%	7,244,365	0.7%	0.4%
853890900	Parts suitable for the apparatus of electrical circuits apparatus(other)	Free or 1%	7,208,251	0.7%	0.4%
721012900	Flat-rolled products of iron or non-alloy steel, (a width of 600 mm or more)	Free	7,152,329	0.7%	0.4%
853690290	Apparatus formaking connections electrical circuits(for a voltage not exceeding 1,000 volts)	Free or 1%	6,836,657	0.7%	0.4%
850780200	Lithium-ion accumulators	5%	6,759,521	0.7%	0.4%
854140910	Light emitting diodes	Free	6,647,187	0.7%	0.4%
850511000	Permanent magnets of metal	1%	6,532,423	0.7%	0.4%
850300000	Parts suitable for electric motors and generators	1%	6,252,029	0.6%	0.4%
853290000	Parts of capacitors	Free	6,156,639	0.6%	0.3%
847990000	Parts for machines and mechanical appliances (having individual functions)	Free or 1%	6,052,711	0.6%	0.3%
871120100	Motorcycles and cycles fitted with an auxiliary motor, with engines of a cylinder capacity	30%	5,560,905	0.6%	0.3%
900190000	Other optical elements	3%	5,410,265	0.6%	0.3%
903180190	Other measuring or checking instruments, appliances and machines	3%	5,354,094	0.5%	0.3%
854720000	Insulating fittings of plastics, for electrical machines, appliances or equipment	7%	5,173,378	0.5%	0.3%
901390000	Parts and accessories of other optical appliances and instruments	3%	5,114,935	0.5%	0.3%
854221190	IC, Monolithic integrated circuits (digital, MOS technology, uncased, other)	Free	5,012,886	0.5%	0.3%
854221320	IC, Monolithic integrated circuits (MCU(Microcontroller unit))	Free	5,004,724	0.5%	0.3%
840991100	Parts suitable for engines of vehicles (spark-ignition internal combustion piston engines)	1%	4,975,959	0.5%	0.3%
870829000	Parts and accessories of the motor vehicles (bodies)	3 or 10%	4,973,863	0.5%	0.3%
840820000	Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)	3 or 10%	4,973,619	0.5%	0.3%
853224000	Ceramic dielectric, multilayer	Free	4,631,292	0.5%	0.3%
382490000	Other chemical products, preparations and residual products of the chemical or allied industries	3%	4,524,373	0.5%	0.3%
392690000	Other articles of plastics	1 or 3 or 5 or 15%	4,308,259	0.4%	0.2%
290321000	Vinyl chloride (chloroethylene)	Free	4,203,831	0.4%	0.2%
840734900	Spark-ignition reciprocating(cylinder capacity exceeding 1000cc, other)	3 or 10%	4,178,854	0.4%	0.2%
854221410	Monolithic integrated circuits, digital, metal oxide semiconductors	Free	4,153,970	0.4%	0.2%
854221230	ROM(Read only memory), cased	Free	4,083,803	0.4%	0.2%
852290900	Parts and accessories suitable for the apparatus of recording or reproducing apparatus(other)	Free or 3 or 7%	3,907,600	0.4%	0.2%
870323100	Motor cars, of a cylinder capacity exceeding 1500cc but not exceeding 3000cc, unassembled	30%	3,875,224	0.4%	0.2%
848071000	Moulds for rubber or plastics (injection or compression types)	Free or 1%	3,813,965	0.4%	0.2%
841199000	Parts of gas turbines, other than those of turbo-jets or turbo-propellers	3%	3,764,202	0.4%	0.2%
870840000	Gear boxes	3 or 10%	3,649,945	0.4%	0.2%
854140990	Photosensitive semiconductor devices and light emitting diodes(other)	Free	3,634,312	0.4%	0.2%
390730000	Epoxide resin	3 or 7%	3,567,620	0.4%	0.2%
	Total export (excluding HS00)		981,044,750	100.0%	55.3%

Major Import Items(Top 50 items) from the Philippines in CY 2002

(unit:1000YEN)

HS	Item	Preferential tariff rate	Applied tariff rate	WTO concessional tariff rate	Import	Share (total import)	Share (total trade)
847170030	Magnetic disc units		Free	Free	82,517,714	10.4%	4.7%
854221031	Cased MPU (Microprocessor unit) of MOS type, monolithic digital		Free	Free	76,297,373	9.6%	4.3%
080300100	Fresh bananas	10% (Apr.1 ~ Sep.30) or 20% (Oct.1 ~ Mar.31)	20% (Apr.1 ~ Sep.30) or 25% (Oct.1 ~ Mar.31)	20% (Apr.1 ~ Sep.30) or 25% (Oct.1 ~ Mar.31)	51,370,845	6.5%	2.9%
847330010	Parts and accessories for automatic data processing machines		Free	Free	47,863,870	6.0%	2.7%
854430010	Wiring sets for motor vehicles		Free	Free	31,973,438	4.0%	1.8%
854229090	Cased other monolithic integrated circuits		Free	Free	30,858,765	3.9%	1.7%
847130000	Portable digital automatic data processing machines		Free	Free	26,640,745	3.4%	1.5%
854221033	Cased MPR (Microperiferal) of MOS type, monolithic digital		Free	Free	16,929,449	2.1%	1.0%
847160091	Printing units		Free	Free	16,560,302	2.1%	0.9%
260112000	Agglomerated iron ores and concentrates		Free	Free	15,289,690	1.9%	0.9%
851750000	Other apparatus, for carrier-current line systems or for digital line systems		Free	Free	13,086,669	1.7%	0.7%
847160010	Display units, incorporating liquid crystal devices (LCD)		Free	Free	10,990,885	1.4%	0.6%
854389000	Electrical machines and apparatus, having individual functions		Free	Free	10,873,014	1.4%	0.6%
030613000	Frozen shrimps and prawns		1.0%	1.0%	10,330,362	1.3%	0.6%
854221039	Cased micro-computers of MOS type, monolithic digital		Free	Free	10,203,976	1.3%	0.6%
854221023	Cased ROM (Read only memory) of MOS type, monolithic digital		Free	Free	9,787,919	1.2%	0.6%
852721000	Radio-broadcast receivers combines with sound recording or reproducing apparatus		Free	Free	9,351,187	1.2%	0.5%
847170050	Optical disc units		Free	Free	8,862,705	1.1%	0.5%
850440090	Other static converters		Free	Free	8,305,485	1.0%	0.5%
901380000	Other liquid crystal devices, and optical appliances and instruments		Free	Free	7,976,972	1.0%	0.4%
441890229	Builder's joinery and carpentry of wood		3.9%	3.9%	7,626,250	1.0%	0.4%
851999000	Other sound reproducing apparatus		Free	Free	7,465,591	0.9%	0.4%
080430010	Fresh Pineapple		17%	17%	7,448,066	0.9%	0.4%
851790010	Parts suitable for use solely or principally with electrical line telephonic or line telegraphic apparatus		Free	Free	7,409,900	0.9%	0.4%
853400000	Printed circuits		Free	Free	6,408,954	0.8%	0.4%
852990000	Other parts suitable for use (with the apparatus of headings 85.25 to 85.28)		Free	Free	5,336,479	0.7%	0.3%
850131000	Other DC motors:DC generators(of an output not exceeding 750 W)		Free	Free	4,997,068	0.6%	0.3%
854110090	Diodes, for a mean forward current of not less than 100 mA, other than photosensitive or light emitting diodes		Free	Free	4,863,725	0.6%	0.3%
870829000	Parts and accessories of bodies of the motor vehicles		Free	Free	4,580,095	0.6%	0.3%
271011181	Other light oils and preparations		9Yen/kl		4,544,613	0.6%	0.3%
870899090	Other parts and accessories of the motor vehicles		Free	Free	4,345,697	0.5%	0.2%
853221000	Fixed capacitors of tantalum		Free	Free	4,226,282	0.5%	0.2%
260400000	Nickel ores and concentrates		Free	Free	4,106,299	0.5%	0.2%
852540000	Digital still image video cameras		Free	Free	3,863,001	0.5%	0.2%
730890010	Other structures and parts of structures		Free	Free	3,764,900	0.5%	0.2%
260300000	Copper ores and concentrates		Free	Free	3,748,091	0.5%	0.2%
853690000	Electrical apparatus for switching or protecting electrical circuits(other)		Free	Free	3,470,491	0.4%	0.2%
847180000	Other units of automatic data processing machines		Free	Free	3,024,406	0.4%	0.2%
852290000	Parts and accessories suitable for use with sound recording device		Free	Free	2,645,150	0.3%	0.1%
620311200	Men's or boys' suits, of wool or fine animal hair	—	10.1%	10.1%	2,573,943	0.3%	0.1%
850450000	Other inductors		Free	Free	2,490,684	0.3%	0.1%
854221049	Cased monolithic digital integrated circuits, of circuits obtained by bipolar technology		Free	Free	2,412,266	0.3%	0.1%
392321000	Sacks and bags for the conveyance or packing(of polymers of ethylene)	Free	3.9%	3.9%	2,351,581	0.3%	0.1%
151319000	Coconut (copra) oil and its fractions(not chemically modified)		4.5% or 5YEN/ k g , whichever the greater	4.5% or 5YEN/ k g , whichever the greater	2,338,714	0.3%	0.1%
854121010	Silicon transistors, with a dissipation rate of less than 1 W		Free	Free	2,301,196	0.3%	0.1%
847340000	Parts and accessories of the other office machines		Free	Free	2,145,221	0.3%	0.1%
854140010	Light emitting diodes		Free	Free	2,110,557	0.3%	0.1%
441810000	Windows, French-windows and their frames, of wood		Free	Free	2,089,871	0.3%	0.1%
853321000	Fixed electrical resistors(not exceeding 20 W)		Free	Free	2,045,266	0.3%	0.1%
620342200	Men's or boys' trousers, etc. of cotton	—	10.1%	10.1%	2,007,785	0.3%	0.1%
Total import (excluding HS00)					791,795,018	100.0%	44.7%