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# WHAT IS KEEPING THE PHILIPPINES FROM JOINING THE TPP?

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On 4 October 2015, the US and eleven other countries concluded the Trans-Pacific Partnership (TPP) agreement after five years of negotiations. It is considered as the largest trade agreement covering 800 million people and 40 percent of the world's economy. The Office of United States Trade Representative (USTR) released a summary of the TPP which contains 30 chapters encompassing a host of trade and trade-related issues. To be specific, TPP parties have agreed to eliminate and reduce tariffs and non-tariff barriers on industrial goods, agricultural products, and textiles and apparels through policy reforms such as non-imposition of performance requirements and removal of agricultural export subsidies. In trade in services, parties may not place quantitative restrictions on the supply of services or require a specific type of legal entity or joint venture, and local presence.

The agreement commits governments to ensure transparency, non-discrimination, and predictability in areas such as government procurement, state-owned enterprises (SOEs) and designated monopolies, and regulatory environment. TPP parties have likewise agreed to adopt labor laws and policies concerning freedom of association, abolition of forced and child labor, minimum wages, hours of work, and occupational safety and health. The environment chapter seeks to protect and conserve the environment and address environmental concerns. Support for small and medium enterprises (SMEs), anti-corruption, and dispute settlement are promoted in the agreement.

The massive potential gains from the TPP have expectedly prompted other Pacific Rim countries such as Thailand, South Korea, and Taiwan to pursue significant actions toward joining the said trade pact. The Philippines, for one, officially confirmed its intention to join the TPP in June 2015 with outgoing Trade Secretary Gregory Domingo, along with other high-ranking officials, stating that the country will work to realize its joining the TPP. However, this pronouncement does not necessarily equate to the actual entry of the country in the TPP. Hence, what is keeping the Philippines from joining the TPP?

*The welfare logic of joining*

In their paper "Potential Economic Effects on the Philippines of the Trans-Pacific Partnership (TPP)," Caesar Cororaton and David Orden found that it is more logical for the country to join the TPP rather than remain outside the trade bloc. There are larger positive effects on exports, sectoral outputs and welfare gains. With strong dependence on markets of key TPP member countries (US, Japan, and Singapore) for exports, imports, foreign direct investments (FDIs) and technology, the Philippine participation in the trade pact can result in trade creation with TPP parties, while its non-participation can lead to trade diversion effects with non-member countries.

The authors project that if the Philippines joins the TPP, the country's total exports can increase annually from USD 0.25 billion in 2015 to USD 3 billion in 2024. Within the trading group, a 6.4 percent improvement in Philippine exports is to be expected in 2024. Total production is also projected to rise annually from 0.01 percent in 2015 to 0.31 percent by 2024, with services and electronic equipment sectors leading the growth. Wages of skilled and unskilled workers, as well as returns to capital, will steadily increase. Furthermore, joining the TPP will contribute a 1.2 percent gain in GDP by 2024. With additional FDI inflows, the Philippines is forecasted to experience in 2024 a 0.7 percent growth in total output, higher wages, and a 1.5 percent improvement in GDP.

What is enticing are the long-term benefits of the multi-dimensional agreement, which focuses on aspects that are given minimal or no attention in other trade agreements. These are the enhancement of telecommunications and electronic commerce infrastructures and the policies related to labor standards and environmental protection, enabling the Philippines to pursue sustained growth while protecting its workers' rights and preserving its natural resources and the environment. By joining, it is expected to nurture transparent and anti-corruption practices. These projected gains will contribute to the development of SMEs, much to the advantage of the Philippines since SMEs comprise 99.6 percent of all its enterprises and employ 63 percent of its labor force.

*What's keeping the Philippines from joining TPP?*

Despite the expressed willingness by the Philippine government, there are several structural hurdles and obligatory market liberalizing steps to be made before acceding to the agreement. Legal reforms should focus on amending restrictive foreign investment laws as prescribed in the 1987 Philippine Constitution, effective implementation of the recently enacted competition law, and the passing of the Customs Modernization and Tariff Modernization Act.

While Executive Order 184 issued by President Benigno S. Aquino removed foreign ownership restrictions on lending companies, investment houses, and financing firms and lessened the number of professions reserved only for Filipinos, a 40 percent cap on ownership of private lands, utilization of natural resources, and operation of public utilities as well as reciprocal provision on foreign professionals still exists. The OECD Foreign Direct Investment (FDI) Regulatory Restrictiveness Index 2014 notes that the Philippines is the most restrictive (0.42; with 1 being closed) among ASEAN countries. Trade in services in the country is likewise the most stringent among ASEAN peers (53; with 100 being completely closed) according to the Services Trade Restrictiveness Index cited in the ASEAN Integration Monitoring Report (2013). Administrative impediments are also needed to be addressed such as complex customs procedures and cumbersome import licenses and permits. In the Doing Business Survey of World Bank, the Philippines ranked 95 (out of 189) in 2015, compared to being 86th in 2014.

The country's entrance to TPP could result in short-run costs as new market players, particularly the transnational and multinational companies, are expected to compete with local producers that have limited resources and market penetration. Decline in profits and probable loss of jobs can ensue because of heightened competition. This scenario is partly caused by the country's weak infrastructure in significant sectors such as agriculture, telecommunications, and electronic commerce which greatly affect the efficiency and productivity of other industries. One major concern raised is in the pharmaceutical industry due to patent on biologics (five to eight years), preventing other companies from producing "biosimilars," or copies of already approved biologics.

Ultimately, the most important challenge for the Philippines is demonstrating its commitment in upholding the principles of transparency, anti-corruption, and policy predictability by continuously undertaking reforms and integrating and mainstreaming other vital issue-areas such as labor standards and environment protection.

*The way forward*

The TPP deal puts the Philippines in a familiar situation where it has to consider the larger (economic) realities existing in the regional and global environments when designing policy directions and implementing concrete actions. Given growing interdependence and integration among diverse economies, the country cannot afford to be isolated and risk the chance of losing substantial potential gains presented by regional initiatives led by major players. Philippine participation in the trade pact should be grounded on evidence-based processes (i.e., quantitative assessment, cost-benefit analysis, impact assessment) and with a view of achieving sustainable, inclusive growth.

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In the meantime, the country can focus on scaling up public investments in infrastructures of crucial sectors such as agriculture, energy, information and communications technology (ICT), and transport. The improvement of the quality of Philippine education and the promotion of innovation are also critical areas in attracting foreign investors and raising our competitiveness. Moreover, there is a need to take into account emerging issues such as growing population, climate change, and challenges brought by an increasingly digital world. The building of political constituency will be essential in supporting the government's drive toward structural reforms and regional and global integration. Despite the current outstanding performance by the Philippine economy, comprehensive agreements like the TPP remind us that much needs to be done domestically.

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