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No. 178/2012 dated 24 September 2012

Testing the (Pacific) Waters: Philippines' Options in Regional Economic Integration

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Synopsis

The Philippines has recently taken an active interest in joining the Trans-Pacific Partnership (TPP) Agreement negotiations despite the many roadblocks it first needs to clear. It also has another opportunity with ASEAN's emerging Regional Comprehensive Economic Partnership (RCEP).

Commentary

IT HAS been over a year since the Philippines first expressed interest in joining negotiations for the Trans-Pacific Partnership Agreement (TPP). The United States, as its primary driver, has been consistent in its support for the Philippines' intention. However, the path to TPP is not without roadblocks. Often touted as a "high-quality agreement", the TPP's coverage is beyond that of a regular free trade agreement (FTA) as it calls for stronger intellectual property rights, stricter labour and environmental standards, liberalisation of the services sector, and regulatory discipline of state-owned enterprises.

As the Obama administration is no longer pursuing bilateral FTAs and is instead prioritising TPP negotiations, the Philippine government has been taking steps towards TPP membership. This is to ensure that it does not miss out on opportunities with one of its biggest trading partners. The recent expansion of the TPP negotiations to include Canada and Mexico has provided additional impetus as local trade officials expressed their aim to increase their exports to these two countries.

Prospects in TPP and RCEP

Enthusiasm over the Philippines' TPP prospects is dampened by the significant legal reforms it will need to undertake. Aside from the reforms needed to strengthen the country's intellectual property rights system, opening the services sector will require amendments to the 1987 Constitution, which limits or prohibits foreign ownership in sectors such as education, media, transportation, and utilities, as well as the practice of professions. Charter change has long been a contentious issue in Philippine politics; any attempt to revise the Constitution to accommodate TPP requirements will be just as divisive.

While discussions are ongoing, another option for the Philippine trade agenda is slowly emerging. The emergence of the TPP has triggered a tactical response in East Asia as they moved to entrench East Asian-centrality in the global trade architecture. East Asian countries have turned to other mechanisms, including various bilateral FTAs and the Japan-China-South Korea trilateral framework. The latest initiative to gain

attention in the region is ASEAN's Regional Comprehensive Economic Partnership (RCEP).

Emphasising an ASEAN-led process, the RCEP brings together the China-led East Asia Free Trade Agreement (EAFTA) and the Japan-led Comprehensive Economic Partnership in East Asia (CEPEA). It works on an open accession principle which allows participation of any of the ASEAN FTA partners. As opposed to the stricter standards followed by the TPP, the RCEP will extend special and differential treatment to the less-developed ASEAN member states. Greater flexibility is also provided in allowing membership through either a single undertaking or in a gradual manner.

Incentives of membership

Membership in these two trade groups is not necessarily mutually exclusive. But the overlaps may create unnecessary inefficiencies and complexities if the Philippines chooses to pursue both, especially with many of the countries currently involved in TPP negotiations also members of RCEP.

In terms of the economic incentives, the value of total trade between the Philippines and the current TPP members reached US\$32 billion in 2011. With five of the Philippines' top export markets - China, Japan, South Korea, Singapore, and Thailand - as members, total trade between the Philippines and the RCEP members in 2011 is significantly higher at roughly \$60 billion. While a crude indicator, these numbers give a rough estimation of the market potential of the TPP versus the RCEP.

However, there are underlying issues aside from trade market potential, a critical one being the actual impact of FTAs in facilitating trade. Wider use of FTAs in the region has been limited by several factors, including lack of information, availability of export processing zone incentive schemes, and the cost of compliance with complex rules of origin in multiple FTAs. In the Philippines, an ADB survey of local firms showed that only 20% reported use of incentives under the ASEAN Free Trade Agreement (AFTA). Of course, whether the same level of FTA utilisation will prevail in the TPP and the RCEP remains to be seen, but past experience does not paint a very promising picture.

It would seem then that it is the strategic value of membership in the TPP or the RCEP that drives the Philippine trade policy agenda. While the official rhetoric continues to emphasise trade potential as the rationale for pursuing membership in the TPP, it can be argued that stronger trading opportunities with the TPP members can be realised through other less stringent channels. In the case of the US, both the TIFA and the Partnership for Growth initiative provide opportunities for enhanced trade and investment links between the US and the Philippines. TIFA is a consultative mechanism for the expansion of trade and investment flows between the two countries. The PFG is a five-year development programme launched in 2011.

Philippine trade policy agenda

The Philippines has been very careful with hedging its foreign policy strategy in the Asia-Pacific region; its trade policy choices reflect the same approach. The TPP's emergence as a US priority in recent years supports the country's policy of maintaining a strong presence in the region. The RCEP track serves a similar purpose by promoting the centrality of the ASEAN Economic Community in the regional trade architecture. While the details of the negotiations might change the trajectory, it is clear that at this stage, greater weight is given to the strategic value of membership rather than the economic incentives.

Belonging to a Pacific-based and ASEAN-based trade regime at the same time supports the Philippines' own foreign policy stand of subscribing to both paradigms. It sends the message that the country plans to become an active participant in the two processes.

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