# Urgency of PH-EU free-trade deal

https://opinion.inquirer.net/181061/urgency-of-ph-eu-free-trade-deal

For developed countries threatened by United States President Donald Trump’s announcement of higher tariffs on American imports, their natural reaction is to hit back by doing the same. But for smaller nations such as the Philippines, their more logical recourse should be to look elsewhere for new markets for their affected export products as well as other suppliers for their vital imports.

Exactly what Manila is doing now. Last week, the Department of Trade and Industry (DTI) said it is speeding up negotiations on a free trade agreement (FTA) with the European Union (EU), with both sides aiming to have it finally completed by next year. After the latest round of negotiations last Feb. 10-14, Trade Undersecretary Allan Gepty had told the Inquirer: “We see this FTA as a stable platform to strengthen the economic relations of the Philippines with the EU. Thus, we are working hard to fast-track the negotiations and hopefully conclude the same before 2027.”

In March last year in Belgium, where EU and Philippine officials announced the resumption of formal negotiations on the proposed FTA, European Commission Executive Vice President Valdis Dombrovskis noted that trade in goods between the Philippines and the European bloc was worth more than $19.27 billion or (or P1.2 trillion at the current exchange rate) in 2022.

## Preferential status

An assessment presented during the resumption of the FTA negotiations in Brussels last October showed that the country has untapped export opportunities in the European market worth $8.3 billion (P480.37 billion) that can be addressed by a free-trade deal. The Philippines started negotiations on its free-trade deal with the EU in December 2015.

The primary reason why the government wants to have a more binding agreement with the EU is for Philippine products to continue entering that huge market without paying duties. The EU granted the Philippines the so-called Generalised Scheme of Preferences Plus (GSP+) status in 2014, which allows Manila to export more than 6,000 products to its market tax-free. However, the country loses this preferential status once it reaches upper middle-income country (MIC) status. Last year, President Marcos boasted about how close the Philippines is to reaching this and Secretary Arsenio Balisacan of the National Economic and Development Authority (Neda) even said that there is a good chance of reaching the goal this year.

Under the World Bank’s classification of countries, a country becomes an upper MIC if it reaches a per capita gross national income (GNI)—or the total amount of money earned by a country’s people and businesses at home and abroad—of between $4,516 and $14,005. The Philippines, which has been classified as a lower MIC since 1987, is near the next income threshold after posting a record-high GNI per capita of $4,230 in 2023.

## European bloc

A free trade deal with the EU will therefore give the Philippines permanent duty-free access to a huge market. “So in that context, there’s a pressure for us to conclude the negotiations as soon as possible because we don’t want to have a gap in our trade with the EU as far as enjoying preferential arrangement is concerned,” Gepty pointed out. The European bloc is an important market for Philippine products such as tuna, coconut, cacao, pineapples, semiconductors, and electronics.

An FTA with the EU will also level the playing field for the Philippines versus other economies in the Association of Southeast Asian Nations that are also trying to close similar deals.

Aside from the risk of losing preferential treatment for Philippine exports, there are also the uncertainties in the country’s trade relations with the US under Trump. In his first few days in office, Trump announced—and later suspended—higher tariffs on many American imports from Canada, Mexico and China, warning to do the same to the EU. He also threatened other countries that he feels have more favorable trade balances with the US.

## Universal tariffs

According to the Office of the US Trade Representative, American goods exports to the Philippines amounted to $9.3 billion in 2024, while imports totaled $14.2 billion—or an unfavorable trade position for Washington, albeit a very small percentage of total American trade.

Aside from the impact on the country’s exports sector, the prices of goods that the Philippines imports from the US can also be affected given the projection by some analysts that Trump’s policies will drive up American production costs.

Just this month, Trade Secretary Ma. Cristina Roque already warned that Trump’s proposed universal tariffs could have a potential impact on the country’s export sector, with its extent remaining largely uncertain as of now. It is thus very clear that looking for new markets for Philippine exports as well as cheaper non-American suppliers for the country’s essential imports will help cushion the economy against any potential harm from Trump’s America-first policies moving forward. Fast-tracking an FTA with the EU is a brilliant move.