

GATT Realities and Trade Alliances: Implications and Prospects for the Philippines*

Prof. Alex Magno: This afternoon, we will be discussing an issue that will have an impact on our economic life in the coming decade. The results of the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) will be affecting us more than the policies of the International Monetary Fund (IMF) in the coming years. We are now on the exit program of the IMF and approaching the entry program of the GATT. Perhaps, after this discussion, we would be marching against the GATT instead of the IMF.

In other countries, protest actions against the Uruguay Round were widely staged. In fact, a few days ago, an Indian farmer took his life in protest of the Uruguay Round. And there was a Korean farmer who attempted to commit suicide at the lobby where the signing of the GATT was taking place. In Europe, especially in France, there were also massive protests from the ranks of the farmers.

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This afternoon, we will discuss this issue and its possible implications on our economy. Before we introduce our main speaker, our Vice-President for Academic Affairs, Dr. Olivia Caoili, who is also an expert on science and technology policies at the Department of Political Science, will give her opening remarks.

Dr. Olivia Caoili: Thank you very much Alex. Dir. Buencamino, Atty. Montemayor, Dr. Ofreneo, Prof. Magno, my colleagues, and fellow students. First of all, University of the Philippines (UP) Pres. Javier asked me to give the Third World Studies Center his warm regards on the launching of the *Policy Dialogue Series*. However, he is very sorry that he cannot attend this symposium because of an earlier commitment. So he asked me to attend this gathering.

In my view, this Policy Dialogue Series is a very important activity in the University. This series is consistent with the theme of the administration of Pres. Javier — to make UP in the service of the nation. And one way of serving the nation is to share and disseminate our knowledge to the policy-makers and policy implementors.

This activity is also a response to the critical need for rational policy analysis in contemporary government. We live in a complex and rapidly changing world beset with innumerable social, political, and economic problems. Many of these problems invariably necessitate and even demand government attention and action. But the government is often sadly ill-equipped to cope with these problems. This is not only because of the perennial lack of material resources with which government can respond to these problems. There is often also a dearth of expertise in policy-making and policy analysis within the legislative and executive branches of government that can adequately provide the critical information and advice needed by the policy-makers and implementors.

Moreover, the need for an immediate response to critical problems leaves policy-makers and bureaucrats often very little time for systematic policy analysis. Systematic study of public policy or policy analysis has now become a full-time interdisciplinary social science field. It integrates history, political science, public administration, economics, sociology, demography, geography, and other disciplines. Each of these disciplines, by itself, will be incapable of analyzing and anticipating the causes and consequences of these different government policies or government inaction. But by means of interdisciplinary collaboration, responses to social, political, and economic problems will be rationally studied and

the alternative approaches to solving these could be judiciously selected. It is in this context that the academe can offer its resources to government.

Those of us from the academe are often perceived and accused of being out of touch with reality, of being confined to our high ivory tower. But field research in the social sciences has enabled us to come to terms with social reality. The accumulated knowledge of the social sciences in partnership with the wisdom acquired by the bureaucrats and policy-makers in their day-to-day exposure with problems of the real world can provide a more systematic basis for policy-making and implementation.

Thus, this afternoon as we listen to someone who has been heavily involved in the negotiations for the GATT, we could ask him a lot of questions and hope that, by the exchange, we may be enlightened and helped in our continuing task in the University, and also hope that, through our questions, they can try to search for better alternatives to the solutions of our everyday problems.

I was lucky to be invited twice in New Delhi by a group called Third World Patent Convention, and one of the very heated topics that we focused on was Intellectual Property Rights and Patents. I was surprised because here in this country, we did not seem to be bothered at all by this particular issue. Yet, here in the University, we ought to give it a serious thought. Because in the University, we generate new knowledge and technology. The question that we should therefore ask is, under the present situation and the coming decades, how can we best safeguard the Intellectual Property Rights (IPR) in the University, and at the same time, make it accessible to the ordinary citizens? After all, if UP is in the service of the nation, we should not only think of royalties and profit. But the ultimate question should be: Can our new knowledge and new technology be made accessible to the majority of our population, and can we use this to alleviate their lot? So let us give some thought to this seemingly little issue -- for some GATT participants -- which, to me, is a very large issue as far as we are concerned. Thank you very much.

Magno: Thank you Dr. Caoili. Our main speaker has been directly involved in our negotiations with the GATT. He has been a commercial attache of the Department of Trade and Industry (DTI) and has been assigned a permanent mission to Geneva as our representative to GATT. He participated in the GATT dispute settlement panel. He was a member of the Textile Surveillance Body of the Multi-Fiber Arrangement and a discussant on GATT trade policy review. He is presently the Acting

Director of the Bureau of International Relations of the Department of Trade and Industry. To discuss this issue, please welcome Director Jose Antonio Buencamino.

Dir. Jose Antonio Buencamino: This afternoon, I will explain to you the nature of GATT and the Uruguay Round.

The GATT was established in 1947. It sought to give predictability to the conduct of international trade. Before World War II, trade rules were basically bilateral or unilateral. This was a very chaotic system. In fact, many wars were the result of trade irritants or disputes.

After the war, world leaders thought it right to establish an agreement towards greater trade liberalization. GATT is subsisting basically on tariff reductions, but this evolved and developed into rules. The Uruguay Round is only one of the many rounds of multilateral negotiations.

The Uruguay Round is the eight and most ambitious round thus far. When the Uruguay Round was launched in 1986, there were around 90 contracting parties of the GATT. Today, there are 117.

It is very comprehensive and includes areas never before integrated in the GATT such as agriculture, services, textiles and clothing, intellectual property rights, and investment measures.

What makes the Uruguay Round different from the other rounds is that it requires full participation -- the Uruguay Round results being a single understanding. There is no provision for 'pick-and-choose' as in the Tokyo Round Codes. When a country signs, it signs for all 30 agreements and 20 ministerial decisions.

The final characteristic of the Uruguay Round is that it will transform GATT into a 'definitive' and more effective organization -- the World Trade Organization (WTO). The body will have an enhanced capacity to ensure predictability in world trade and stimulate the global economy. Physically, there will not be much difference between the GATT and the WTO. It will still be located in the same infrastructure and will be served by the same secretariat, which will, however, be twice, or even thrice, as large. The difference will be in the integration of a dispute settlement process, without which discipline in international trade will not be enforced. Such an arrangement will also lessen the confusion in choosing the proper forum for dispute settlement.

Let me brief you on the results of the Uruguay Round.

In the area of agriculture, there are a lot of measures that the Agreement on Agriculture of the Uruguay Round asks from its signatory countries, including the Philippines. First is the tariffication of quantitative restrictions. This means that instead of the quantitative restrictions that will be employed in order to stop the influx of imports, such restrictions will be replaced by tariffs. Second is the 'binding' of all tariffs in agriculture. For example, if I bind the tariff in coconut oil to 50 percent, this means that in the future, I can no longer increase the tariff beyond 50 percent. Binding is important in order to promote predictability in trade.

Thirdly, applied tariffs in agricultural products will be reduced. But in reality, what we did was to bind our tariffs at double the former rates. For instance, the tariff that customs now charge in corn is 30 percent. And we normally import about 100,000 metric tons a year. Under the GATT, we will remove the quantitative restrictions in corn, we will replace it with a tariff. We will apply 30 percent tariff duty in place of the 100,000 metric tons quantitative restriction. We bound 30-100 percent for corn. That is what we call a tariff equivalent. Now, the agreement is that over the next 10 years, the tariff will be reduced by 24 percent. So after 10 years, the bound rate for corn is 76 percent. And the 100,000 metric tons for corn that we normally import will become about 200,000 metric tons after 10 years.

Fourthly, the Uruguay Round is not only concerned with market access but also with the reduction of domestic and export subsidies. What happens now is that, domestic subsidies will have to be reduced by 20 percent. Now since the 20 percent reduction will apply on the base year 1986 and 1988, the effective cuts on domestic subsidies for the US and the European Community (EC) will be much more than 20 percent. In the case of the US, the cut for a particular product like soybeans will be as much as 70 percent because they are using a different base year. Here in the Philippines, we have no requirement to cut subsidies. We negotiated the allowance of input subsidies so the fertilizer and irrigation programs, including credit assistance, of the Department of Agriculture (DA) can continue.

Also, we do not need to cut our investment subsidies. But in other countries like Thailand and Colombia, if they have programs that will encourage farmers to veer away from narcotic crops like opium, such subsidies are allowed.

The only discipline imposed on the part of the Philippines and other developing countries is the reduction of market price support for

palay and corn. We have to cut it by 13 percent. But then again, since the total outlay of our market price support does not exceed 10 percent of the production value of *palay*, we do not have any obligation to cut it either. In so far as domestic subsidies are concerned, we do not have any obligation. In contrast, the industrialized countries have many obligations. In fact, by the estimates of the GATT as well as the US Department of Agriculture, the cuts in domestic subsidies would mean oil seeds production in the EC coming down from 13.5 million metric tons to about 10 million metric tons over six years. Can you imagine 3.5 metric tons being opened up? Who will supply that? I think the Philippines will be one of the suppliers.

Reduction in export subsidies is another major discipline. The cuts in export subsidies will vary. In value terms, it will be cut by 36 percent, in volume terms it will be cut by 21 percent. We do not have export subsidies in the Philippines, so we do not have any obligation in that matter. But for the developed countries, the obligation is great.

The Department of Agriculture (DA) is currently assessing this balance. I think that, in the end, the balance will be favorable to us. In fact, projections from the DA would show that, with respect to oil seeds, we would more than get back the sacrifices we gave up to tariffication and binding. There are particular products in which the benefits and costs will vary. But over all, we in the government have been watching these negotiations very closely and we have a preliminary understanding of their overall implications to us.

Another important aspect of the Uruguay Round is the effects on textile and clothing. Since the early 1970s, textile trade was governed by the quota system. In order to sell their products abroad, Filipino exporters had to go to the DTI to get their import licenses which were needed in the quota-receiving countries. With the phase-out of the Multi-Fiber Arrangement (MFA), after ten years, textiles and clothing imports will be freely done.

Our problem, however, is that ten years of preparation for the phase-out of MFA might not be enough for us. I am talking about textiles and not garments. Our garment industries are very competitive, but the textiles sector will have to adjust to the competitiveness of Indonesia and even India. But I will not discard the garments agreement just because I cannot compete in the textiles. Policy-wise, the textiles sector has to compete.

Another agreement is trade-related investment measures. Why does GATT have to come in this specific issue? There are contracting parties who cannot understand why there has to be a local content program. The Philippines, for example, has a 40 percent local content rule for foreign car manufacturers like Toyota, Mitsubishi, and Honda. The contention here is like this: Why should you force local production when it is more efficient to import? The government, on the other hand, reasons out that local industries cannot become competitive if you do not help them. The problem with the issue of local content is that it is violative of certain principles of GATT. You are in effect imposing on businesses that they should only use local and not imported materials. Under the GATT principle, once a good crosses customs, governments must treat it without discrimination compared to local products. If you say that you will use local components, and not imported ones, you are discriminating against the imported components. We also would not like other countries to discriminate against our goods when these goods cross their borders. Fair is fair. So we have to get rid of the local content program -- at least, the numerical targets for local content. At any rate, the Board of Investments intends to phase out the local content program.

Along with this matter should go the issue of trade balancing which forbade companies from importing in the mid-1980s unless they produce their own dollars or exported them. This is a policy that must also go.

With respect to the agreement on customs valuation, the system that we have at present is based on consumption value. The losers here are the entrepreneurs who are trying to be competitive in the light of very expensive imports. Another set of losers are the consumers who eventually buy these products. By the estimates of Customs, if we shift from home consumption to transaction value, we can easily lose six to seven billion pesos, which may mean another oil price hike. The good news is that the shift will happen within five years, not overnight, so they have time to make up for the shortfall. The six to seven billion pesos is equivalent to 10 percent of Customs collections, that implies that if you shift from home consumption to transaction value, consumers will benefit from a 10 percent drop in prices.

The subsidies agreement is basically the same. We also have to get rid of the local content and subsidies dependent on export performance. We permit companies to set up shop here but we ask them to export 70 percent of their products. This is not the right way of pushing forward industrialization.

“The GATT operates on a number of principles: most favored nation (MFN) treatment or trade without discrimination; stable trade rules (e.g., tariff bindings); elimination of quantitative restrictions and protection through tariffs; non-discriminatory application of rules on import licensing, pre-shipment inspection, technical barriers to trade, health, and phytosanitary regulations; and, prevention of trade wars through consultation and dispute settlement.”

The issue of IPR is also addressed by the GATT. However, the standard for IPR protection has already been set by previous conventions and not by the Uruguay Round. The truth is that we have already signed most conventions regarding this matter, the latest being the Berne Convention of 1971 which we signed in 1992. The problem is not in the laws themselves. If there will be changes in the laws, they will not be major ones. The problem is enforcement. The Uruguay Round also focuses on such enforcement.

In the GATT, there is a commandment to the states that “thou shall not use quantitative restrictions.” But the Philippines can get away with it because we are perennial users of the balance-of-payments (BOP) provisions of the GATT. What does it mean? If you have a BOP problem, you can now control imports through the use of quantitative restrictions. But it has been observed that some countries invoking the BOP provisions have solved their problems and yet continue to hold on to quantitative restrictions for 20 to 25 years. It is no longer credible to claim that you are still experiencing BOP problems after such a period. If you do, you no longer have the right to exist as a country.

Others would use the BOP provisions just to protect one particular product. For example, when India invoked BOP, they imposed quantitative restrictions only on almonds. It is a case of clear protectionism, not BOP alleviation. The IMF has a bigger say on whether you do have a BOP problem. Fortunately, for the Philippines, we do have a problem.

The General Agreement on Trade and Services (GATS) is a very big agreement, almost as big as the whole GATT. There is already a working framework for this. But, in terms of the commitments, they are still being negotiated.

On dispute settlement, a more effective set of mechanisms has been instituted under the World Trade Organization (WTO) framework.

With respect to other agreements, there are now clearer rules on anti-dumping safeguards, import licensing, rules of origin, technical barriers of trade, health and sanitary regulations, pre-shipment inspection, and so forth. There are a lot of agreements, and I will not do justice to these agreements if I discuss them in such a short space.

The question that comes to mind after seeing this brief presentation of the results is: Why we should join GATT?

There are a number of reasons. GATT has a comprehensive coverage -- goods, services, and intellectual property rights -- and there are 117 GATT-contracting countries accounting for 90 percent of world trade in goods.

If we do not belong to GATT, what discipline can we use to protect ourselves?

We should continue to remain in GATT for the following reasons:

The GATT operates on a number of principles: most favored nation (MFN) treatment or trade without discrimination; stable trade rules (e.g., tariff bindings); elimination of quantitative restrictions and protection through tariffs; non-discriminatory application of rules on import licensing, pre-shipment inspection, technical barriers to trade, health, and phytosanitary regulations; and, prevention of trade wars through consultation and dispute settlement.

By GATT estimates, the Uruguay Round would increase world income by US\$230 billion annually within a decade. Out of that figure, the share of the developing countries is about \$150 billion, which I think, is too big an estimate. Maybe half of that. Exports of developing countries will be increased by some US\$150 billion per year over normal growth rates. Total world trade will gain by some US\$750 billion over normal growth rates. Trade in services would cover about US\$1 billion, or US\$1 trillion by US estimates.

If we are outside of GATT, we will be isolated and may be subject to discrimination, i.e., MFN treatment may not be available to us. We may be subject to unilateral action such as Section 301 cases and we may lose our General System of Preference (GSP) privileges at any time. That is what the Americans are doing to China and Taiwan. They got Taiwan to sign an IPR agreement very quickly by the mere threat that they will not extend MFN treatment to their exports to the US. But to us, Americans will not be able to do that because we are a GATT member.

At present, RP exports are enjoying GSP treatment in the US amounting to US\$1.1 billion. But the GSP is administered by the UN Conference on Trade and Development (UNCTAD) and is outside the GATT. And there is no contractual obligation on the part of the US to give you GSP, so you have to literally beg for it. China and Taiwan are in a race to join the GATT. Russia has already applied for an observer status in the GATT.

I would like to go now to the costs and benefits of joining the GATT. We will enjoy an average of 35 percent tariff reduction directly negotiated for 350 export products with an estimated value of US\$2.4 billion. Average tariff reductions in major markets are: Japan, 45.2 percent; EC, 27.4 percent; and, US, 21.9 percent.

The Philippines did not cut tariffs. We just gave a commitment to bind tariffs at 10 percentage points higher than in 1995 for 2,664 industrial and 537 agricultural tariff lines. On the other hand, 114 agricultural tariff lines will be bound at 5 percentage points above 1995 rates. Tariff reduction will be 12 tariff lines in textiles and about 27 in agriculture to result in rates below 1995 applied rates within 10 years. The rest are just binding commitments. In fact, we have been criticized in Geneva for not offering tariff cuts. But then, that, I suppose, is a privilege of developing countries.

We will also enjoy indirect MFN benefits from an average 33 percent tariff reduction on products requested by other Uruguay Round participants. Some specific products that were granted concessions for Philippine products are listed here.

For instance, in crude coconut oil, Canada gave us 34 percent; Japan, 50 percent; and EC, 36-50 percent. The US tariff cuts are still under negotiation. In coconuts and bananas, Japan gave us a 50 percent cut. In dried bananas, the US gave us a duty-free treatment. In electronics, the cuts are as much as 100 percent in key markets.

So, there are a number of things that we can already quantify. But I will caution you because these numbers will still improve until April 1994.

The reduction of agricultural subsidies will also make our agricultural exports more competitive. As to costs, we will implement the tariffication of quantitative restrictions on 93 agricultural products and bind tariff equivalents at double the 1995 applied rates. The tariff reduction of 27 tariff lines in agriculture will result in rates below 1996 applied rates within 10 years.

There are other advantages. The opportunities for Filipino professionals will also be opened up in numerous areas of services. The costs of goods for producers/exporters and consumers upon phase-out of the home consumption value (HCV) will also be lower. In exchange for tighter rules for protection of Intellectual Property Rights, the risks on unilateral and punitive trade action will be greatly reduced.

Furthermore, there are now more precise rules on anti-dumping as well as countervailing measures which seek to prevent arbitrary action by 'out-trading' partners and aim to strengthen dispute settlement procedures. There will be more stability arising from the multilateral framework on trade on services. The existing regime in banking, maritime, tourism, and telecommunications services will undergo reforms. A violation of commitments in the services or intellectual property area could result in retaliation in the goods area.

However, to enjoy all these benefits, we have to align our domestic laws with GATT rules. Some legislative requirements are shown here:

**Indicative List of Legislative Requirements Resulting
from the Uruguay Round Final Act**

1. Tariff Concessions

○ Issuance of the appropriate legal instruments to incorporate the following in the Tariff and Customs Code

○ Binding of tariffs (commitments not to raise them) at rates above the 1995 applied rates (3,481 lines)

○ Tariff reductions (for 12 textile and 27 agricultural tariff lines) and binding the reduced rates

The above will be implemented over 10 years.

2. Customs Valuation

**Indicative List of Legislative Requirements Resulting
from the Uruguay Round Final Act (Continuation)**

○ Amendment of Section 201 of the Tariff and Customs Code to shift from HCV to transaction value

3. Anti-Dumping

○ Amendment of Section 301 of the Tariff and Customs Code to align anti-dumping provisions with those of the Agreement

○ Anti-dumping duty limited to the amount of dumping margin established

○ Termination of a definitive anti-dumping duty within five years unless extension is justified

○ Requires that an investigation be terminated as soon as authorities are satisfied of the insufficiency of evidence supporting either dumping or injury; or when the dumping margin *de minimis* (less than two percent of export price) or that the volume of dumped imports is negligible (less than three percent of the imports of like product)

- provisional measures

- price undertakings

- definition of local industry

4. Subsidies

○ Authority for the fiscal incentive-giving bodies to withdraw subsidies if it injures other contracting parties unless such subsidy does not exceed two percent of the product value

○ To limit the level of export subsidies once the GNP per capita of \$1,000 is reached

○ To withdraw any export subsidy after three years from reaching \$1,000 GNP per capita

○ To phase out subsidies for local content within five years

5. Trade-Related Investment Measures (TRIMS)

○ Amendment of the Omnibus Investments Code on Rationalization Program within five years

6. Trade-Related Aspects of Intellectual Property Rights

○ Accession of Berne Convention (1971) and amendment of PD 1203 on Reprinting

○ Amendment of Sound Recording Law to increase protection to 50 years

○ Give protection to geographical indications

○ Amend Compulsory Licensing laws to exclude semi-conductors and to comply with the conditions of Articles 27 and 31 of the TRIPS Agreement

**Indicative List of Legislative Requirements Resulting
from the Uruguay Round Final Act (Continuation)**

7. Agriculture

o Require tariffication (the conversion of all non-tariff barriers into tariff equivalents) and reduction of tariffed rates over a 10-year period

o Require amendments to all laws and regulations that allow or mandate quantitative import restrictions or import bans, e.g., Magna Carta for Small Farmers and import restrictions on onions, garlic, etc.

The Ministerial Conference of November 1994 will decide on the number of ratifications needed in order for the Uruguay Round agreement to enter into force. When the agreement is entered into force, the clock starts ticking. In other words, if we are unable to ratify the Uruguay Round results in time for January 1, 1995, the transition that we are allowed is no longer five years upon entry but five years upon implementation and not upon ratification. We are given two years to ratify. That is the transition period. Those who are unable to ratify must apply its entry to the WTO by negotiation. Benefits of the Uruguay Round cannot be enjoyed by a country prior to ratification. The transition period and its obligations start from date of entry into force [of the Round].

Acceptance after the two year period will mean renegotiation with all the WTO members. The 'payment' for delayed acceptance will be much higher than the concessions we made in the Uruguay Round.

So I conclude my presentation here, and I will entertain questions from the floor.

Magno: We have two reactors on the floor. Atty. Montemayor, a long time advocate of farmer's welfare and Dr. Ofreneo of the School of Industrial Relations (SOLAIR).

Atty. Jeremias Montemayor: My impression as of this moment is that we are at the losing end. The sooner we realize it, the better our chances of surviving. Now, we are being forced to liberalize our corn market. What will happen to our corn farmers in Cotabato, Bukidnon, and other provinces? When the market is flooded with imported corn, the corn produced in Cotabato will not be able to compete. Why? Because foreign corn is subsidized. They tell us Filipino farmers are inefficient. On the

contrary, Filipino farmers are the most efficient farmers in the world because by efficiency we mean producing so much with so little.

In addition, we were victims of trade discrimination for generations — quantitative restrictions and the quota system of the United States — you cannot export textiles unless you import everything. These practices have been going on for years, and now, with the GATT, there is no assurance that they will be stopped. Much more, we begin implementing the GATT while they are already rich and we are still poor. This fundamental inequity is the basic reason for our disadvantage.

Now, I am not crying over spilled milk, I am only trying to be realistic, so we know where we are. For instance, our lawmakers passed two laws, more or less saying that if we have enough food production in the Philippines, we should not import. I cannot imagine a more reasonable policy than that. That is what we call quantitative restrictions. But advanced countries are saying that even though agricultural production is enough, imports of the same product should be allowed. Now comes the GATT. The GATT is premised on free trade, and the greatest violators of free trade are the advanced economies who provide massive subsidies. That is why the EC and the US were wrestling until the last moment. This is because they both provide large subsidies to their products.

There is one big sector that was excluded in the GATT — labor. Free trade means that every commodity should be given free play; that every commodity can be exported or imported without any regulation. The cheapest and most lucrative export of the Philippines is labor. Are they willing to give up quantitative restrictions or tariffication on labor? Are they willing to liberalize labor entry because three billion people of the third world countries are waiting for jobs? We cannot be emotional about these problems. We have to approach it realistically. In other words, when the EC and the US were fighting each other, it was the elephants who were fighting and we were the ants. We would only be satisfied with the crumbs that fell from their mouths. That is our situation. But forgetting the interests of their fellow ants, some of our leaders became the cheerleaders of the elephants.

It appears that our negotiators and economic leaders did not fight for our people sufficiently. I always hear from them that trade liberalization is inevitable. We must be grateful because of this and because of that. Trade liberalization is inevitable, we are not against it. What we want is free trade under fair terms. But it appears that we are at a disadvantage.

You know how deception works? It is like this: 'We will decrease our subsidies by 40 percent. But because you are underdeveloped, you may decrease it by 10 percent.' So it appears that we are at a disadvantage. The starting point of our subsidy is zero while the starting point of their [the advanced economies'] subsidy is 100. You reduce 100 by 40 percent it becomes 60. You reduce zero by 10 percent, it is still zero. We cannot get anything.

So I believe that our negotiators did not fight sufficiently. We never saw them, and even when they are already here in the Philippines, they are very good defenders of advanced countries. But of course, it can be argued, why fight them? We cannot fight them, but we can at least bark and try to find available hitches. Other countries did this. They were in constant touch with their neighbors. But in the case of our negotiators, they did not consult nor inform us of the terms of the GATT. What they gave us are mere general assurances about the alleged advantages that GATT will bring.

I would like to suggest that UP embark on a very detailed information drive and public discussion on the details of GATT. In my seminar in the barrios, I have already informed them about this. Perhaps, UP students can make researches on the details of the GATT. For example, we have to determine who are the losers and winners under the GATT. Makati businessmen win and Mang Pandoy loses. Businessmen may lose by ten percent. But the biggest winners are the traders.

Therefore, I was very insistent on the need for farmers and workers to be consulted. That is their constitutional right. Article XIII, Sec. 16 of the 1987 Constitution states that "the right of the people and their organizations to effective and reasonable participation at all levels of social, political, and economic decision-making shall not be transgressed." The problem is that they are not being consulted, notwithstanding that that policy is also embodied in the Magna Carta of Small Farmers. Section 23, par. 10 thereof provides that the importation policy shall be reviewed periodically by the government in consultation with farmers organizations. This provision is necessary because the

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farmers are ones who will be affected. They might see that this is against the farmers and pro-business.

Millions of our countrymen might have been protesting. We would have joined other protesting nations. We might have obtained some concessions. But I think, we have joined instead the chorus of those who are singing *hallelujah*. Perhaps, it is because we will live longer that way.

Now, speaking of local content, it is probably our fault because we never really tried to manufacture the contents of our products. We are so fond of importing. When we boast that this year we have imported 40 percent, 60 percent of that have been imported beforehand.

We are in an excruciating economic situation. And we say, 'foreign investors, come over.' We lack judiciousness.

In IPR, specifically in genetics, they [IPR proponents] get our raw materials and now claim the same as their property, and we have to pay more for them. Can they claim exclusive right over these raw materials? Our negotiators never raised that point.

Now, here comes the legal question which also has socio-political implications. Can the President sign the GATT treaty knowing that it is violative of an existing law — the Magna Carta of Small Farmers? This law provides that there should be quantitative restrictions if we produce an agricultural product with sufficient quantity. The GATT provides its replacement by tariffication. Can the President sign a treaty to override an existing law?

In the September 8 Social Compact, which President Ramos signed with other sectors, we reported in the committee of basic sectors that the Magna Carta will not be amended. The President congratulated us. Did our negotiators respect that social compact in addition to the statute? I would have wanted them to keep on fighting up to the end. And if they cannot succeed, well, never mind.

Can the Senate ratify a treaty in derogation of an existing law? The Senate is only the upper chamber in our lawmaking body.

Third, the GATT treaty will require the imposition of new tariffs. But tariff laws, according to the Constitution must originate in the lower house. If laws must so originate, if the President will approve that treaty and there will be new tariffication and such would not originate from the lower house, would that be constitutional?

These are the constitutional complications. The Magna Carta has hardly been implemented, but it has already been made ineffective by illegal importations and smuggling.

Our people must be informed not merely in general terms. We must be informed of the details. How will the corn farmers in Cotabato be affected, the banana workers in Davao? Who among the banana workers will be affected? The people must know, and perhaps, we need the help of the students in this undertaking.

Buencamino: Thank you for your comments. Actually your comments are not new to us anymore because there are well known comments from various sectors of society about our role in the Uruguay Round. It will be quite difficult for me to objectively engage in a debate on a number of things that you have said. At least I would like to tell you and other members of the panel, including our audience, that when we negotiated in Geneva, we never forgot that we were also Filipinos. Let me just respond to the three objective points that you made.

First of all, time changes. You are quite correct that only Congress can effect changes in time. In fact, we have a long list of legislative changes that Congress will have to enact. The Senate's role is only ratification. I told you that last week, I was with the Ways and Means Committee in Congress because of changes in customs valuation. Next week, I will be in the same Committee because of changes in tariffs. The Committee conducts a series of consultations. At least, there are consultations in Congress. We know that very well, and we are in close touch with Congress as well as with the Senate. Starting in March, the DTI, as lead agency, will embark on a roadshow. We call it a roadshow because we will be presenting the results of the Uruguay Round to different sectors and interest groups around the country. This is the start of the transparency process that you are demanding.

Second point, I want to respond to your claim that we entered into a situation wherein the fight is between a heavyweight and a lightweight. That is a good analogy but it is not quite appropriate when you look at the situation of world trade and agriculture. Of course, the US and EC are heavyweights. They can provide billions of dollars in subsidy just as they did in 1992, and we could not afford even a million dollars. But the point is, you have a situation where big boys have been heavily subsidizing for more than 40 years and you cannot do anything about it. Here is your chance to get them to agree to start reducing subsidy. So by all means grab that chance. It is not free trade. The Uruguay Round does not promise

free trade. Neither does the ASEAN Free Trade Association (AFTA). But the North American Free Trade Association (NAFTA) does. Free trade means that substantially all products get substantially equal to zero duties. The Uruguay Round is not free trade. I have been trying to explain this to the people from the agricultural sector.

Tariffication looks frightening. But in operation, it will not effect a profound change. It will not effect changes at all in trade conditions. So it is not so much the case of the heavyweight versus the lightweight. The Uruguay Round is a unique opportunity to get the heavyweight to start a commitment to lose weight. Of course, you snatch that opportunity. I can assure you that agricultural negotiations in the context of GATT or WTO will continue for the next 50 years. It will take a very long time to get these people to agree to zero subsidy. But when do we start? You now have that unique opportunity in the Uruguay Round. We saw that opportunity. So this is it.

“Tariffication looks frightening. But in operation, it will not effect a profound change. It will not effect changes at all in trade conditions. So it is not so much the case of the heavyweight versus the lightweight. The Uruguay Round is a unique opportunity to get the heavyweight to start a commitment to lose weight.”

Third and last part, the most confused and misrepresented issue. The basic argument of Atty. Montemayor is that the Magna Carta of Small Farmers precedes the Uruguay Round. I beg to disagree. The first commitment, Art. 11 of the GATT, *circa* 1948, says that quantitative restrictions are prohibited. But of course, we have found a loophole — the BOP provisions that I have mentioned earlier. So we could escape from that number one commitment. But there existed in 1948 that commitment in quantitative restrictions and when we signed the GATT in 1980, we undertook to align all our domestic laws according to that international law. The Uruguay Round began in 1986. The issue of tariffication was alive by 1989. By the time of schedule of conclusion of the Uruguay Round in Brussels in 1990, tariffication was the main issue. Manila was fully briefed of the consequences of tariffication and standing instructions were covered. The Magna Carta came in 1992.

I would even say that people who drafted it failed to consult with our international law division. I would beg to disagree that the Magna Carta precedes the Uruguay Round. That is a fact that I have to state.

Dr. Rene Ofreneo: This discussion on GATT is quite late in coming. We joined GATT in 1980, we should have been talking about it and its implications on industry, agriculture, labor, and other aspects of livelihood a long time ago. Like what Atty. Montemayor said, it looks to me as if there was no ample consultation on the matter. When we joined GATT in 1980, as far as I know, the only ones who decided on the matter were Gerry Sicat and Cesar Virata. There was no consultation on the GATT as it was forwarded along with the structural adjustment programs (SAPs) of the IMF and World Bank (WB).

The effects of GATT were not discussed much in the 1980s because the effects of the SAP were almost the same. Under the SAP, the government was committed to such policies as import liberalization, agricultural deregulation, and financial and monetary deregulation. We also had a series of tariff reductions under the SAP. We also lowered the average tariff protection from something like 70 percent in the 1950s, to about 30 percent. Under the Aquino administration, it went down further to around 10 percent. I do not understand why we need tariff cuts when our tariff rates right now are, to use the language of the economists, very competitive compared to other countries.

The overall intention of the GATT is to promote free trade and investments. Of course, free trade not in the sense that there will be completely no tariffs, but there is a reduction of tariffs in order to promote a greater volume of trade. In relation to this, economists are talking about what are called 'tradeables.' By 'tradeables' we mean products being exported and imported.

But in the case of the Philippine economy, particularly in the industrial and agricultural sectors, we have what we call 'non-tradeables.' These 'non-tradeables,' as mentioned by Atty. Montemayor, refer to the sectors which produce for home consumption or the domestic market. Naturally, if the market is flooded by imported 'tradeables,' and the local producers ('non-tradeables') are not able to compete, then this would be detrimental to the 'non-tradeables' sector. The problem, therefore, is how to balance this situation.

Unfortunately, the weight of the arguments found in economic literature, even those produced by UP, are always in favor of tradeables and free trade. But in other countries, they always try to achieve some

balance. That is why it is surprising that it is only now that Japan is trying to deregulate its agriculture, after becoming one of the most advanced economies in the world. This is so despite the absence of pressures from trading giants like the US and the European Economic Community (EEC). Japan is deregulating its agricultural sector on its own initiative. In our case, it seems we are being elbowed into this deregulation scheme, assuming that it is to our ultimate benefit.

For instance in the case of the devaluation of the peso, economists are arguing that devaluation will favor agriculture, but are we really certain that this will be so? Probably in the case of pineapple producers, rubber exporters, asparagus exporters and the like, but in the case of our farmers who constitute the overwhelming majority, and whose rice and corn products are destined for the domestic market, they will be the ones penalized by this deceptive measure.

The point is this: it is not so easy to make a sweeping statement that by encouraging the production of 'tradeables' through peso devaluation, tariff cuts, etc., the economy will grow and the standard of living of our countrymen will improve. There has to be some balance and consistency in the policies government makes.

Many of the non-commitment policies to agricultural subsidies were phased out during the 1980s. In the 1970s, we had a lot of subsidies, in fact, there were industries that were over-subsidized under Marcos (e.g., Masagana 99 project). In the 1980s, however, the WB deregulation program resulted in an all-out removal of subsidies to the point that it had a dislocating effect.

That is why when Dir. Buencamino earlier measured the potential benefits, we should also measure them in terms of potential losses. For example, it was cited that we had potential benefits in terms of oil seeds but even if we are made to produce our own coconuts, our coconut industry would account for only less than five percent of the total market for oil seeds. There is a small benefit; but the losses, for example, the flooding of agricultural products which will displace locally produced agricultural products, will hurt. As Atty. Montemayor cited earlier, this will also apply to corn and certain fruits.

In the case of the textile and clothing industry, liberalization was supposed to benefit local producers. But again the nature and structure of our textile industry inhibited whatever benefit we were supposed to derive from liberalizing the industry. At present, we are no longer as competitive as before compared to Thailand, Malaysia, and Indonesia because our

textile industry consists mainly of second-hand capital stock we were able to salvage from Japan under the Reparations Act.

Secondly, we do not have a local petrochemical industry to complement our garments industry. Neither do we have a machine-building industry. We have to import our raw materials. Hence, we are at a disadvantage compared, for instance, to Vietnam and China when it comes to manufacturing textiles and garments. You visit major capitals of the world and you will see Chinese-made textiles flooding the market. The reason: the low prices of the textiles and garments. They are able to produce competitively because of the infrastructure available and complementary industries like petrochemicals and machine-building. These we do not have at present.

I am raising this point because I want to emphasize the importance of what is called the structure of industry or economy in an open economy as envisioned in the GATT. Can our industries withstand the competition that the GATT is going to bring? Can our backward agricultural sector survive the inflow of imported products that the GATT is going to liberalize? Personally, I am not against foreign trade or even financing foreign trade, but then I go back to my old theme — there should be balance. It should be trade in the service of the people, not people in service of trade. I do not have time to discuss the effects of GATT on the labor sector but globally, labor standards are being eroded in the name of free trade.

Thirdly, as aptly observed by a Malaysian visitor last week, the supposedly level playing field in the world is not really equal or even. I think this observation, to a large extent, is accurate. Our friend even gifted the President with a limousine, a Proton-Saga, whose content is over 80 percent Malaysian. While in our case, we started a progressive car manufacturing industry around three decades ago, but until now, our local content is only about 20-25 percent. The reasoning given by many who tried to rationalize such a low local content is that the Philippines did not have a market for cars, but look at Malaysia, they have a smaller population, and yet they were able to develop their car manufacturing program. They now export, of course they have joint ventures with Mitsubishi. The Malaysians are very decisive, they emphasize linkage development, that is why Mitsubishi's partner in Malaysia are the heavy industries of the country.

I should also point out that I also represent the National Economic Protectionism Association (NEPA). However, we do not advocate old

protectionism. Old protectionism was only advantageous for the elite, but in the free trade set up, it is also not true that there are no elites. The elite here are much larger: the transnationals.

The United Nations Conference on Trade and Development (UNCTAD) studies show that almost 50 percent of global trading in manufacture is intra-firm trading, meaning trading between multinational subsidiaries. If we examine the imports of Japan from ASEAN countries, we will see that they are importing manufactured goods from their subsidiaries based in these countries. This is part of their global trade strategy. Fortunately, we do not have these in our country. That is why in advocating new protectionism, we would like to emphasize that what we have already, whatever industry, no matter how inefficient, should be transformed and maintained.

Why should we simply expose them in the name of free trade to global competition which will inevitably destroy them? The investment statistics last year were not very good. They showed that the majority of the investments are poured into real estate and the stock market, not on production. I do not know how we can sustain this kind of economy.

In addition, the renewed advocacy to take care of our environment should be part of the new protectionism. I do not know whether we can have both balanced trade and self-reliance with this goal in mind. Why do we not diversify our local economies and promote our local markets? We have a population of 60.5 million. That is a big market. At the turn of the century that was the population of the US, and yet they had already developed an airplane industry and a car industry and their share of global trade was only 15 percent. In other words, there is an existing market, why should we simply neglect the domestic market in favor of an outside focus? What happens is that the only thing that sustains the local economy are the overseas contract workers (OCWs).

I do not know how prepared we are for the results of the Uruguay Round. It turns out that a lot of people, including our senators and congressmen, do not understand what GATT is and what commitments we have. The Uruguay Round started in Cory's time, but there was no publicity, and it ended under Ramos but there was still no consultation. They say that there was an economic summit held in September last year but there was no representative in the negotiating panel to discuss GATT and its implications.

Atty. Montemayor mentioned the workers and farmers, but they are not the only sectors that were not consulted. Both big and small Filipino businessmen and cooperatives were also treated the same way. There was no meaningful consultation with them regarding this matter. It should be that the consultation should be industry to industry because of the varied effects the GATT will have on different industries.

That is what they did in Japan, that is why their structural adjustment was made smoothly. The actors were ready for the change. It is about time that government divulge facts about which industry will stand to benefit from the GATT and which industries will be hurt. Forewarning — that is the best safety net that government can provide. But there is no such warning.

Finally, if we are really going to participate in global trade, where are the Filipino champions who would take the lead and take advantage of free trade? There are none, simply because we have no clear industry or agricultural plan. What we are banking on is simply to open the economy up and allow foreign investments to develop it. But these investments are purely international subcontracting arrangements.

Even if you complement this with policies like liberalizing foreign investments and devaluation, the structure of our economy is simply too inhibitive to produce meaningful results. In the case, for example, of electronics, even though there is a planned tariff cut of about 50 percent, this will hardly benefit us because we only produce assembled parts, not finished products. The ones who will actually be benefited by these tariff reductions are the Motorola company in the US and Japan's NEC.

So the bottomline is: we joined the GATT during the Marcos and Aquino administrations, and now we are joining again under Ramos without really having a clearly defined agricultural and industrial plan. Worse, meaningful consultations are absent particularly in the sectors which will be hit hardest by this agreement. Safety nets are also not being prepared. In the last analysis, we are joining the GATT without any clear direction as to what we really want to achieve. This is as true today as it was before.

“It is about time that government divulge facts about which industry will stand to benefit from the GATT and which industries will be hurt. Forewarning — that is the best safety net that government can provide.”

“[T]here is one big incentive to keep on using old machinery. It is because your domestic market is so isolated from foreign competition, you do not have to innovate. You can continue to use old machinery, produce the same product, and force it upon your consumers. But if you open up, you begin to innovate. You have to sell quality products.”

Magno: We shall allow Dir. Buencamino a brief rebuttal before we move to the open forum.

Buencamino: I do not want to call it a rebuttal, just a comment because Dr. Ofreneo has made very good points, especially with regard to the last point of directions. That is something that we in government are also in search of.

I will just focus on three points. Dr. Ofreneo mentioned the low tariffs of about 10 percent. I think the more accurate figure is about 28 percent which will go down at the end of 1995 to about 21 percent. So why did we offer more cuts? We did not actually offer cuts. We offered to bind tariffs to 10 percent at each point higher than the outlined tariff schedule. That is one of the criticisms against us, they tell us, we do not have any tariff cut, only a binding of tariffs. But that is something we want to resist, we want to stand our ground. We would not do any more cuts.

Second point, textiles and outdated technology. I really do not know the reason why our textiles industry has outdated technology. It is true, the machines they use are 30 years old. But you know, there is one big incentive to keep on using old machinery. It is because your domestic market is so isolated from foreign competition, you do not have to innovate. You can continue to use old machinery, produce the same product, and force it upon your consumers. But if you open up, you begin to innovate. You have to sell quality products. Thus, overprotection is not the best support we can give to infant industries. This extended protection will only guarantee industrial retardates. They will only make retardates out of those infant industries.

Now, the last point I want to make. There is a question inherent in Dr. Ofreneo's comment, that is, can we survive the Uruguay Round? My personal opinion would lead me to say 'Yes.' The changes brought about

by the Uruguay Round, despite the magnitude of the words and numbers I have shown you, let me tell you that I personally feel that the effects will not be felt immediately. It will transpire over the medium-and long-term. And because it will transpire that way, we cannot say that the Uruguay Round will immediately have profound changes. Perhaps, ten years from now, you will look back and say, these are the changes brought about by the Uruguay Round, it is not so bad after all. I mean let us give it a chance. Because the leaders of 117 countries, negotiators of 117 countries, the best minds of the universities of the world working on the secretariat of the GATT, they will not pour in seven years of hard work for something that in effect will be bad for all. It will be good, good as some people say for the big boys but not so good for the small boys, I do not think so. Perhaps not. Maybe, we are magnifying what we perceived to be costs that will be shouldered by small participants like the Philippines.

My only appeal is this: perhaps there will be greater chances of surviving the Uruguay Round than we actually feel now, so give it a chance.

OPEN FORUM

Question: What are the implications of GATT to NAFTA and other regional economic groupings?

Buencamino: First of all, the likes of NAFTA are all exceptions in relation to GATT. With respect to NAFTA, the US, Canada, and Mexico are forming a committee that will examine NAFTA later this year. They will review whether the agreement is consistent with GATT. But all these regional trade agreements are in derogation of GATT because there is only one system of trade — multilateral and not regional. In the US, there was much debate about the NAFTA. But you see in spite of all the debates on the pros and cons of NAFTA, any way to reduce tariffs would require efficiency.

We will not be very much affected by NAFTA as far as Mexico is concerned.

“Thus, overprotection is not the best support we can give to infant industries. This extended protection will only guarantee industrial retardates. They will only make retardates out of those infant industries.”

I have seen some documents concerning NAFTA. The tariffs in the US are already low. Of those products of interest to Mexico and Philippines, the average tariff is four percent. With the NAFTA, the US will make that zero for Mexico and will maintain four percent with respect to us. So we are talking about a four percent margin. Now consider the GSP. The GSP could either be zero or two. So what dislocations are we talking about? On textiles and clothing, we can even come out ahead despite the NAFTA except on certain types of textiles like polyester. But that is a fact of life. The US decided to enter on a free trade agreement with Mexico and Canada. We have to live with that.

People say that there might be dislocation as far as investors or trade are concerned. If you look at the US border, the southern border of the US in Mexico within the 50 km. radius, you will find subcontractors composed of Mexicans, Americans, or joint ventures. They produce along that area and they ship them to US. That is duty free and that has been going on for decades already. That comprised about 60 to 65 percent of Mexican trade with the US. So if you are afraid of the NAFTA effect, let me tell you that you have felt it years ago.

Question: My question is how is GATT related to the devaluation of the currency? Just recently, this issue of devaluation has hit the country. Some sectors are saying that if we devalue the Philippine peso, we will encourage exports and discourage imports. If we continue at this level now, an artificially lower value of the Philippine peso, exports will lose competitiveness and imports will be coming in to the prejudice of the country.

So with the signing of the GATT, will the level of the currency have any effect on the way GATT will affect our volume of trade with other countries? For example, if you say that the primary purpose of GATT is to encourage the free flow of trade, but then our currency is overvalued, so our exports will lose over our imports, what pressure will the GATT exert on our monetary and forex policies?

Buencamino: It is good that you mentioned the relationship of GATT with our currency. Implicit in your statement is that GATT has no relation with monetary policies. But you are right if we have a situation that because of the GATT, there will be liberalization worldwide. But as I said earlier, it will not have a profound effect within the next few years. It will come very slowly. We have a liberalized environment but we

cannot compete because the currency is too expensive. Then the challenge to the exporters and the government policy-makers is, despite that, to determine what can be done to make the peso more competitive.

The question of the dollar being strong now will not be solved by devaluation. You devalue because your currency is very weak and you need to defend it. The situation now is that the peso is very strong. Maybe, I can offer some reasons. If you devalue the peso, what happens? You will have a black market which can buy and sell dollars at a lower rate. You will have an official exchange rate offering a higher value for dollars and no one will buy in the black market. It is the reverse. The question of devaluation is not natural in cases like this.

Now why is the peso strong? I do not know. Perhaps it is because of the amount of dollars that the OCWs have brought during the Christmas season or the liberalization that has transpired in the financial sector. What happens? I had lunch with my banker friend yesterday and his problem is the boom in foreign currency. Investors come in with dollars and convert them to pesos, and then place them in higher-yielding issuances or investments because the dollar will only earn 3-4 percent per annum. But the peso will earn up to 14 percent if you put in treasury bills. If you invest it in initial offerings of big corporations as Cebu holdings or Petron, you can earn as much as 500 to 600 percent in two or three months. So the solution there is not devaluation. You just have to put your dollars to better use.

Ofreneo: I agree with Dir. Buencamino. Devaluation is a lazy manner of promoting exports. It is as if devaluation would automatically increase our exports.

In exports promotion, we need to identify our targets. You look at the case of Japan, Taiwan, and Korea. Whenever they have devaluation, they can target the industries that will conquer the world market. We do not have this kind of mechanism. We just assume that when we devalue, exports will increase. In reality, there is really no substantial increase in exports. This is because of the character of our export industries which rely on subcontracting and are dependent on imports.

Let me tell you the case of Singapore which was shared to me by a prominent Singaporean economist. Singapore developed with a strong currency and yet it is export-oriented. Singapore has to maintain a strong currency to check inflation because they import energy. So, if they

would devalue their currency, the effect would be inflationary. Singapore has also developed industries and corresponding structures to support them. It targets exports with productivity.

Question: How did we bargain for the farmers in GATT negotiations and how are we going to address the plight of the farmers in view of the GATT?

Buencamino: The world trading committee sets targets. What do we want? We want this kind of liberalization. It is up to the countries to negotiate. For us, in the area of agriculture, we have a situation where we do not need to do anything insofar as subsidies are concerned because we have no money. We will remove quantitative restrictions but in its place is a higher tariff equivalent which will in effect operate like such restrictions. That is what we negotiated.

Thus, it is not a situation where we totally disregarded the plight of the farmers. You negotiate an agricultural agreement precisely because of the farmers. Now we have to work within a negotiating parameter — removal of quantitative restrictions. That is why Canada, Japan, and Korea capitulated. So within that parameter, we have to make sure that, in effect, the situation of the farmers will not change.

Montemayor: We have a very sad situation. Shall we cry the whole year round? That should give us more reason to fight on. The GATT is not yet over. Bargaining goes on. Can we not ask for exemption? In the case of Japan, the rice farmers are only a little percentage of the population and this is also true in Korea. On the other hand, 60 percent of our population are farmers. My impression is that in presenting and rationalizing the position of the Philippines in the negotiating table, we have not sufficiently struggled.

Magno: With that note, we have to close an interesting discussion. I think one of the main points that was raised this afternoon is the need to conduct public discussion on the GATT. On the part of the Third World Studies Center, we make a commitment to participate in this discussion.

On behalf of the Center, let me thank Dir. Buencamino and our panel of reactors for giving so much of their precious time to explain in very comprehensible terms a very technical issue such as GATT. And to all of you who have participated in this discussion, *maraming salamat po*. [This means 'thank you' in the Filipino language. -- Eds.]