



Are We Ready for GATT?

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ABSTRACT. Originally delivered as a privilege speech in the Philippine Senate, the piece highlights the inability of the government to identify the specific gains and losses that the Philippine economy will incur under the new General Agreement on Tariffs and Trade (GATT) treaty. It answers the titular question with a firm negative, arguing that the Philippines is unprepared for such extensive economic liberalization. The country is heavily dependent on foreign industries in order to sustain its own productive capabilities. The country's local produce cannot compete with cheaper foreign alternatives, which will flood the country should trade restrictions be removed in accordance with the treaty's stipulations. Agriculture will suffer the most from such inundation; the unfair competition from cheaper imports will be a major setback in the country's progress towards self-sufficiency in rice and corn production. Only nontraditional export crops stand to benefit from GATT's injunctions, but this gain is hardly enough to offset the possible economic losses that the implementation of the agreement could bring about. In conclusion, the paper calls for greater government activism in order for the Philippines to thrive in a liberalized global trading arrangement—the government must do away with the naive assumption that growth automatically results from opening up the economy. The State must directly intervene in the development of local industries, following a deeper inquiry into the repercussions of the country's membership to GATT.

KEYWORDS. GATT · economic liberalization · agriculture · nontraditional export crops · Philippines

INTRODUCTION

I would like to take this opportunity to sound an alarm on the state of unpreparedness of the nation to the emerging new global economic order under the new trading rules contained in the so-called Uruguay Round of the General Agreement on Tariffs and Trade (GATT).

In the hearing conducted by the Senate Committee on Trade and Commerce last week, our distinguished colleague from Pampanga, Senator Gloria Macapagal-Arroyo, raised a pointed question to the government representatives present in the hearing: who will be the winners and losers in the Philippine economy under the new GATT

terms? They could not rattle nor could they produce any list of industry winners and losers.

It was, to say the least, a shocking indicator of how ill-prepared the government is for the coming trade battles in the global market to be managed by the new World Trade Organization (WTO), which will supplant the GATT. While our trade, industry, and agricultural officials keep talking—in the abstract and general terms—about the advantages of Philippine participation and ratification of the new GATT agreement, they hardly mention any of the disadvantages and potential losses for the country's industry and agriculture. They see it as a win-win linear game, with no pains and losses.

This is surrealistic. Surrealistic because the truth is that there will be winners and losers in this economic liberalization game. More specifically, further liberalization of the domestic economy through the removal of whatever remaining trade restrictions we have and through the maintenance of our reduced tariff rates would mean that we shall be exposing our domestic industry and agriculture to cheaper competing foreign products, coming not only from our traditional trading partners but also from all of the hundred or so GATT/WTO member countries.

On the other hand, there is no assurance that we shall gain a substantial share in the projected expansion of the global market, especially if we do not prepare or work for it. For instance, our leader export industries such as garments and electronics are largely under international subcontracting, which means that the demand for locally-assembled dresses and integrated circuits depends not on their price elasticity alone but more on the requirements of the foreign principals which control the raw materials, design, technology and overall marketing for these industries. We do not have export champions like Japan with its Toyota and Sony, and South Korea with its Samsung and Goldstar that can take the world on its terms.

The new GATT opens bigger opportunities for us, but if we are not prepared for it, we might end up losing more than what we intended to gain.

The Uruguay Round started 1986; however, it is only now that the Department of Trade and Industry (DTI) and the Department of Agriculture (DA) are providing us with the details of the new GATT and its possible effects on our industries and agriculture. There was not even a mention of the sectors that would be adversely affected.

What is happening now is the same as what happened in 1980-85 in the Structural Adjustment Program (SAP) agreed upon by the World Bank, Cesar Virata, and Gerardo Sicat. In 1978-80, the technocrats of the Marcos regime projected increases in exports and employment opportunities as well as promotion and expansion of industries because of the SAP. The restrictions in the economy were relaxed by lowering the tariffs on industries, lifting the restrictions on imported products, floating the interest rate, and privatizing government-owned corporations without consulting with representatives of the industries and unions, and without warning to the industries that would be benefited or adversely affected. These measures were instituted in the name of free trade and in the hope of strengthening the economy.

But what really happened was quite contrary to what was anticipated. With the sharp increase in the interest rate and the deluge of imported items, many industries suffered a crisis even before the assassination of Ninoy Aquino in 1983. One of the industries that suffered most was the textile industry, which, even up to now, is still recovering. The country then was totally unprepared for the SAP and the government technocrats did not even have decency of informing the industry leaders about the changing rules of making business under the SAP.

The same thing is happening with the new GATT.

IMPACT ON AGRICULTURE

Right now, the sector of the economy that stands to lose most under the GATT is agriculture. According to the study of the Philippine Peasant Institute (PPI) and the National Economic Protectionism Association (NEPA), the traditional food crops, such as rice and corn, and the traditional export crops, such as sugar and coconut, which cover more than 90 percent of Philippine agricultural land, will find it hard to compete with cheaper imports right in our domestic market.

For example, our rice and corn are more expensive than the imported rice and corn coming from Thailand and other countries. This is not because our rice and corn farmers are less industrious than their foreign counterparts, but because our infrastructures, such as irrigation and transport, are underdeveloped and expensive to use. Our agriculture is also highly dependent on imported but expensive imports such as seeds, chemicals, fertilizers, agricultural machinery, tools, and fuel. So a kilo of Mindanao corn in Manila costing PHP5.50

cannot compete with a kilo of Thai corn with landed cost of PHP3.00 even if the latter is slapped a tariff rate of 50 to 75 percent.

The tragedy is that since the end of World War II, the national government has been trying to promote programs on self-sufficiency in rice and corn production as part of the country's food security. Now that we are almost self-sufficient in these cereals, we are exposing these crops to possible market devastation through the opening up of the domestic market to cheaper imports.

Interestingly, the DA, through its Medium-Term Agricultural Development Plan for 1993-1998, has projected the release of 3.1 million hectares out of the total 5 million hectares of rice and corn lands for the development of other crops. Accordingly, such a decline in areas planted with rice and corn will be made possible by the intensification of rice and corn production in the irrigated areas. It is really the entry of cheaper rice and corn, not the cereal production enhancement programs of the DA that will ensure the release of the 3.1 million hectares. The flooding of our domestic market with imported rice and corn will depress the prices for palay and corn and will lead to the bankruptcy and greater indebtedness of the marginal rice and corn farmers cultivating non-irrigated, rain-fed, and marginal farms. That is how competition will displace our rice and corn farmers.

This observation is reinforced by the complaint of the United States Trade Representative last year, who said that Republic Act No. 7607, or the Magna Carta for Small Farmers, violates the GATT. Specifically, the US Trade Representatives opposes the provision of the Magna Carta prohibiting Philippine importation of agricultural products sufficiently produced at home. Apparently, the United States wants to inundate the Philippine market with rice and corn substitutes such as wheat and wheat by-products such as the cheap ready-to-boil noodles lining our supermarket shelves. But this trade controversy raises a more fundamental issue-which is superior and sovereign, our laws or our commitments to the GATT?

With regard to sugar and coconut, we are now paying the price for our failure to industrialize and hasten the vertical integration of these export crops, which are the products of colonialism. With the loss of our share in the protected American sugar market and with the opening up of the domestic market, our local sugar will have difficulty competing with the cheaper Australian and other foreign-produced sugar. In the case of the coconut industry, it stands to gain from the likely tariff reduction for coconut oil in the European market.

However, this does not mean a general price recovery for our coconut industry as coconut oil accounts for less than 5 percent of the world vegetable oils market. Moreover, coconut oil might not be able to compete with cheaper palm oil in our own domestic market.

According to PPI and NEPA, it is only the non-traditional export crops such as cutflower, asparagus, mango, carragenan, rapeseeds, etc. that really stand to gain most from the GATT-induced liberalization of global agricultural trading. Unfortunately, these non-traditional export crops represent less than 5 percent of the total agricultural land of the country. The potential gains in this subsector of agriculture may not be enough to compensate for the country's potential losses in the traditional food and export crops, financial, social, and otherwise.

CONCLUSION

That no consultation with the farmers was made by the DA will always be open to question; and, even if there were some information on this matter that were made available, only the positive aspects were expounded. This is most alarming.

What is happening in agriculture is happening in the industries. There is also no apparent consultation made by the DTI, and only the positive aspects of the issue were disseminated.

Of course, our domestic industry, which shrunk in relative size in the 1980s due to earlier liberalization measures, is unlikely to incur substantial damages as a result of the GATT. We were already liberalized by the SAP long ago.

However, there seems to be no organized program, written or unwritten, on how the country can take advantage of the so-called liberalization of the global economic order under GATT. As our colleague from Catanduanes, Senator Francisco Tatad, put it: "Are there products processes and services in which we excel, and without which something important will be sorely missed by consumers in the world market?" The DTI has not given us any clear answer to this question. And if the answer is in the affirmative, there are no clear indications that the industries producing such products, processes and services, and the machinery for a Philippine export offensive are in place.

Like the technocrats of the Marcos and Aquino regimes, the technocrats of the Ramos Administration appear to be following simple tack of naively believing that by opening up our economy,

growth automatically follows. This is in sharp contrast to the posture taken, for example, by Malaysia which, this early, has been restructuring its economy by fostering all kinds of linkages—upstream, downstream, and sideways—in its various industries even if it maintains an open-door policy to foreign investments while it rushes toward the development of a fully-industrialized economy by the year 2020. Or, in the case of South Korea, which like in the past, has been targeting new industries in the global market like the high-definition TV industry that are being assisted by the government through research and development and other institutional assistance. For these countries, liberalization of global trading rules does not mean doing nothing. It means greater activism by the State in spearheading programs to maximize industry benefits from the global market. It means having a comprehensive strategic plan vis-à-vis the GATT.

From what we have heard from the executive department so far, the government vision vis-à-vis the GATT is neither comprehensive nor strategic.

Thus, I am supporting the resolution of Senator Neptali Gonzales and the efforts of the Committee on Trade and Industry for a deeper inquiry into the likely impact of the GATT, both adverse and positive, on the economy and our people, even if's a bit late in the day, now that our country's representatives have signed the new GATT protocol last week. There is a need for the Senate to organize a multi-sectoral high-level committee to develop a comprehensive strategic plan on the GATT and offer the results of its findings to our sleeping technocrats in the executive branch. ❀

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