The GATT and Its Implications on the Philippine Economy*

Philippine Chamber of Commerce and Industry

Seven years after its launching, the Final Act of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) was finally signed last April 15, 1994 by 117 member countries. The agreement, which will take effect on January 1, 1995, is comprehensive and includes areas never before incorporated into the GATT — agriculture, services, textiles and clothing, trade-related aspects of intellectual property rights, and investment measures.

Given the complexities of international trade, it is quite difficult to measure the precise benefits of the new accord. However, according to some estimates, the agreement could increase world trade by some US$750 billion by the year 2005 and boost the world's total income from US$230 billion to US$270 billion a year.

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*This position paper was taken from PCCI's Country Paper on "The GATT and Its Implications on the Philippine Economy," and Policy Statement of the PCCI on the Proposed Senate Resolution No. 715, which was presented before the Senate Committee on Trade and Commerce, 12 April 1994, Executive House, Manila.

The Chamber believes that member countries stand to benefit from the unquantifiable results of the new accord. New rules for shipment and customs, more transparency in trade, and a better way of settling disputes all contribute to a more predictable trading system.

It is, however, the indirect effects of trade liberalization that are projected to be more far-reaching. When tariffs are cut in developed countries and, more importantly, in developing countries, domestic industries are exposed to competition. This shifts resources to more efficient uses which will boost productivity and living standards.

Pending a thorough study of the GATT agreement, it is believed that the new deal will provide more access for products such as electronics and agricultural products to the markets of the country's major trading partners. The Philippines reportedly stands to gain from concessions in the form of average tariff cuts of 22 percent from the US, 30 percent from the European Community (EC), 45 percent from Japan, and 51 percent from New Zealand.

In addition, it stands to benefit indirectly from the Most-Favored-Nation (MFN) component as a result of the average 33 percent tariff reduction on products requested by other Uruguay Round participants (Table 1 and Figures 1 and 2). In this regard, the Philippines has committed, not to raise, but to 'bind' tariffs at 10 percentage points above the 1995-applied rates for 2,644 industrial and 537 agricultural tariff lines.

Moreover, 114 agricultural tariff lines will be bound at 5 percentage points above the 1995 rates. Also, tariff reduction of 12 tariff lines in textiles will result in rates lower than 1995-applied rates within 10 years. The Philippines is also projected to benefit from the increased opportunities for Filipino professionals in many areas of services (Table 2).

The use of the transaction value as a basis for customs valuation, in lieu of the Home Consumption Value (HCV) method, will result in lower costs of goods for both producers and consumers. The country is expected to shift to this new method of customs valuation within five (5) years starting from January 1995, with a transitory export valuation (modified BDV) first in place.

It is projected that the new accord will also help in levelling the playing field between rich and poor countries. In the area of agriculture,

Table 1

Philippine Export Products Granted Concessions under the Uruguay Round

Products	Target Market	%Tariff Reduction
Artificial Flowers	EC	39
	Japan	33
Articles of Porcelain	Australia	25
	EC	33
Electronics	Australia	49-52
	US	50-100
	EC	50-100
Furniture and Parts	US	100
	Canada	35
	Australia	48-58
	New Zealand	55
	EC	52-100
Christmas Decors	EC	56
	Canada	34
	Australia	52
Worked Mother of Pearls	Japan	50-100
	Australia	25
	US	100
	EC	100
Tuna	Japan	30
Shrimps and Prawns	Japan	67
Leather Gloves	Canada	31-37
	Australia	50
Plywood	Japan	50
	Australia	57-71
	New Zealand	25-68
	EC	30-40
Articles of Wood	EC	100
	Australia	40
	New Zealand	71
Basketwork and Wickerwork	Japan	34-51
	Australia	100
	New Zealand	47
	US	34-50
	EC	24-40
	Canada	35
Textiles and Clothing	New Zealand	12-67
	EC	8-14
	US	6-100
	Canada	30-37
	Australia	17
Footwear	EC	11-15
	Australia	7-26
	Canada	20
Coconut Oil, Crude	Canada	34
	Switzerland	33
	EC	36-50
	Japan	50

Table 1 (Continuation)

Philippine Export Products Granted Concessions under the Uruguay Round

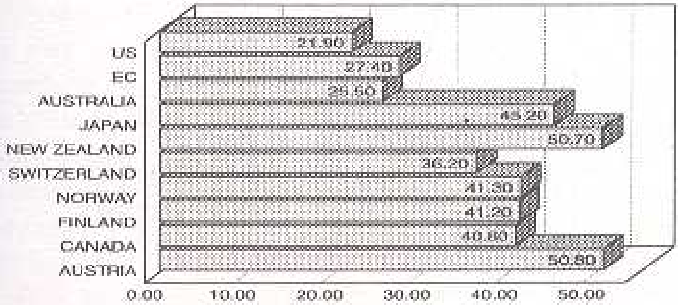
Products	Target Market	%Tariff Reduction
Industrial Fatty Alcohols	US	54
	EC	37
	Australia	60
Coconuts	Japan	50
Bananas	Switzerland	26
	Japan	50
Dried bananas	US	100
Mangoes	Japan	50
Preserved Pineapples	US	36
	Australia	20
	New Zealand	100
	Switzerland	36
	EC	20
	Japan	15-17
Pineapple Juice	Switzerland	36
	Japan	54
	Australia	20
	US	21-24
	EC	20
Tobacco	EC	20
	US	15-17

Source: Philippine Trade Training Center, Department of Trade and Industry

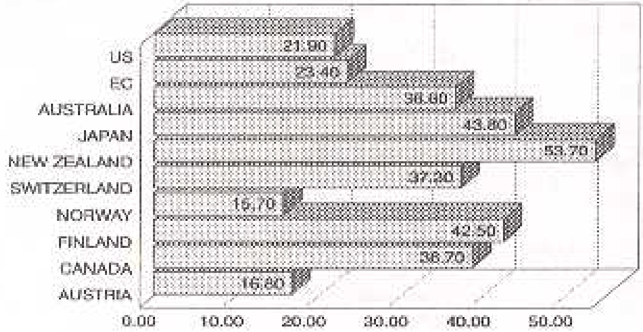
Figure 1

Tariff Reduction Granted by Major Trading Partners to the Products of the Philippines

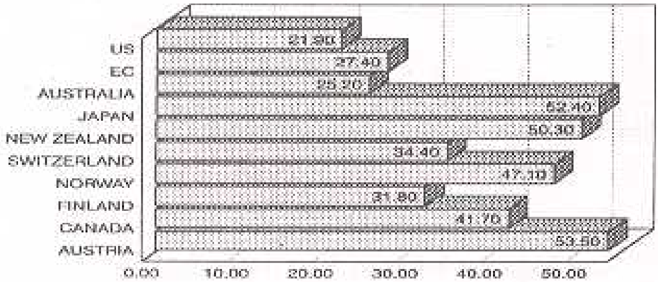
(a) All Products



(b) Agricultural Products



(c) Industrial Products

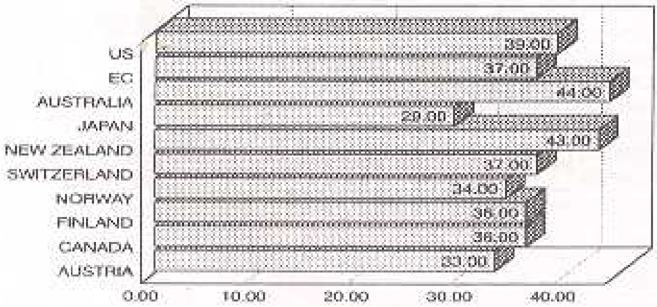


Source: Philippine Trade Training Center, Department of Trade and Industry

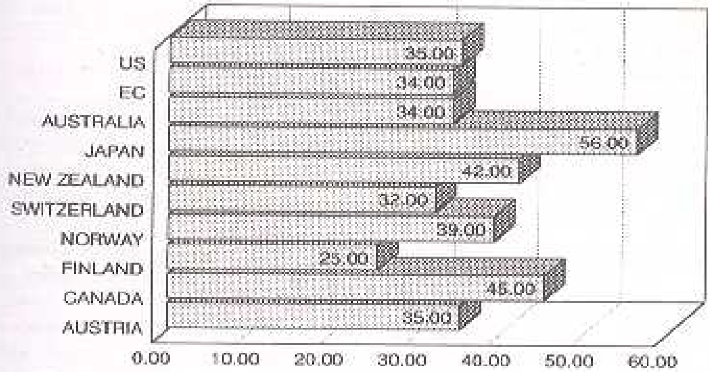
Figure 2

Percentage Reduction by Major Trading Partners

(a) Agricultural Products



(b) Industrial Products



Source: Philippine Trade Training Center, Department of Trade and Industry

for instance, the Philippines is expected to benefit from the reduction in the number of products that are provided with export subsidies. Agricultural exports such as bananas, mangoes, and pineapples stand to gain even more since most of the country's trading partner have offered duty-free treatment for these products.

The Philippines has committed to the tariffication of quantitative restrictions on 93 agricultural products and to binding tariff equivalents at double the 1995-applied rates. In addition, the tariff reduction of 27 tariff lines in agriculture will result in rates below 1995-applied rates within 10 years. It goes without saying that the new deal is not expected to deter the spread of non-tariff barriers. Without it, however, non-tariff barriers would spread even faster and will thicken the atmosphere of suspicion among countries in which they flourish.

On the downside, despite the reported benefits the Philippines will derive from the agreement, the new accord may result in a loss of preferential quotas for Philippine garment and sugar exports to the US, as well as the removal of tariff discounts under the Generalized System of Preferences (GSP). It should be noted that the Philippines is very dependent on GSP treatment which covers some US$1 billion of the country's exports to the US. The country also relies on the quota system which allows the Philippines to ship 1.25 million metric tons of sugar and 556 million sq. m. of garments to the US.

On tourism, though there seems to have been no in-depth studies conducted yet on the implications of GATT on domestic tourism, it is

Table 2

Specific Possibilities for the Philippines

Mode of Supply Item	Offered by	Limitations on Market Access
I. Movement of Personnel (all sectors,including professional services and construction services)		
A. Intra-corporate transferees	o All OECD countries o India, China, Korea, Singapore, Malaysia, Indonesia, and Thailand o Latin America	o Movement is connected with investment or commercial presence and limited to executives and specialists
B. Specialty professions	o United States o Canada o Australia o India	o In the US, covers architects, engineers and medical personnel except nurses, business professionals subject to global quota of 65,000 limit of stay of 3 years and absence of job displacement o In Canada, there are no labor market ties; coverage is limited to engineers, agrologists, architects, forestry professionals, geomaticsprofessionals, and land surveyors; and stay is limited to three months with provision for two-year extension.
C. Service sellers or business visitors	o All OECD countries o India, Korea, China o Singapore, Malaysia and Thailand o Argentina, Brazil and other developing countries in Latin America	o Movement is for the purpose of participating in business meetings; business contacts including negotiations for the sale or services or preparations for establishing commercial presence in host country o Renumeration sourced from outside of host country o Stay is generally limited to three months
II. Cross-border supply	o All OECD countries o Singapore, Malaysia, Korea	o Generally, no limitations on market access and national treatment
A. Computer and related services o Consultancy related to the installation of computer hardware o Data processing and database services o Remote back-office processing centers in such areas as insurance claims or airline reservations		
B. Audiovisual services o export of films, animated cartoons, etc.	o United States o Japan	o No limitations on market access and national treatment

Table 2 (Continuation)

Specific Possibilities for the Philippines

Mode of Supply Item	Offered by	Limitations on Market Access
III. Consumption Board		
o Tourism o Convention services o Medical/health facilities o Facilities for retirees such as long-term nursing or rehabilitation care	o All OECD countries	o No limitations on market access and national treatment
o Ship repair facilities (e.g., Subic Park)	o Most OECD countries had withdrawn their offers in this area due to the extended negotiations in maritime transport services	

also projected that the effect of the new accord will be similar to its overall effect on tradeable services. The tourism sector is projected to grow as the world economy grows — by how much, however, is quite difficult to quantify at this stage.

The emerging realities in the global market have opened our eyes to the fact that for developing countries like the Philippines, sustained economic growth will have to depend on closer cooperation with and integration into the world economy. The complexities involved in modern industrial and agricultural production processes require that the Philippines look beyond its territorial boundaries and search for appropriate growth strategies that will encourage the optimal use of resources. Freer market access, though, does not necessarily mean easier market access for Philippine products. To compete effectively, the Philippines must continually re-assess its competitive positions vis-a-vis other developing countries also competing for a share of US, Japanese, and European markets. It is also very important that measures be formulated to enable our domestic industry to adapt quickly to changes in policy or market conditions with respect to our major trading partners.

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The GATT agreement is not a trade panacea. Clearly, there will be winners and losers. However, the gains in efficiency that will be derived from aligning domestic production in accordance with comparative advantage and world market prices are sure to outweigh any short-term costs. It should be noted that recent trends in the world market, such as the emergence of trade blocs, have resulted in multi-directional market regionalism. Since trade now moves in many directions, what will be needed is a global, not regional, set of rules and enforcement mechanisms as exemplified by the GATT. Otherwise, world trade will be adversely affected by the emergence of exclusivist types of trading blocs which will influence and shape the world economy according to their respective interests. Though GATT is also envisioned to simplify the various intricacies of trade at a stroke, its effects, however, will be evolutionary and cumulative.

The Philippine government has already prepared an indicative list of legislative requirements as a result of this agreement. These include amendments to the Tariff and Customs Code as regards the tariff 'binding' commitments, the shift from the HCV method of customs valuation to the Transaction Value Method (TVM), and the alignment of anti-dumping provisions with those of the GATT agreement. Other measures on the pipeline include those relating to the limitation on and withdrawal of export subsidies; amendments to the Omnibus Investments Code; trade-related aspects of intellectual property rights, i.e., accession to the Berne Convention and amendments to the Sound Recording Law; and agriculture, i.e., amendments to laws and regulations that allow or mandate quantitative import restrictions or import bans.

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It has increasingly become evident that GATT is crucial to the internal adjustments and industrial restructuring measures that are now being implemented. It cannot be overemphasized that the reforms cannot be implemented effectively without considering the external constraints against which liberalized economies must operate. Thus, recent global market developments make it imperative for government to formulate a sound outward-oriented industrial policy in order to ensure long-term economic growth. The challenge here is how to better coordinate our international trade and monetary policies to prevent macroeconomic distortions from fueling pressures for the deployment of protectionist measures.

Finally, one cannot reasonably expect the new GATT agreement to satisfy the demands of all contracting parties. Unrealistic expectation may lead to disappointment. Also, one must not lose sight of the fact that GATT, after all, is only a cog in a machine, the functioning of which depends on other factors that lie beyond its control. Whether the new accord can effectively restore some sense in the multilateral trading system will depend not only on how committed the contracting parties are to the underlying principles of GATT, but also on how the world economy is being managed. The GATT system cannot work well if the global economy is not in good health in the first place.

It is, therefore, a test for government not only to guide and pace the development process in such a manner as to make the people see tangible gains, but also to create and maintain the necessary environment and mood for change by explaining how the pursuit of this new trade order, as embodied in the GATT, will eventually redound to the good of the nation at large.

In conclusion, it is the Chamber's considered view that trade liberalization and global competition will ultimately benefit developing countries like the Philippines. These realities will force industries to become more efficient while offering consumers lower prices and higher quality services. It should also be stressed that liberalized trade policies are not just about jobs. They are about creating an atmosphere of openness and freedom that will enable developing countries like the Philippines to find their own way peacefully toward greater prosperity.