PHILIPPINE TRADE POLICY OPTIONS

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I. INTRODUCTION

This paper explores trade options for the Philippines in the Uruguay Round of Multilateral Trade Negotiations. We do not purport to be exhaustive in identifying a wide range of alternatives nor do we claim to have the best ideas about the stance the country should take in the Negotiations.

The specific objectives of this paper are: (a) to review the trade experience of the Philippines; (b) to indicate some policy options in the context of the Uruguay Round; (c) to describe the products or markets which have apparent importance to the Philippines in the present Round, the priorities the country can take, and the new issues that will be covered in the Round; and (d) to suggest some strategies which can be pursued by the Philippines in the Round.

In order to provide the perspective within which the General Agreement on Tariffs and Trade (GATT) and the Uruguay Round must be viewed, the next sector briefly reviews the trade experience of the Philippines, focusing mainly on the evolution of the trade structure and trade performance over time. Section 3 subsequently discusses GATT and the Philippine's role in it, particularly in the last round of multilateral negotiations. Section 4 zeroes in on the Uruguay Round, why it is important for

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the Philippines, what the Philippines' priorities in the Round should be, what political coalitions the Philippines is participating in and what new issues are included in the Round and how Philippine interests are affected by these. The following section outlines an agenda for the negotiations under the Uruguay Round, highlighting options and strategies. Section 6 concludes the paper.

II. TRADE STRUCTURE AND PERFORMANCE

The trade and exchange controls of the fifties created an economic environment favorable to full-scale import substitution as consumer-goods industries profited from relatively free imports of capital goods and the high domestic price of finished products engendered by the system. The foreign exchange needs of the import substituting industries were satisfied mainly through the exports of commercial agricultural crops and not through the concomitant break-out into industrial exports. As a result, Philippine exports have been characterized by products with low value-added, weak inter-industry linkages, excessive concentration on a few items and continuing reliance on agriculture or agriculture-related products in terms of net foreign exchange earnings, the respectable surge of nontraditional manufactured exports in the late 70s notwithstanding.

There is very little perceptible change in the Philippine trade structure between 1950 and 1970. The top ten principal exports the country relied on for foreign exchange did not change during this period. They accounted for 75.0 to 85.0 percent of all exports. In the case of imports, there was a decline in the share of consumer goods (which was 90.0 percent in the 50s) and an increase in the share of capital and intermediate goods leading to what can be characterized as import-dependent import substitution.

Since the early 70s, there have been significant shifts in the structure and pattern of trade. This can be partly explained by the series of external shocks that hit almost all open economies as well as the conscious policy shift towards exports of manufactures and incentives to promote their trade. The share of the ten principal exports fell dramatically to about 34.0 percent in 1980. Similarly, the share of traditional products fell from 18.5 percent in 1970 to 14.0 percent in 1980; sugar from 20.0 percent in 1970 to 3.5 percent in 1985; and forest products from 20.0 percent in 1970 to 4.2 percent in 1985. Conversely, the share of nontraditional manufactured exports (e.g., electronic components, garments, handicrafts, chemicals, furniture and parts, footwear, etc.) to total imports increased from 8.3 percent in 1970 to 61.7 percent in 1985. Another important aspect of this structural change is the increasing significance of services trade (freight and insurance, travel, investment income, etc.). In 1973, receipts were US$639 million while in 1978 they rose to US$1.09 billion.

This change in trade structure is not only confined to products but markets as well. The principal destinations of Philippine exports, while remaining basically the same, have actually declined in importance. In the early 70s, both the US and Japan constituted 74.0 percent of Philippine export markets. By 1985, this had dropped to 44.0 percent with the slack taken up by ASEAN, the socialist countries and Hongkong, Australia and the Middle East. For imports, the shares of both the US and Japan declined from 57.0 percent to 39.0 percent during the same period.

Despite what seems to be evident as structural changes in trade pattern and performance especially in the 70s, Philippine trade still suffers from some fundamental weaknesses.

First, while the base of export products has been widening and the concomitant processing has been growing, there is concern over a disproportionate share of just a few products in the spectrum of nontraditional manufactures. In 1985, 59.0 percent of these new exports were accounted for by electronics and garments which have higher import content than, say, processed food, handicrafts, furniture or footwear.

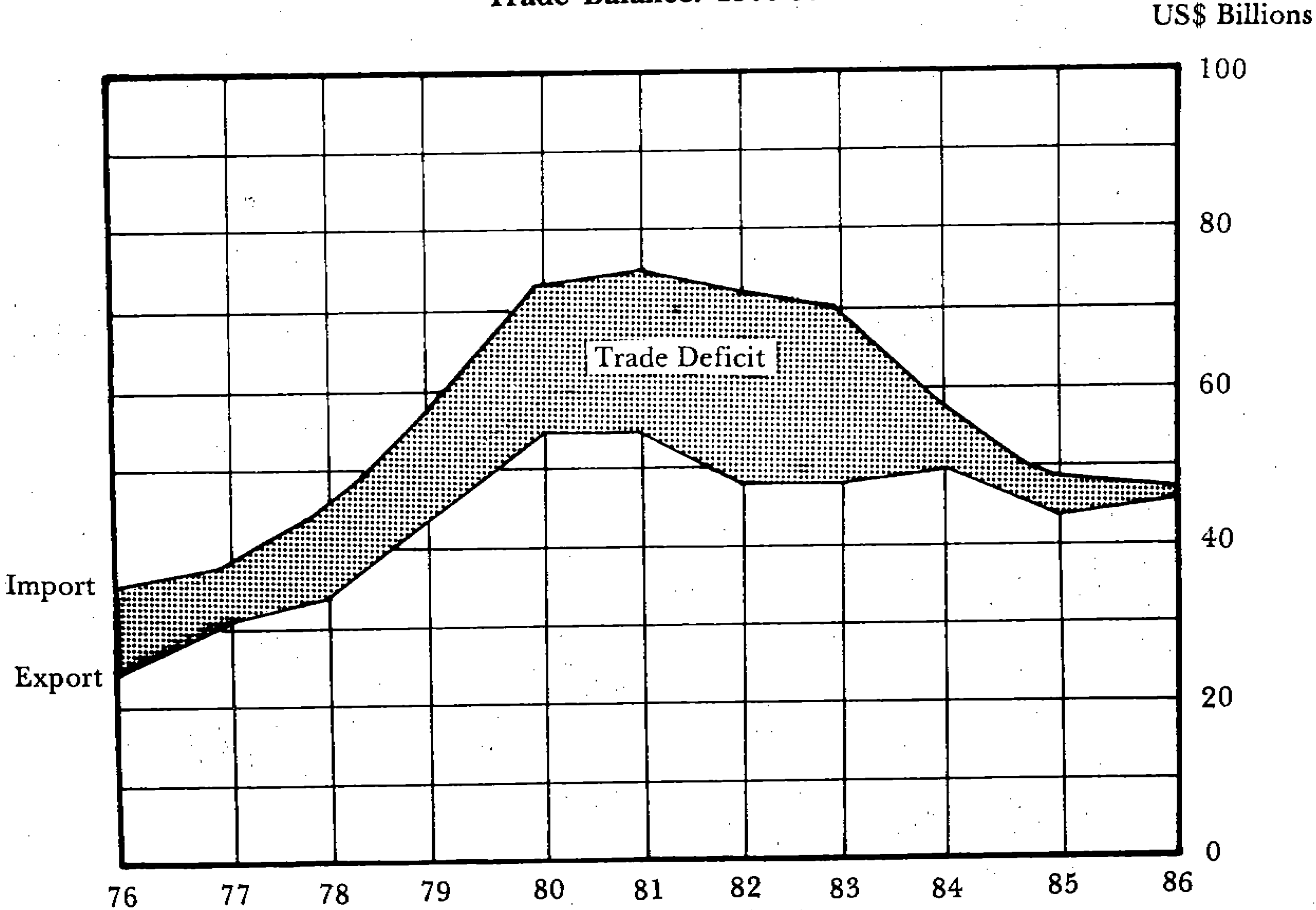
Second, the trade pattern and performance evident in the recent past has not corrected inherent balance of payments problems that seemed to occur chronically. This is not of course directly traceable to the structure of imports or exports per se but to larger factors (e.g., exchange rate) that condition them. But what is problematic is the shift in the export basket towards those requiring more imports.

Third, the structure of the country's industrialization path continues to retain vestiges of the distortionary protection system of the 50s and 60s and the narrow base of industry it spawned. This is reflected in the structure of tariffs, system of regulation, incentives package, and government participation in industry despite the reforms in the trade area starting in 1980. A more even protection and neutral incentive system will have to be considered in the further restructuring of trade and industrial policies.

Recent Performance

Trade transactions (especially merchandise imports) fell in 1984 and 1985. By 1986, the trade deficit had narrowed down to US$202 million compared to the US$2.4 billion in 1983 (see Figure 1). The cost of this adjustment was a substantial economic contraction in 1984 and 1985, effectively setting back

Figure 1
Trade Balance: 1976-86



Tables 1 and 2 show the distribution of exports and imports between 1976 and 1987. Much of the structural characteristics identified and discussed earlier can be clearly discerned from these Tables.

The shifting pattern of exports towards more nontraditional manufactures hides a certain weakness when assessed from the viewpoint of net foreign exchange earnings. Whereas traditional agriculture-related exports require small amounts of imported inputs, this cannot be said of Philippine nontraditional manufactured exports. The latter are often produced on consignment (for exports) or with imported inputs and intermediates in processing zones or bonded warehouses. For instance, of the US$919 million of electrical component and equipment exports in 1986, US$640 million was imported as materials for their manufacture or some 70.0 percent. The value of these imported inputs is about 30.0 percent of export value, a fraction which has not changed since 1980.

The structure of protection in the Philippines is shown in Tables 3, 4 and 5. The first two tables show that nominal tariff rates vary by sector and end-use. On a sectoral basis, it can be noted that the largest concentration of nominal tariffs in agriculture is in the 20-25 percent range (40 percent) followed by those in the 40-50 percent range (32.1 percent). In the manufacturing sector, the largest concentration is in the 40-50 percent range (31.7 percent), followed by those in the 10-15 percent range (25.1 percent). By end-use, the highest average nominal tariff is on consumer goods (38.1 percent), while the lowest is on capital gross (22.3 percent). Table 5 presents the Effective Protection Rates (EPR) between 1979 and 1985. It reveals that EPRs continue to exceed the maximum nominal tariffs for certain sectors because of the cascading nature of tariffs.

III. GATT AND THE PHILIPPINES

The General Agreement on Tariffs and Trade is the only multilateral contractual instrument that lays down agreed rules for international trade. Its roles include administering the rules established by the General Agreement and investigating and resolving disputes between trading nations when necessary. In addition, it provides a forum where nations can negotiate and work together for the reduction of tariffs and other trade barriers.

There are two fundamental principles embodied in the Agreement. First, the nondiscriminatory "most favored nation" (MFN) clause which stipulates that trade must be conducted on the basis of nondiscrimination. This is a commitment that a country will extend to another country the lowest tariff rates it applies to any third country. Thus, when a country agrees to cut tariffs

Table 1
EXPORT STRUCTURE BY COMMODITY GROUP CLASSIFIED AS TRADITIONAL AND NONTRADITIONAL, 1986
(FOB Value in US$M)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total	2574	3151	3425	4601	5788	5722	5021	5005	5391	4629	4342
Traditional	1657	2001	1885	2421	2545	2402	1949	1820	1628	1302	1275
Coconut products	537	729	872	965	776	718	563	639	690	459	470
Sugar products	451	527	213	238	586	454	396	282	272	185	103
Forest products	268	261	324	485	417	344	289	327	265	199	201
Mineral Metallic Products	281	293	275	463	574	456	328	413	134	243	267
Others	120	191	201	270	192	430	372	159	267	216	234
Nontraditional	866	731	1513	2130	3206	3310	3072	3094	3638	3275	3447
Nontraditional Manufactures	524	688	970	1370	2310	2914	2695	2588	3248	2765	2879
Electrical equipment	85	124	253	412	667	838	1003	1053	1329	1056	919
Garments	185	250	326	404	497	616	539	542	600	623	751
Chemicals	27	54	60	119	94	106	96	86	105	150	243
Nonmetallic Manufactures	28	39	42	31	59	47	40	26	21	24	18
Machine and transportation equipment	16	26	37	47	53	51	50	35	36	30	45
Textile yarn/fabric	28	21	24	38	76	44	39	29	24	39	44
Others	155	174	228	319	864	1212	919	817	1133	843	859
Nontraditional Nonmanufacture	342	43	543	760	896	396	377	506	390	510	568
Others	51	419	27	50	37	10	0	91	125	52	120

Note: Commodity classification by manufactures and nonmanufactures is based on the classification agreed upon by the NEDA Inter-Agency Committee on Trade.

Source of basic data: NCSO, Foreign Trade Division.

Table 2
IMPORTS BY COMMODITY GROUPS

SITC Class	Commodity Group	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 Jan-Oct.
0	Food & Food Preparations	299	299	296	354	492	563	650	528	425	426	399	369
02	Dairy products	55	70	60	96	112	135	167	128	66	72	98	122
03	Fish & Fish preparations	30	22	24	20	26	30	36	7	1	9	9	13
0-1	Wheat	113	78	85	106	149	151	156	135	131	104	129	80
0-2	Rice	12	5	-	-	-	-	-	-	42	110	-	-
	Other	89	124	127	132	205	247	287	254	185	137	163	154
1	Beverages & Tobacco	35	44	44	48	48	53	66	75	35	76	72	83
2	Crude Materials, Inedible	133	189	219	260	269	256	267	233	201	206	271	267
263	Cotton	37	30	44	36	44	34	20	29	20	25	33	38
	Synthetic fibers	43	55	56	75	62	79	78	66	47	50	57	63
	Iron, ore under consignment	-	30	45	49	74	60	74	49	62	56	42	39
	Others	53	74	74	100	89	83	95	89	72	75	139	127
3	Mineral Fuels & Lubricants	890	991	1030	1385	2248	2458	2105	2123	1649	1455	869	1024
	Coal and coke	2	9	15	14	22	19	26	16	41	50	42	19
321	Petroleum, crude	801	859	907	1115	1857	2061	1764	1741	1472	1277	99	147
4	Animal & Vegetable Oils & Fats	7	11	14	19	19	18	16	29	33	13	13	11
5	Chemicals	352	432	525	670	741	765	743	771	617	584	711	747
51	Chemical compounds	132	160	203	249	267	298	254	267	230	219	272	269
54	Pharmaceuticals	39	43	56	61	69	72	82	76	54	52	71	86
	Ores	10	29	37	51	89	57	59	45	43	62	54	51
	Fertilizer, excluding ores	11	14	11	40	50	48	49	46	45	44	29	26
	Others	160	136	214	261	266	290	224	337	233	207	285	315

(Table 2 cont'd)

SITC Class	Commodity Group	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 Jan-Oct.
6	Manufactured Goods Classified Chiefly by Material	460	549	703	945	962	882	1031	931	579	504	654	748
64	Paper & paper products	29	36	53	62	67	64	67	65	66	65	73	84
65	Textile yarn and fabrics	50	40	44	117	144	158	150	183	154	140	207	220
601	Iron & Steel	196	237	304	438	399	325	423	356	186	135	204	259
69	Metal products	81	71	107	128	133	148	172	142	55	75	58	48
	Others	106	125	151	200	244	192	219	100	114	93	112	137
7	Machinery & Transport Equipment	1066	1022	1129	1708	1869	1797	1668	1592	1086	727	806	893
71	Non-electrical machinery	625	549	717	935	1015	945	983	902	420	366	395	412
72	Electrical machinery	187	138	203	229	342	392	385	404	427	293	333	370
73	Transport equipment	276	293	389	544	460	460	295	206	233	68	78	111
8	Miscellaneous Manufactures	81	97	124	141	200	200	195	178	102	106	113	119
	Professional scientific & controlling instruments	37	55	71	77	126	128	118	106	74	61	58	59
	Others	44	42	57	64	74	72	77	72	64	45	55	60
9	Commodities and Transactions Not Classified Elsewhere	287	279	446	612	863	954	926	1033	1343	1012	1136	1105
	Materials for manufacturing electric & electronic	91	107	219	351	549	626	677	765	803	584	640	624
	Material for embroidery or manufacture of garments	115	95	121	125	142	148	150	140	226	194	253	256
	Others	81	77	104	136	172	140	99	128	314	232	243	225
	Total Imports	3674	3915	4712	6142	7727	7946	7447	7487	6070	5151	5044	5366

Source: Central Bank of the Philippines, National Census and Statistics Office.

Table 3
FREQUENCY DISTRIBUTION OF NOMINAL TARIFF RATES
BY SECTOR, 1988
(In %)

Nominal Tariff Rate	Agriculture	Mining	Manufacturing
5.0 - 10.0	--	--	--
10.0 - 15.0	25.7	72.2	25.1
15.0 - 20.0	--	--	--
20.0 - 25.0	40.0	24.1	21.7
25.0 - 30.0	--	--	--
30.0 - 35.0	.9	3.7	21.4
35.0 - 40.0	--	--	.1
40.0 - 45.0	3.7	--	8.2
45.0 - 50.0	29.4	--	23.5
	100.0*	100.0*	100.0*

*May not sum to 100 due to rounding error.

Source: Tariff Commission.

Table 4
UNWEIGHTED AVERAGE NOMINAL TARIFF
BY PRODUCTION AND END-USE SECTOR, 1988
(In %)

Sector	Average
Food Beverage Tobacco	35.9
Textiles	40.1
Wood and Products	36.4
Paper and Printing	30.8
Chemicals Petroleum Coal	22.0
Nonmetallic Mineral	33.4
Basic Metal Industry	15.6
Machinery and Metal	25.0
Other Manufacturing	36.3
Consumer Goods	38.1
Intermediate Goods	25.2
Capital Goods	22.3

Source: Tariff Commission

Table 5
EPR BY D - Ø SECTOR 1979 & 1985

Sector	Description	1979 EPR (%)	1985 EPR (%)
3	Corn	-2	-2
4*	Coconut Incl. Copra in Farms	-7	-7
6*	Banana	-4	-4
7	Other Crops Including Agricultural Services	87	48
	Exportable	-1	-1
	Importable	117	65
12	Commercial Fishing	-3	-2
	Exportable	Ø	Ø
	Importable	-4	-4
13	Fishponds & Other Fishery Activities	-1	-1
	Exportable	Ø	Ø
	Importable	-2	-2
14*	Forestry & Logging	-2Ø	-2Ø
15*	Copper Ore	Ø	Ø
16*	Gold & Silver Ore	Ø	Ø
17*	Chromium	Ø	Ø
18*	Nickel	Ø	Ø
19*	Other Metallic Ores	Ø	Ø
22*	Rice & Corn	-1	-1
23*	Sugar	-6	-6
24*	Milk & Other Dairy Products	191	1Ø6
25*	Coconut Oil	2	2
26	Cooking Oil	**	**
27	Meat & Meat Products	124	65
28	Flour & Other Grain Mill Products	58	58
29	Animal Feeds	495	24Ø
	Exportable	Ø	Ø
	Importable	**	**
3Ø	Other Processed Food	176	76
	Exportable	Ø	Ø
	Importable	**	**
32	Tobacco Manufactures	299	11Ø
33	Textiles & Goods Excl. Wearing Apparel	1Ø6	42
	Exportable	Ø	Ø
	Importable	232	1ØØ
34*	Wearing Apparel and Footwear	Ø	Ø
35*	Lumber	55	55

Table 5 (cont'd)

Sector	Description	1979 EPR (%)	1985 (EPR (%)
36*	Other Wood	12	12
37*	Furnitures & Fixtures	3	3
38	Paper & Paper Products	108	101
40*	Leather & Leather Products	0	0
41	Rubber & Plastic Products	125	65
42	Drugs & Pharmaceuticals	35	35
43	Industrial Chemicals	15	11
	Exportables	0	0
	Importables	22	18
44	Fertilizer	23	25
45	Other Chemical Products	227	118
46	Gasoline	27	23
47	Diesel Oil	14	10
48	Fuel Oil	10	7
49	Avturbo/Kerosene	38	31
50	LPG and Others	1	-16
51*	Cement	0	0
52	Other Nonmetallic Mineral Products	54	31
	Exportable	0	0
	Importable	66	38
53	Basic Metals	47	26
	Exportable	0	0
	Importable	72	42
54	Fabricated Metal Products	176	126
	Exportable	0	0
	Importable	201	144
55	Machinery except Electrical	38	22
	Exportable	0	0
	Importable	40	24
56	Electrical Machinery and Appliances	116	88
	Exportable	0	0
	Importable	116	88
57	Transport Equipment	118	56
58	Miscellaneous Manufactures	20	8
	Exportable	0	0
	Importable	50	27

Note: *pure exportable sector
**negative free trade value added

Source: Tariff Commission-PIDS Staff Paper Series No. 86-05 on a particular product imported from one country, the tariff reduction automatically applies to imports of this product from any other country eligible for most favored nation treatment. Second, any protection given to domestic producers should be enforced essentially through tariffs, so the extent of protection is visible. Certain exceptions are provided for and are contained in the articles on Anti-Dumping and Countervailing Duties (Art. VI), General Elimination of Quantitative Restrictions (Art. XI), Subsidies (Art. XVI), and General Exceptions (Art. XX).

After the termination of the Laurel-Langley Agreement in 1974, the Philippines and the US have conducted their trade negotiations within the GATT's framework. The Philippines participated in the Tokyo Round of negotiations as a provisional member. After its provisional membership from August 1973 to December 1979, it finally acceded to GATT in January 1980.

The Philippines, as a new entrant to the GATT during the Tokyo Round, potentially had much to gain in terms of tariff and trade concessions. From the application of the "unconditional MFN" principle alone, the country was assured of a host of indirect concessions from all the other member countries. Being a developing member country, it could also use the GATT as a venue for channeling requests for Generalized System of Preferences (GSP) rates of duties which developed member countries (donors) unilaterally grant for selected commodities. Aside from these indirect concessions, it could also actively negotiate bilaterally for tariff and trade concessions which it does not have to fully reciprocate following the S & D (Special and Differential) treatment for developing countries. Finally, aside from these tariff and trade concessions, the country could choose to be a signatory to specific "codes" or side agreements which it deems beneficial.

In this regard, the Philippines chose to pursue MFN rates for major export products and GSP for lesser exports. Though requiring reciprocal concession, MFN concessions are viewed to be more permanent. On the other hand, GSP concessions, being unilaterally granted, are "free." However, they are subject to various limits, review and change, and are applicable only for a limited period of time. Hence, it was felt that if the country had to "pay" for concessions on certain commodities, these commodities should be substantially important exports, and the benefits more long-term. The Philippines submitted its lists to eleven (11) participating developed countries, accounting for around 92.0 percent of its exports and 72.0 percent of its imports in 1976. However, it was able to finalize bilateral negotiations only with seven, namely: the US, EEC, Canada, Finland, Norway, Sweden and Switzerland. The other countries did not make any request from the Philippines. Thus, there was no matching of requests in the latter countries and no negotiations were carried out. Still, some concessions were granted by these countries unilaterally.

If comparing concessions received against concessions granted were the sole gauge in evaluating the results of the negotiations, then the Philippines came out clearly ahead. It received much more tariff concessions than it granted. In terms of value traded in 1980, US$997 M ($340 M from direct concessions and $497 M from indirect concessions) worth of imports from the Philippines received concessions representing approximately 20.0 percent of the country's total exports. On the other hand, it granted concessions affecting only US$496 M worth of Philippine imports ($23 M receiving an average 40.0 percent depth of cut and $474 M binding at same or higher rate) representing around 6.0 percent of total Philippine imports.

While the Tokyo Round represented a step forward, including the fact that the concessions were proposed, argued, negotiated and processed in a multilateral framework, many important issues were either glossed over or failed to be developed, particularly those in agriculture, safeguards, subsidies and dispute settlement. In order to pursue these critical issues and to avert a decline in the world trading system as protectionism resurfaced, trade frictions increased and frustration over GATT spread to many nations, the call for a new Round of negotiations mounted. The GATT contracting parties met in 1985 to discuss the possibility of such a new Round. A Preparatory Committee established in late 1985 began formulating the basis and mechanics for the new Round.

Despite the difficulties in formulating an Agenda acceptable to all parties, the Ministerial meeting in Punta del Este, Uruguay in July 1986 re-affirmed, albeit shakingly, the belief that GATT must be strengthened and that all contracting parties should continue to adhere to its principles. After all, this is the only framework for keeping world trade functioning smoothly.

IV. THE URUGUAY ROUND

This section aims to spell out a rationale for the Philippines' participation in the Uruguay Round of Multilateral Trade Negotiations (MTN), suggests some priorities which the Philippines can take, and describes the emerging coalitions which the country is actively participating in. An elaboration of the new issues in the forthcoming Round caps the discussion.

Many developing countries including the Philippines did not fully participate in the last GATT Round. The country's participation had a narrow focus on limited offers and requests. The idea was to ride on tariff reductions which were negotiated among industrial countries and which were to be available anyway by virtue of MFN. On the other hand, much greater emphasis was placed on special and differential treatment for developing countries or nonreciprocity for tariff concessions they obtain.

Conditions since the Tokyo Round have rapidly changed. Trade has grown significantly especially among the developing countries. Moreover, there has been an increasing amount of trade outside GATT either biased against small, emerging exporters or under different rules. This includes trade in textiles and related products under the Multi-Fiber Agreement (MFA) which seems to have become a permanent arrangement, trade in steel, and other manufactures under voluntary export restraints, not to mention many nontariff barriers which were in place. Apart from these, the industrial countries continued their subsidies to agricultural products and their trade, again outside the GATT framework. This has diminished the potentials of developing countries' agricultural products' competitiveness for exports.

In the Uruguay Round, the major concern is how the fundamentals of GATT can be preserved, in order to prevent the degeneration of the framework for world trade. The Philippines should see GATT as the institution capable of putting greater order to world trade for as long as trading nations and its contracting parties agree on the need for a framework governing world trade. GATT seems to be still the primary vehicle for discipline in global trade and forum for negotiation, agreement and settlement of disputes among trading countries, both developing and developed.

There is a perception that GATT is a "rich men's club." This is partly because of the degree of trade dominance by the developed countries and of the passive participation by the less developed ones. But world trade has expanded with increasing participation from developing nations. It is only appropriate that the latter should actively participate and demand for a greater voice in the formulation and implementation of the international trading framework.

The alternative to GATT seems to be even worse especially for the Philippines. Bilateral arrangements "among rich men" effectively excludes all others from directly and indirectly benefiting, and reduces trade potentials and opportunities. The task is for the Philippines to support efforts to bring GATT back into the centerpiece of trade discipline.

Priorities for the Philippines

What should be the priorities of the Philippines in the Uruguay Round? What combination of procedure and substance will the country find most appropriate for its desired growth path? There are a number of items that can have a substantial impact on trade structures and flows.

First, tighter rules need to be adopted as regards measures limiting import restrictions without violating the notion of balance of payments or threat to serious injury and their temporary nature. It is essential for the Philippines to articulate the nondiscriminatory exercise of Article XIX and its transparency in implementation. It is equally essential to call for greater commitment to complement such safeguards with the political will to carry out adjustment programs.

Priority attention on this is aimed at: (a) reducing the frequency of invoking injury or balance of payments consideration for the restriction of imports or conversely, tightening the Code; and (b) ascertaining the neutrality of policy actions or conversely, sticking to GATT principles. While it is true that the Philippines can benefit from the use of "GATT-inconsistent" devices (such as orderly marketing arrangements, voluntary restraints), especially against dynamic exporters, one must distinguish between short-term and long-term trade structures that reflect real comparative advantages.

Second, the Philippines should put a premium on the reduction or elimination of nontariff measures and seek rollback commitments. As more trade is restricted via nontariff barriers, the more difficult it becomes to predict flows nor quantify their adverse effects on the global system of exchange.

These two priorities should be applied to two areas of global trade of interest to the Philippines, namely: trade in agricultural products and trade in textiles and apparel. The former is to be carried out by improving market access through removal of nontariff barriers, increasing discipline in the use or removal of subsidies in agriculture especially in the US and the EEC. The intent is to liberalize trade in agriculture and minimize barriers and other distortions related to structural surpluses. The latter is to be carried out by advocating alternative means that would integrate these products into the conventional GATT rules (while their trade is administered by GATT, they do not fall under GATT codes).

These two priorities and the major areas where they should be pursued vigorously suggest that the Philippines should actively work for the strengthening and adherence to GATT rules and principles. After all, GATT itself allows countries to formulate their own tariff structures as long as they are transparent and nondiscriminatory. Indeed, it might even be worthwhile to trade off some of the concessions that developing countries get (nonreciprocity and S and D) for stronger rules and discipline. The issue is not so much liberalization, but the rationalization of protection.

A third priority covers requests from GATT trading partners for either tariff reduction or removal of nontariff barriers. The array of goods that are of importance to the Philippines is discussed separately.

Fourth, to the extent possible, the country should seek credit for the unilateral trade liberalization measures it has undergone. Of course, it might be argued that such measures were pursued for their own inherent benefit to the country and not for negotiation purposes. Nevertheless, the country's trade liberalization program should be used as part of the country's response to the New Round.

Political Coalitions

The Uruguay Round is seen not only as a forum for advancing Philippine priorities that would enhance economic transformation but also for a collective realization of the importance of strengthening rules and disciplines that govern world trade. Among the mechanisms for active participation among countries which share common concerns are coalitions, political groupings, regional blocks and others.

The Philippines has actively involved itself in the Cairns group of countries seeking fair trade in agriculture. This coalition which includes a mixture of developing and developed countries alike advocate the removal of subsidies in agriculture, the liberalization of nontariff barriers, and more rigid application of GATT codes to agriculture.

What the Cairns Group espouses coincides with what the Philippines is pushing for. This includes trade in agriculture with the minimum of distortion in the form of subsidies and access restrictions, and the elimination of these over a specified timetable; a surveillance mechanism to ensure compliance and remedial action; and international cooperation on minimizing the use of health reasons for erecting trade barriers. In addition, there is recognition by the Cairns Group that problems related to agricultural trade must be reformed over a long-term, so that a maximum phased-in period of ten years may be necessary. For this reason, the Group calls for early relief through a freeze on access barriers, commitment to more responsible stock management and cutback on all export and production subsidies. The Philippine alliance with this block of countries indicates not only adherence to stricter GATT codes, but also a recognition of the coalition as a strong voice in the GATT negotiations.

The country also adopts a united front with the ASEAN-member countries. On substantive matters, the Philippines allies itself with ASEAN in seeking for an objective formula to tariff reduction with continuous application of the S and D principle; rollback of NTMs; and strengthening of safeguard provisions including the bringing of all grey areas into the GATT umbrella. Finally, the Philippines has been allied with the Group of 77 (G-77). Because of the size and heterogeneity of this Group, its stand on trade issues has tended to be extreme, and the Philippines has not fully subscribed to its positions.

New Issues in the Uruguay Round

Three new issues are included in the agenda of the Uruguay Round -- trade in services, intellectual property rights, and trade-related investment measures. In the preparation of the agenda, the inclusion of these new issues has been surrounded with controversy. On the one hand, many developing countries question their inclusion. On the other hand, the United States, along with other developed countries, virtually hinged the opening of the new round to their inclusion.

Trade in Services

Although very few countries ever really practice free trade, there is general acceptance, at least in principle, that fewer barriers to trade in goods and commodities across countries would be beneficial to all. When it comes to trade in services, however, nothing near such an agreement exists, arising, perhaps, from the different nature of service transactions. Unlike goods, services cannot be stored. Trade could, and often does, also entail not just a flow of output, but more importantly a movement of factors of production themselves. 1/ Labor, for example, could be directly exported or imported as an essential part of the service transaction. So is capital, physical and financial, in many cases (e.g., transportation, shipping, banking). Opening up the service sector thus involves more than allowing port entry. In the case of the banking sector, for example, liberalization would imply some loss of control in money supply. In general, opening up the financial sector is seen as making it vulnerable to external manipulations.

Thus, arguments and resistance against trade liberalization in the case of services are perhaps even more intense than in the case of goods trade. The concerns are similar, e.g., the effect on development, the case of infant industry, and national security and sovereignty. There is validity in certain aspects of these concerns, but as in the case of the goods trade, the theory of comparative advantage holds. Although there is no doubt that liberalization would be accompanied by short-run adjustment costs, dynamic gains from liberalized trade are also undeniable. These gains would arise mainly from a more efficient allocation of resources both globally and internally.

1/ Bhagwati (1987) offers a categorization of the type of services according to distance between user and supplier -- a. Physical proximity essential, under which falls the following categories: (1) mobile provider, immobile user, (2) mobile user, immobile provider, (3) mobile user, mobile producer; and b. Physical proximity inessential which he calls "long-distance" services.

As in goods trade, exceptions could be justified and warranted for reasons of national security and sovereignty. This could mean, for instance, a special treatment of the banking sector. In any case, the service sector could have special problems arising from its special nature; but special treatment need not be precluded either.

For the Uruguay Round, the immediate consideration is not whether the Philippines should accede to services trade liberalization. The indication for long-run direction seems clear -- the eventual inclusion of services in the global process of trade liberalization. The pressing concern is whether the Philippines should opt for the so-called single or dual-track formula. That is, should GATT be simply augmented to cover services as well as goods or should a separate institution or agreement be established to regulate world trade in services.

In general, the priority for the Philippines, as with other LDCs, for the Uruguay Round remains to be trade in goods and commodities. A legitimate fear is that inclusion of trade in services would shift the focus away from this area. Furthermore, existing national laws and regulations on services would then become open to disputes under GATT. Thus, it is not difficult to foresee a situation where quid pro quo arrangements between trade in services and trade in goods have become possible, or one where an industrialized country would retaliate against some restriction on trade in services by closing its market to the goods export of the concerned country.

These possibilities are real, but they do not necessarily justify exclusion of services under GATT. In essence, imperfect as it may be, this is part of the GATT process of removing trade barriers. A country grants concessions to receive concessions. The process may not be perfect, but neither is it a zero-sum game. Both negotiating parties benefit from a more liberalized trade. The developed countries probably stand to gain most in the beginning with services liberalization. But the potential for dynamic gains could also be far reaching for the developing countries. For the Philippines, a number of possibilities could arise. One example is the area of labor exports. This touches immigration issues and the United States is now reluctant to include it in the negotiations. But this stance would be more and more difficult to defend, with liberalization in other areas of the service sector.

Before real negotiations in trade in services could even begin, parameters, scope and coverage should first be clearly defined and agreed upon. Even this is easier said than done. It has taken GATT these many years to reach only so far in the area of trade in goods and commodities. The local economy would have plenty of time to gear itself towards such new possibilities in the global arena.

Intellectual Property Rights

Intellectual property rights represent another new issue whose inclusion in the agenda of the Uruguay Round has created a North-South division among the member countries. The debate centers around whether GATT, as opposed to the World Intellectual Property Organization (WIPO), is the appropriate venue for negotiations.

To be sure, there are opposing arguments regarding the role of intellectual property rights in technological development. 2/ Still, on the whole, few, perhaps none, would openly renounce respect for property rights. For her part, the Philippines is already a signatory to both the Paris Convention (industrial property) and the Berne Convention (copyright). As such, whether or not IPR would be under GATT supervision would not greatly affect the Philippines.

Trade-related Investment Measures

Trade-related investment measures refer to trade-distorting measures accompanying foreign investment regulations and the movement of capital itself. The latter directly relates to the limited entry of foreign capital. With regards to the former, major examples are local content requirements and export performance requirements.

On purely economic grounds, there are no reasons why the entry of foreign investment (and foreign labor, for that matter) should be curtailed. At the same time, however, so long as some success in trade liberalization is achieved, the removal of barriers to foreign investment is also less urgent. 3/ Political

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2/ The economic rationale for patents is well-understood -- that although inventions become "free goods" once created, to produce it could be expensive. Thus, granting the inventor temporary monopoly, although sub-optimal in the short-run, would bestow the necessary incentives for the production of inventions. In effect, short-run costs are being balanced against the larger dynamic and long-run benefits that would arise from future inventions. But even this is being questioned as being applicable only in a closed theoretical model. The distribution of benefits would be lopsided in favor of the already wealthy industrialized countries. Hence, even on economic grounds, the issue whether there should be global protection of intellectual property rights or not has not been settled.

3/ There is some degree of substitutability between mobility of goods (and services) and mobility of factors across borders with respect to the optimal global allocation of resources.

and other non-economic factors could become the primary considerations, just as they are in the case of labor imports for many countries.

In the case of the Philippines, foreign investments are welcome. In general, 40.0 percent foreign equity is allowed. In prefered areas, i.e., pioneer and export, foreign equity could be as much as 100 percent. Thus, as far as entry is concerned, the Philippines is relatively open. It only reserves the right to choose what it considers to be desirable areas where foreign investments would come in and what it considers to be tied in with its developmental objectives. A general liberalization of foreign investment as far as entry is concerned is not feasible nor called for. This general stance, however, does not preclude trading specific concession for investment areas, e.g., negotiating for attractive commodity markets in exchange for an investment area.

More in line with GATT supervision are the trade measures accompanying investment policies. Most prominently identified are export requirement and the local content programs. The Philippines uses both policy measures. Firms exporting at least 70.0 percent of its output are allowed to have 100 percent equity. Thus, the export performance requirement is enforced only for firms outside pioneer areas with 100 percent equity. The export requirement is not trade distorting, just a means to attract foreign investment in what it considers to be desired areas (export). The local content programs, on the other hand, clearly have trade-distorting effects. Even in the Philippines, removal of these distortions is being debated upon.

In general, then, the Philippines could be expected to face fewer problems in this area of GATT negotiations. It could conceivably be used to strengthen the Philippine position in areas where it is weak. Another possibility is for the Philippines to maintain a low profile in the negotiation in this area and strategically align itself with another country if the opportunity arises.

V. PHILIPPINE TRADE: OPTION AND STRATEGIES

The Philippines is an open economy and as such has to contend with a global system of trade. The task at hand within the context of improving this system is to formulate an agenda not only indicating trade options but the implied strategies in pursuing them. The objective of these options is to support and facilitate the vision of a growing economy with a sound trade sector.

We begin by outlining an agenda for Philippine positions in the general issues surrounding the multilateral trade negotiations. A set of priorities, earlier indicated, is considered to define the country's trade parameters. Then an agenda for negotiations in tariffs is detailed specifying those which the Philippines ought to seek reduction from its trading partners. Nontariff barriers as they affect specific trade flows and as they are identified for rollback or standstill are then spelled out. A number of strategies are finally proposed.

General Issues

Some priorities for the Philippines in the Uruguay Round were earlier advanced. A number dealt with issues relating to the modification or refinement of contracting rules of GATT or changes in the various existing codes to make the global system of multilateral trade more transparent and indeed non-discriminatory.

The intent behind the suggestions that the country actively participate in improving rules and definition regarding safeguards, subsidies, nontariff barrier removals and integration of bilateral or special trade arrangements into GATT stems from a subscription to a more neutral nondistortionary global environment. Within this context, countries produce and trade in accordance with the existing and potential comparative advantages associated with resource endowments, technology and productivity.

The formulation and agreement to nondiscriminatory rules for trade transcend the sorting out of tariff-reduction requests or individual negotiations regarding nontariff barriers. For as long as the rules are adhered to and they are tightly applied on an MFN-basis, trade flows will reflect the frontiers of a transformation space, i.e., they will be optimal.

While it is true that the Philippines' short-term interest may be served by bilateral agreements, special and differential treatment, Generalized System of Preferences (GSP) provisions, etc., its long term development requires a more neutral trade regime. Thus, it is important for the country to seek tighter rules in an overall global framework that may be followed by all contracting parties and to avoid the use of discretion in trading practices. This includes the formula approach to tariff reduction, more rules governing nontariff measures, etc.

Invoking S and D treatment for the Philippines or a more general GSP for our products may yield some benefits for the country's trade. But aside from the problem of balancing of long-term with short-term interests, there are other important factors. One is accepting a greater commitment to trade through reciprocal concessions consistent with the required structural reforms of the country. Indeed, there should be reciprocity, no matter how limited, within a broad development frame. Even in the case of standstill and rollback, S and D should be invoked sparingly. Then there is the question of unduly casting the economy in a mold partly determined by S and D privilege that is temporal in nature.

The use of GSP provides a convenient adjustment mechanism for the Philippines to compete against mature traders on better footing. But again, this should be timebound and with specific criteria for graduation. It is not so clear whether the young dynamic exporting nations did get their stimulus from GSP. And for those which really find difficulties breaking out into the export markets, GSP is not as important as a package of assistance involving technology support, marketing assistance or direct subsidies. Amidst all these, the priorities on safeguards, strengthening of existing codes, etc., become even more important.

Finally, as far as the general issues of procedure and methodology are concerned, it is important to bear in mind that they affect not only exports from the Philippines but also imports into the country.

Tariff Barriers

The last Tokyo Round resulted in a sharp reduction of average tariffs for traded industrial products covering 90 percent of world trade. Moreover, these nondiscriminatory tariff reductions were bound. Given this, is there scope for Philippine options in this Round along the tariff area?

There are several areas which suggest some scope for Philippine positions. First, while tariff rates have been reduced as a result of the Tokyo Round, their levels retain a bias against developing countries. For instance, while tariff on imports into Japan of manufactures was 10.8 percent before the Tokyo Round this fell to 6.4 percent after. On the other hand, the tariff on imports into Japan of manufactures from developing countries averaged 11.0 percent before the Tokyo Round and fell to 6.7 percent after.

Second, there continues to be a bias against the entry of processed products despite the reduction of absolute rates. Tariff rates on Philippine exports of raw materials are lower than on manufactured products whether principally agriculture or manufacture, whether to the US, Japan or the EEC. This is quite apparent in the case of coconut product exports to Japan and the EEC. Tariff rates on copra are lower than those on crude coconut oil. The former usually comes in duty free while the latter has different rates. There are also disparities in the tariff rates for veneer sheets and plywood.

Third, there are differences in the tariff rates under MFN and under GSP which tend to accentuate the bias. For example, coconut products exported to the EEC will find an implied higher effective protection rate (EPR) under GSP than under MFN. The same accentuation can be found in the tariff rates applied to African, Caribbean and Pacific (ACP) countries by the EEC.

The Philippine experience with GSP suggests that the country has not utilized this mechanism as much as other countries such as Korea, Taiwan, Singapore or Hongkong. Globally in 1983, the share of the Philippines to total preferential imports stood at 2.4 percent (cf. Taiwan's 27.7 percent) although utilization rates varied by country (20.0 percent in the US for example). Although there remains a scope for greater use of GSP rates for Philippine exports, it is equally important to reduce the bias against processed exports.

Of course, this tariff escalation is also apparent if not more pronounced for the Philippines. There is, therefore, some scope for mutual tariff reduction of traded product independent of urging for reducing escalation biases against exports of Philippine manufactures. Because of the higher absolute tariffs in the Philippines, there is a relatively larger potential for reduction in the case of Philippine imports than among importing countries from the Philippines. This can be readily seen in Tables 4 and 5 wherein there are product groups with tariff rates remaining above 30.0 percent. These are candidate groups for reciprocal reduction of tariffs.

The residue of the nonreciprocity principle followed in the Tokyo Round is also apparent here. In particular, since in the last Round most developing countries were not expected to grant tariff reductions in exchange for what the developed countries had negotiated among themselves and then multilateralized on MFN-basis, the disparities in the tariff levels emerged. It can, therefore, be said that if some developing countries including the Philippines will have to grant substantial rates of tariff reductions, these simply reflect the nonreciprocity actions in the previous Round.

In sum, there seems to be some scope for tariff rate reduction that can be agreed upon in the current Round of MTN.

Non-Tariff Barriers

As noted in the early sections, in the last few years, trade has increasingly been conducted out of the GATT main umbrella. Barriers of the nature that are distortionary and nontransparent have widely been erected that restrict the free flow of goods. Indeed, non-tariff measures (NTMs) appear to be a more pervasive factor in global trade than simple tariffs.

There are formidable and significant non-tariff measures that major Philippine exports face in the developed country markets of the US, Japan and the EEC. There are several observations that can be made about these. One is that even in agricultural exports which enter duty free on an MFN or GSP basis, there are an array of NTMs faced. This is true for robusta coffee (free on MFN to the US and Japan), copra (free on MFN to the EEC), and centrifugal sugar (free on GSP to the US). These products face such NTMs as health and sanitary regulations in the US, commodity and internal taxes and phytosanitary regulations in Japan, import restriction, licensing, health certification and entry control measures in the EEC.

Another is that where the Philippines can invoke duty-free entry on a GSP-basis for manufactures, they are usually subject to voluntary export restraints and customs formalities and documentation. These products are mostly garments. For other products, there are bilateral quotas or licensing for surveillance as in footwear.

A third observation is that the absence of NTMs does not necessarily induce exports to that NTM-free country. For instance, the bulk of electronic micro circuit exports went to the EEC which has bilateral quotas and discretionary licensing, instead of the US without a known NTM. This is also clearly apparent for many garment exports which have gone to the US and the EEC with many NTMs and not to Japan without a known NTM.

A standstill and rollback of NTMs will bind trade flows on the basis of tariff structures. This will reduce much of the unpredictability and uncertainty in world trade. Moreover, reduction of NTMs will also expand the scope for GATT codes to apply.

There is a wide scope among NTMs for serious review and realignment into regular GATT agreements. A particular candidate here is the MFA. While the Philippines is a signatory to the agreement, there is a perception that the country is only a marginal participant. Its potential both for quota expansion or displacement of higher cost developing countries would be limited by the pre-arranged conditions of MFA.

Link to Overall Trade and Macroeconomic Policies

In pursuit of the trade agenda, a number of general and specific strategies presents themselves. Before getting to these, however, several factors involving the overall trade and macroeconomic policy framework need to be taken into account.

Given the export interests of the Philippines, will the current structural reforms alter the nature and characteristic of trade? Can we expect a firmer accentuation of the array of tradeable products or will there be new exportable lines?

The combination of rural development and appropriate trade liberalization may induce the expansion of labor-using and export-oriented light manufacturing industries. The liberalization of raw material imports for the textile industry (polyester staple fiber, filament yarn, spun yarn) will have two significant effects. One would be on direct exports as costs are reduced, prices become competitive, and quality improves. The other would be on greater linkages and integration of the garments industry as it becomes competitive and garments manufacturers increase their domestic purchases of textiles (from the present 20-30 percent of local markets). The growth rate in real gross value added (GVA) of textile manufactures for the first quarter of 1987 is about the same as wearing apparel, both being higher than the average for manufacturing. In the new Round, therefore, there is a need to survey both non-tariff and tariff measures for textiles not just in the developed country markets but also in other countries.

Another industry which has potential for expansion is canned tuna and food exports especially as the supply of tin plates to Philippine manufactures become more liberalized. Despite the apparent decline in the Philippine share of prepared or preserved tuna (in airtight containers) in US imports, which stood at 25.0 percent in 1983, this export product is very likely to retain its competitiveness. Of course, such liberalization can expand to other processed food products. Aside from non-tariff measures such as quotas, health and sanitary regulations and possible countervailing duty, the duties imposed on tuna exports range from 6.0 percent to 35.0 percent without any GSP indicated.

There are other industries which may break out into export markets on a more sustained basis. These include the metal industries (via the exports of GI sheets, pipes, tubes, fittings), simple machineries, and miscellaneous manufactures which include travel goods, toys, etc. Of course, we need not mention the expansion of the current range of exports especially when structural problems are directly addressed. As quality weaknesses are corrected, stability of raw materials supply assured and other infrastructure put in place, exports of furniture and fixtures, electrical machinery, publishing and printing, among others, can be expected to expand.

There are also some external dimensions that would be relevant to increased access of Philippine exports. One is the effect of changes in real effective exchange rates. A real depreciation of the peso or a real appreciation of the currencies of destination markets would increase the competitiveness of Philippine exports. What once were products that could not compete will now become cheaper even with the tariff duties imposed. Another external factor is income growth which by itself would increase demand given relevant elasticities. And then there is the "political capital" that countries may have and use in order to gain access. But beyond these "shift" variables must be country efforts to cross tariff and nontariff boundaries.

These macroeconomic dimensions are in fact of critical importance to condition the impact of any decline in trade barriers. Exchange rate movements have far reaching effects than tariff reductions. Basic monetary and fiscal policies also exert significant effects. Thus, real exchange depreciations have similar consequences as unilateral reduction of tariffs across-the-board. The degree of fiscal surpluses or deficits in turn impact on trade behavior and price movements.

Strategies

First, with respect to the general issues of tightening GATT rules, definitions, etc., a strategy which can be taken is for coalitions with other countries, similar exporters, and regional groupings. The Cairns group which the Philippines identifies with is an illustration of this strategy. Similarly, along with ASEAN countries, the Philippines can pursue general issues on a more concerted basis.

Because of the concentrated nature of trade directions, negotiating efforts can be country specific. For example, coconut-related and sugar-related products have their markets in the US and the EEC, while shrimps, pineapples and bananas usually have Japan as destination.

Second, on tariff barriers, there is an option of selecting products of importance to the Philippines. Here, what may be important to the US (in terms of shares of our exports) may only be an insignificant share of the destination market. There may not be substantial resistance to giving concessions. On the other hand, where tariff reduction is pursued on products which occupy a large share of markets, it may be difficult to be granted concessions. A balance needs to be struck between negotiating for improved access in products or markets where we are significant suppliers and where we are yet to attain a foothold (which could be products with potential expansion) - for example, builders' woodwork, household utensils vis-à-vis bags and baskets in the US; plywood, household utensils vis-à-vis veneer corestock in Japan; basketwork, gloves and mittens vis-à-vis canned preserved tuna and pineapple concentrates in the EEC.

Third, there is the question of seeking MFN or GSP concessions and within GSP itself, even lower tariffs. Indeed, in the previous Round, the Philippines worked along the principle of seeking concessions on specific products of interest while relying on the MFN clause in the concessions granted other developing countries to receive indirect benefits. MFN is argued to be more permanent while GSP is transitory though the Philippines is still far from graduating out of GSP. It is also true that for some products, there is a wide margin between MFN and GSP rates which could spell competitiveness. Again some balance may be necessary in negotiating for MFN or GSP.

Fourth, the Philippines can pursue her requests for trade concessions without any reciprocity or _quid pro quo_. She can invoke the unique conditions of the country requiring special arrangements. She can capitalize on the global admiration for the country's new democracy. Ultimately, one has to ask how successful this approach is or how widespread nonreciprocity can get. It is not likely that this will get far enough and there is a limit to its effectiveness. In fact, this has rapidly diminished in importance. If this process does take place, the country should seek understanding and concession for infant industry arguments for some export products and allow a time-bound system of export incentives without threats of countervailing duties.

Fifth, we can seek: (a) credit for the unilateral trade liberalization pursued by the country; and (b) concessions for the tariff reduction program envisioned in the next few years. Because of the transfer of protection from quantitative restrictions to tariffs, some rates have been raised as interim measures with an eventual reduction towards more uniform effective protection rates. We can take the stand that in exchange for the program we ought to be given access to particular markets. The difficulty here is that our liberalization program is viewed as a structural change we seek for the country's own interests. There may be tough negotiations for tying trade liberalization with concessions. Part of the exchange may be the binding of tariffs.

Finally, there is the question of which market to begin with. With a combination of tariff and non-tariff barriers facing our exports, it would not be easy to determine which market and in what manner negotiations start. Bilateral exchange can take place with the EEC if further trade diversification is intended. Negotiations with the US and Japan can presumably be on the basis of increasing the breadth of our trade rather than our share for specific products.

The eventual shape of our trade negotiations needs to consider the country's long-run characteristic, the appropriateness of our export menu as reflecting the country's comparative advantage, and our approaches to them whether multilateral or bilateral. Perhaps the country can urge for across-the-board tariff reductions in a multilateral setting but work on specific products on an item by item approach.

In the area of NTMs it is important to realize that a strategy of bilateral reduction of non-tariff barriers will have to be multilateralized. While the Philippines can negotiate for opening destination markets for specific exports (e.g., Philippine mangoes for Korean apples) in exchange for opening her markets, a consequence of GATT rules would be that the Philippines cannot discriminate in favor of or against one country.

The removal of quantitative restrictions is a major strategy for trade expansion in an overall context of increasing protectionism. This can be done both by standstill or removal of restrictions and by bringing into the GATT ambit other forms of NTMs such as the MFA.

VI. CONCLUSION

There is a renewed vigor of "nationalism" in the Philippines today. This is reflected in the range of issues from the US bases to the role of multinationals. Naturally, there is doubt about the effectiveness and even relevance of a more open economy. Moreover, there is an equal doubt about whether the country should participate in a multilateral trading system. After all, it is argued that the developed countries themselves practice discrimination and protection openly. The newly industrializing countries themselves had also deliberately protected their economies (using even more nontransparent non-tariff measures) before their liberalization. The latter is a source of clue as to the trade policy the Philippines should take. All these point to serious questions about considering the new Uruguay Round as an appropriate vehicle for the country's participation in world trade. Indeed, they even point to a question about Philippine membership in GATT.

The implied options under this scenario include bilateral negotiations between the Philippines and specific trading partners to open up particular markets or remove NTMs mutually. For example, the Philippines can negotiate with Korea for imports of apples (from Korea) in exchange for free entry of Philippine coconut products. The Philippines can negotiate with Japan for removal of NTMs on Philippine garments in exchange for lifting quantitative restrictions on Japanese car imports. And so on.

The history of world trade, however, is replete with evidence that bilateralism limits global exchange and growth. It has not been accomodative of trade expansion. For one, it is inefficient in the sense of resources used to arrange trade transactions with every (or most) country traded. For another, inefficient as it may seem, it becomes effective only under an assumption that other countries follow the same principle.

The major trading countries of the world, however, realize that the principle of nondiscrimination in trade is still superior and efficient. There is also acceptance that the GATT appears to be the only viable mechanism for promoting and disciplining trade. In the face of renewed protectionism, increasing bilateral arrangements, and the use of NTMs, there is a greater realization for strengthening GATT rules and expanding the scope of its product coverage.

The Uruguay Round of MTN is a concrete manifestation of commitment to nondiscrimination in trade. The major trading countries have signified not only to open negotiations for increased exchange but are expressing commitment to expand the coverage to include those earlier transacted out of GATT. Is there a rationale for the Philippines to actively participate in this Round?

This paper has argued that both the country's short-term and long-term interests would be better served through active involvement in the formulation and negotiation of rules and codes that will become the sustainable framework in the conduct of world trade including conciliation and settlement of disputes.

In the first place, the economic structure of the Philippines shows it is quite dependent on trade. But as an open economy, its basic structure has been influenced by prolonged import substitution policies. To allow it to become adoptive and rely more on its comparative advantages, it has to respond to the global system of relative prices and tariff structures without being hampered by nontransparent barriers. Its internal reforms require and would be ineffective without reforms in its external sector.

Second, despite its provisional membership with GATT during the last Tokyo Round, the Philippines benefited from both its negotiations for specific tariff requests along with its offers and the MFN status that derives from concessions given by other countries. The Philippines may not have gotten the tariff cuts it had specifically requested, but it seems that the quantitative magnitude of the benefits was indeed large and could not have been acquired without the MFN principle adhered to in the Round.

Third, for as long as GATT codes are tightened and definitions for a number of its articles fairly circumscribed, the country should be able to participate and adjust according to its resource endowments and potentials. That is why among the country's top priorities in the Uruguay Round are those that should pertain to tighter rules, elimination and roll-back of NTMs, removal of subsidies and integration of all products (agriculture and the MFA) into GATT.

Fourth, within GATT itself, the country benefits through special and differential treatment under GSP or broader nonreciprocity. It has been pointed out in the paper, however, that these concessions may cast the country's economic structure not entirely consistent with its long-run trade regime. But even coalitions and concerns over GSP are considered within the context of GATT. While it may be that nonreciprocity or GSP are not in the higher priorities for the Philippines, GATT is still the venue for their negotiations and agreements.

And finally, there is considerable importance to the country of the new issues proposed for inclusion in the new Round. More people pointed out that some aspects of these issues (e.g., services) are integral to our trade functions. It is also equally important to remember that the country does have some leverage in terms of negotiating strategies as in aspects of labor services.

Given the conviction that the Philippines should participate individually and collectively with ASEAN or broader coalitions, this paper explored a range of issues surrounding the Uruguay Round that may be useful in considering trade policy options for the Philippines. It also suggested specific strategies to pursue in the new Round.

To the extent that the Philippines subscribes to a need for a framework for conducting world trade in a nondiscriminatory manner, the new Round is critically important. In turn, the outcome of the country's participation in the new Round would only be as good as the efforts made in preparation for it -- be that with coalitions cutting across groups of countries or regional groupings or as an individual country.

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