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Through successive tariff reform programs, the Philippines pursued a trade policy anchored on unilateral and deepening liberalization across all products. In 1981, as part of the country's structural adjustment program, the country commenced a tariff reform program that called for the narrowing of the tariff band from its 10 percent to 100 percent to a 10 percent to 50 percent range. This brought down average nominal tariff rate from 42 percent in 1980 to about 20 percent by 1985.

The next comprehensive tariff reduction came in 1991. It involved phased adjustment from 1991-995 towards final rates clustered around three percent, 10 percent, 20 percent and 30 percent covering 95 percent of all tariff lines. This brought average nominal tariff from 28 percent down to 20 percent at the end of the period.

In 1995, the Philippines acceded to the World Trade Organization. Under this agreement, the Philippines bound 63 percent of the tariff lines to tariff ceilings generally 10 percentage points above the 1995 applied rates. It also committed to replace quantitative restrictions with tariffs.

Still, the government pursued its unilateral march towards even deeper liberalization. Its new tariff reform program initiated in 1995 aimed to achieve a uniform level of tariff of five percent by 2004. By 1997, average nominal tariff was down to 13 percent. In 2001, the tariff reduction schedule was modified to achieve a tariff band of zero to five percent instead of a uniform five percent, excepting only a very limited number of sensitive agricultural products. The completion of this final target was only interrupted by a deceleration of implementation in 2002, owing to the large government deficit and pressure for protection from a number of producers.

In 2010, average nominal tariff stood at 7.02 percent. In terms of sectoral distribution, agriculture has average nominal tariff of 11.94 percent, mining has 2.28 percent, and manufacturing has 6.18 percent.
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The resulting efficient allocation of resources, improved competitiveness of our products and the gains by domestic consumers, are the country's ticket to sustained growth and development.

In terms of concrete prediction, one example was a study done by Habito and Cororaton (2000), as summarized by Clarete (2005). The prediction was that the tariff reforms from 1995 to 2000 would result in a small decline in the number of jobs in agriculture and services, but new jobs created in manufacturing would more than compensate for such job loss. Real GDP would increase and income distribution would improve, with the "poorest quintile income group receiving the largest share of the GDP growth."

Clarete (2005), a leading exponent of trade liberalization, himself notes the divergence between what was predicted and actual outcomes, which we quote in relevant parts:

§ For most of the period covered by the analysis, imports exceeded exports, which meant that the country experienced a trade deficit as a result of trade liberalization. Secondly, rather than revealing a fairly diverse basket of exports from a large number of industries, as the simulation-based analysis indicated, the ex-post assessment indicated a concentration of exports in only a few industries.

§ The services sector is leading in creating jobs for the Philippine labor force. Contrary to the results obtained from simulating the effects of trade reforms using models of the Philippine economy, industry rather than making up for the observed reduction of jobs in agriculture and services in the ex-ante analysis, has turned out in this ex-post assessment of the effects of these reforms to be part of the problem. According to the results from the simulations, trade liberalization should have resulted in resources of industries rendered uncompetitive moving into those that were given a boost by lower import restrictions. However, the shares

Figure 1 (Average Nominal Tariffs by Sector) shows the pattern of trade liberalization from 1981 to 2010.

**Figure 1. Average Nominal Tariffs by Sector: 1970 - 2010**

![Figure 1. Average Nominal Tariffs by Sector: 1970 - 2010](image)


The Impact of Trade Liberalization

The initial push for trade liberalization was the assessment that the import substitution strategy failed to usher industrialization and development. The protection bias in favor of finished manufactures over raw materials, intermediate goods and capital goods were seen to have penalized exports, particularly agriculture. It also encouraged production of consumer goods over intermediate goods and capital goods.

Thus, the 1981 tariff reform program sought to rationalize protection towards a narrowed band to reduce tariff-induced price distortions and enhance the allocation of resources according to the country’s “comparative advantage”. This narrowing of tariff dispersion was intensified after the fall of Marcos, with ambitions toward a uniform tariff.

In addition to removing protection biases, the liberalizers also wanted to unilaterally and deeply cut tariffs. This would move domestic prices ever closer to world price, subjecting local production to competition and forcing them to improve their efficiency.
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of the various manufacturing sectors to total manufacturing production barely changed, indicating that resources hardly moved.

- In terms of per capita income, the country is not better off, as this has remained more or less unchanged, even falling slightly from US$1,173 (at 1995 prices) in 1980 to US$1,165 in 2001 (table 1 and figure 4). There were years when the average Filipino was worse off than in 1980, but relative to that year, when trade reforms began, the average Filipino's standard of living has remained roughly the same.

Even the determined efforts of unilateral liberalizers to show the brighter side of the strategy cannot escape the ugly side. For instance, Cororaton and Cockburn (2005), using an integrated CGE-micro-simulation, concludes that the tariff cuts implemented between 1994 and 2000 were generally poverty-reducing. However, this is primarily through the “substantial reduction in consumer prices they engendered.” But elsewhere in their study, we also see the following:

- Domestic producers experience reduced volume and prices for local sales
- Volume of exports increase, but so does volume of imports
- Total output in almost all sub-sectors decline, except for non-food manufacturing which marginally pulls up overall output.
- Labor and capital income from agriculture declines
- While labor and capital income from non-agriculture increases, this was pulled up by the large increase in the rate of return to capital in capital-intensive non-food manufacturing
- Income inequality worsens
Too Aggressive for Our Own Good

To be sure, a case can be made for rationalizing differential tariff protection levels, and reducing tariffs to improve resource allocation and competitiveness. But the Philippine trade liberalization strategy and its outcomes show that such approach will not necessarily lead to the predicted results.

One error of Philippine trade liberalization is that the tariff reduction has been far too aggressive.

A look at the Philippine tariff profile in comparison to its neighboring developing countries in 2009 will show that the Philippines has made far deeper tariff reduction, especially in agriculture, with the exception of Indonesia. (See Table 1: Trade and Tariff Profiles, Select Asian Countries) To the extent that the Philippines was an early starter in unilateral liberalization, one could surmise that the difference would have had been even wider in earlier years.

The trade results are also apparent. Philippines and Indonesia with their deep liberalization had far inferior trade outcomes than Thailand, Malaysia, Vietnam, and China. In terms of trade ranking, the Philippines fares the worst, not only by being the lowest ranked exporter, but also by registering an importation rank much higher than its exports ranking. The other countries show closer rankings for both exports and imports, signifying a more balanced trade.

Both the Clarete and Cororaton findings above indicate that agriculture and industry have been run to the ground by competition. Instead of industry taking off from an improving allocation of resources, resources (both capital and labor) trooped to the non-tradable services sector. Between 1985 to 2010, services has proven robust in terms of share in output, while agriculture and industry have dropped. Services is now our biggest employer, accounting for 52 percent of total employed in 2010. Agriculture employs 33 percent while industry accounts for a very low 15 percent of employment. (See Table 2: Percentage Distribution of GNP by Industrial Origin and Table 3: GDP and Employment, by Industrial Origin)
But another stark labor response has been to leave the country for work overseas. This was the direct outcome of jobs being destroyed and income depressed in both agriculture and industry. The contribution of Net Factor Income from abroad in the structure of the Philippine economy from 1985 to 2010 is unmistakable. (See Table 2) The exodus of capital and labor from agriculture and industry to services and overseas work shows that inefficiencies were not entirely induced by price distortions; other sources of inefficiencies were beyond the control of producers. These include infrastructure bottlenecks and market and government failures.

While movement in the exchange rate (peso depreciation) would have provided a price-correcting mechanism, the other unintended result of trade liberalization—labor going overseas—has prevented the price correction. On the contrary, the ever increasing remittances of overseas workers pushed the overvaluation of the peso, squeezing the tradable sectors even more.

**Most Vulnerable Sectors Lose**

In the 30 years of trade liberalization Philippine style, the economy has settled into its new structure.

Big capital has adjusted. If we look at the country's 40 richest, they have all diversified away from agriculture and manufacturing into services and nontradables, particularly utilities, property, retail trade and infrastructure.

Our overseas work force, despite challenges such as the middle-east conflict, has proven strong and has been shoring our economy and giving it resilience in the face of global crises.

Both overseas labor and gainfully employed local labor have benefited from low prices of traded goods, although they have to pay high prices for certain services, such as utilities.

But what about the losers in the process? These are the poorest and most vulnerable segments of the population that no one bothers to look at. They are the segment of labor unable to find jobs with decent pay in the harsh conditions of competition under trade liberalization. They are the growing
number of informal settlers in the cities, trying to escape non-paying agriculture. They are the large number of informal workers crowding city streets at any time of the day in search of odd jobs.

One key characteristic of this vulnerable, immobile labor segment is lack of education. By occupation, they belong to the 5.7 million farmers, forestry workers and fishermen and 11.6 million laborers and unskilled workers, in all comprising 48 percent of the 36 million employed. Of these, 8.6 million have education from zero to at most grade 6. (See Table 4: Employed Persons by Major Occupation by Highest Grade Completed)

These are the victims of Philippine trade liberalization.

**Give Relief to Domestic Production through Tariff Adjustment**

The present very low levels of tariff must be adjusted upwards to provide immediate relief to domestic production, employment and income. An across the board modest increase in tariff will recover some protection for domestic production, lift income and employment, and improve the prospects of our countrysides.

Unfortunately, the adjustment will not be without transition costs for sections of the same vulnerable sectors. The increase in prices of commodities arising from the tariff adjustment will adversely impact particularly those employed in the low-paying segment of services.

But this is where programs like the conditional cash transfers can serve as safety net, and assume greater meaning insofar as it is linked to restructuring the economy towards a more sustainable path. Also, the improvement in government revenue from the tariff increase must be used wisely by government to address the many sources of production inefficiencies, and assist in the transition.

Beyond this immediate adjustment, we must also now begin to look more favorably to a strategic and integrated industrial policy. The Philippines need not be damned forever; there are things we can do other than weep.
# TABLES

## Table 1. Trade and Tariff Profiles, Select Asian Countries

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Philippines</th>
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<td>Exports</td>
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<td>Tariff Binding Coverage (% of tariff lines)</td>
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### Table 3. GDP and Employment, by Industrial Origin, 2010

<table>
<thead>
<tr>
<th>Sector</th>
<th>Current (PhP 000)</th>
<th>1985 Prices (PhP 000)</th>
<th>Employed Persons (000)</th>
<th>% of total employed</th>
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<tr>
<td>Agriculture, Fishery and Forestry</td>
<td>1,182,374,000</td>
<td>258,081,000</td>
<td>11,904</td>
<td>33</td>
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<tr>
<td>Industry Sector</td>
<td>2,663,497,000</td>
<td>515,751,000</td>
<td>5,371</td>
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<td>Services Sector</td>
<td>4,667,166,000</td>
<td>763,320,000</td>
<td>19,018</td>
<td>52</td>
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Source: National Statistical Coordination Board; National Statistics Office.

### Table 4: Employed Persons by Major Occupation by Highest Grade Completed, 2010 (In Thousands)

<table>
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<tr>
<th>MAJOR OCCUPATION</th>
<th>Total</th>
<th>No Grade Completed</th>
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<td></td>
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<td>Total</td>
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<td>ALL OCCUPATIONS</td>
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<td>Officials of Government and</td>
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<tr>
<td>Managing Proprietors and Supervisors</td>
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<tr>
<td>Professionals</td>
<td>1,686</td>
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<tr>
<td>Technicians and Associate Professionals</td>
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<td>Clerks</td>
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* Less than 500.

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### Table 4: Employed Persons by Major Occupation by Highest Grade Completed, 2010 (In Thousands)

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<th>HIGHEST GRADE COMPLETED</th>
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<td>Service Workers and Shop and Market Sales Workers</td>
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<tr>
<td>Farmers, Forestry Workers and Fishermen</td>
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<td>Trades and Related Workers</td>
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<tr>
<td>Plant and Machine Operators and Assemblers</td>
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<td>6</td>
<td>413</td>
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<td>658</td>
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<td>Laborers and Unskilled Workers</td>
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<td>4,874</td>
<td>2,509</td>
<td>2,365</td>
<td>5,316</td>
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*     Less than 500.

Acronyms

GNP  Gross National Product
GDP  Gross Domestic Product
NFI  Net Factor Income
NSCB National Statistical Coordination Board
NSO  National Statistics Office
UNESCAP United Nations Economic and Social Commission for Asia and the Pacific
WTO  World Trade Organization
References


About the Author

Atty. Nepomuceno (Nepo) Malaluan is Trustee at the Action for Economic Reforms, an independent policy organization working on macroeconomic, privatization and utility regulation, and governance issues. Nepo has done research and published work on electricity and water sectors, particularly on utility privatization and regulation. In governance, he works extensively on the issue of Freedom of Information. Nepo has degrees in Economics and Law from the University of the Philippines.
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Why we are here
Inspired by the successes of the World Social Forum in 2001, where civil society organizations, academics and activists with varying political advocacies gathered, and of the Stop the New Round! Coalition’s campaign against the Doha Round of the World Trade Organization in 2003, Focus on the Global South-Philippines initiated a process where stakeholders can consult and dialogue on issues, and work towards achieving unities. Thus was born the Development Roundtable Series or DRTS in 2004.
From 2004 hence, the DRTS experience has shown this: Where there is a way to come together and discuss social-political and development issues, there is will to resolve differing views and find common ground in platforms for policy changes.

What we aim for
The DRTS identifies issues and determines courses of action, recognizes competing interests and addresses pitfalls, but eventually works out policy alternatives. The process uses research, roundtable discussions, forums, campaigns as means to achieve the following objectives:
• That the public's interest is always reflected in government policies as well as in policy-making;
• That the policy agenda adheres to universally recognized rights;
• That interested sectors are able to dialogue and address common questions, and work towards creating shared agenda;
• That this common agenda is promoted and popularized.

How we do things
DRTS processes begin with inception roundtables, where interested organizations discuss and debate issues, and become birthing ground for thematic working groups (TWGs). Originally, there were five (5) thematic working groups and one (1) regional process that were formed: the Food and Agriculture, Trade and Industrial Policy, Agrarian Reform and Rural Development, Water Resources and Services, and Foreign Policy TWGs, plus a regional process called the Mindanao TWG. The Mindanao TWG recognizes the specific context of advocacies in Mindanao and urgent issues they confront.
Each TWG has an anchor organization/s responsible for keeping the process going. The anchor organizations are then convened in a group called Convenors core group, which steers the DRTS processes. Focus is the over-all coordinator of all the TWGs and oversees the implementation of the consolidated plans of the DRTS Convenors core group. At present, there are four (4) thematic working groups and two (2) regional processes that tackle broad issues related to the following themes:
• Trade, Industrial Policy and Privatization
• Agrarian Reform and Rural Development
• Water Resources and Services
• Peace, Security and Foreign Policy
• Development issues in Visayas
• Development issues in Mindanao
TWGs are the core groups in the process but other organizations and individuals have also been active, such as in the yearly SONA activity.

Who can participate and how to get involved
Everyone--individuals and organizations--is encouraged and welcome to participate in the DRTS. There are several ways to get involved:
• Basic participation
  Attend public education activities
  Attend consultations
  Join special and mass activities
• High-level participation
  Join a thematic working group
  Join a lead group for on-the-ground activities
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About the DRTS

• Institute for Popular Democracy (IPD)
• Pambansang Koalisyong ng Kababaihan sa Kanayunan (PKKK)
• Women's Legal Bureau (WLB)
• Philippine Center for Water and Sanitation (PCWS)
• Alliance of Government Workers in the Water Sector (AGWWAS)
• Visayas State University-Institute for Strategic Research and Developmental Studies (VSU-ISRDS)

TWG on Agrarian Reform and Rural Development

• Philippine Network of Rural Development Institutes (Philinet-RDI)
• Katipunan ng Bagong Pilipina (KABAPA)
• MakaBayang Alyansa ng mga Magasaka sa Pilipinas (MakABAYAN-Pilipinas)
• Pambansang Kilusan ng mga Samahang Magasaka (PASKAMASA)
• Pagkakaisa para sa Tunay na Repormang Agraryo (PARAGOS-Pilipinas)
• Pambansang Katipunan ng mga Samahan sa Kanayunan (PKSK)
• Samahang Magasaka ng Macabud
• Center for Agrarian Reform Empowerment and Transformation (CARET)
• Center for Agrarian Reform and Rural Development (CARRD)
• Centro Saka Incorporated (CSI)
• Focus on the Global South (Focus)
• Kaisahan Tungo sa Kaunlaran ng Kanayunan at Repormang Pansekahan (KAISAHAAN)
• Management and Organizational Development for Empowerment (MODE)
• Project Development Institute (PDI)
• Philippine Ecumenical Action for Community Empowerment (PEACE Foundation)
• Philippine Legislators’ Committee on Population and Development (PLCPD)
• Sentro ng Alternatibong Lingap Panligal (SALIGAN)
• People’s Campaign for Agrarian Reform Network (AP Now)
• Partnership for Agrarian Reform and Rural Development Services (PARRDS)
• Pambansang Koalisyong ng Kababaihan sa Kanayunan (PKKK)
• John Carroll Institute for Church and Social Issues (JICSI)

TWG on Water Resources and Services

• Bantay Tubig
• Freedom from Debt Coalition (FDC)
• Focus on the Global South
• Institute for Popular Democracy (IPD)
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