



## ***FTA Statement on the forthcoming WTO Ministerial***

September 2005

## **Can DDR Deliver Development? Choices and Challenges for RP in the HK MC6**

In less than three months, or on 13-18 December 2005, the world's economic ministers and trade negotiators shall converge in Hong Kong to attend the 6th Ministerial Conference (MC6) of the World Trade Organization in order to draw up a new global 'consensus' on a new round of trade liberalization measures in agriculture, industry, services, intellectual property rights and other areas. The WTO Secretariat, now led by DG Pascal Lamy vice Thai's Supachai Panichpakdi, wants Hong Kong to put to a close the contentious Doha Development Round (DDR) talks, a round which has bitterly divided the haves and the have-nots in the last four years on the shape of the new trade liberalization agreements as vividly manifested in the collapse of the 'stock-taking' Ministerial Conference in Cancun, Mexico in 2003. Thus, after missing the July 2005 target for 'approximations' on new agreements in agriculture, industry, services, intellectual property rights and other areas, the WTO leadership is convening a General Council meeting this October to hammer out differences, while the developed countries are busy dividing the ranks of the developing countries ostensibly to forge a global DDR agenda that serves, naturally, the interests of the developed countries themselves.

Where does the Philippines stand in the ongoing DDR talks?

Sadly, to date, the Philippine government has not clearly outlined where it stands on the various trade issues that are on the HK MC6 table. It has taken a fairly progressive position in agriculture, by joining the Group of 20 or so developing countries in demanding for the elimination of the unfair trade-distorting subsidies provided by the developed countries to their farmers to the tune of \$1 billion a day and by actively leading, together with Indonesia, the Group of 30 or so developing countries advocating full recognition of the rights of developing countries for special products (SPs) and special safeguard mechanisms (SSMs). The continuing failure of the developed countries to overhaul their subsidy program while arrogantly insisting for developing countries to make radical tariff reduction commitments is at the roots of the inability of WTO to forge a DDR consensus up to now.

And yet, the Philippine government has not bared to the citizenry its stand on other issues. In the non-agricultural market access or NAMA, it is not clear if it is opposing or not the proposed binding of the remaining one-third of the tariff lines left unbound when the Philippines joined the WTO in 1995. Among the products lined up for binding are footwear, fishery, jewelry, cement, tiles and other 'industry' goods. Nor is it clear if it has asked for exemption from the coverage of the proposed new tariff reduction program under NAMA on the ground that the Philippines should be given credit for its earlier autonomous trade liberalization.

More distressing, the government has not been exactly transparent in its negotiations over services under the General Agreement on Trade in Services (GATS). Since the start of the DDR in November 2001, the FTA and other civil societies have been asking the government for details of the GATS talks and for the holding of government-civil society dialogues to define precisely what should be the Philippine position in the unique 'request-offer' system of GATS negotiations, in particular on the long 2003 EU request which was leaked to the civil society movement by some European trade activists. In 2003-04, government trade officials repeatedly made the statement that no offers had been made. Then out of the blue, in June this year, the WTO Secretariat announced that it received from the Philippine government, on May 31, offers in the following sectors – tourism, finance, communication, construction, transport and energy.

Other disturbing realities –

To date, the government has no clear outline of its trade negotiation framework or strategy, which can only be formulated based on a clear development framework. After all, one does not trade for trade's sake. Trade is an instrument in support of a nation's development priorities. What are those priorities and how do they fit into the current DDR and other trade (regional and bilateral) talks?

Additionally, the absence of a clear trade negotiation framework is aggravated by the apparent lack of a unified trade negotiating team. There are so many agencies and personalities involved in the trade talks. While Malacañang is supposed to be the overall authority on trade issues through the Cabinet-level Committee on Trade-Related Matters (TRM), it is understandably unable to monitor and supervise in a synchronized manner the various sectoral trade talks being conducted by the DFA, DTI, DA, NEDA, the different Undersecretaries and Assistant Secretaries and Bureau Heads, and the two Ambassadors (one for Geneva and another for International Trade) involved in trade negotiations. As it is, some of the personages making up the Philippine trade team speak at times with different voices, with some deeply aligned with the cause of developing countries while others still ardently believing in neo-liberalism and unilateral trade liberalization despite the preponderance of evidence showing the negative effects of such on the economy.

In contrast, the United States has a US Trade Representative Office, which coordinates and leads in strategizing US position in the WTO and other trade forums. Also, the US Trade Representative Office has over 1,000 industry committees which do close and regular consultations with American industrial and agricultural producers to advance American economic interests.

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## **Defining the national interests and RP's development and trade priorities**

In the light of the foregoing, the Fair Trade Alliance (FTA) is asking the government to define more clearly the Philippine trade and development agenda in the forthcoming HK MC6. In this connection, the FTA is submitting the following recommendations:

### **1. *The Philippines should align itself with the global movement seeking to correct imbalances in the global trading systems***

When the DDR was approved in November 2001, the Doha Ministerial Conference proclaimed that its main objective was to put the 'needs and interests' of developing countries 'at the heart' of the WTO's Work Programme.

And yet, in the ongoing talks, the development issues, principally the inequality and insecurity affecting the working people and the limited and unequal progress achieved by developing countries under a WTO-led globalization, are simply being sidelined, if not ignored. Trade liberalization as an economic panacea is still being bandied about as the cure-all for the economic ills of the world, when it is clear that the one-size-fits-all liberalization model of globalization is at the roots of global, regional and national inequalities and the stark poverty hounding many in developing countries, the Philippines in particular.

As it is, the crucial issue of 'special and differential treatment' (SDT) is being relegated to the background. Even talks on the SPs and SSMs are hardly moving.

The SDT clause, which is all over the original Doha declaration, should serve as the guiding principle in trade. SDT means the flexibility of a developing country to push trade in support of its development needs, including the re-calibration (upward or downward) of tariffs when warranted by the requirements of industry and job preservation and poverty eradication. The Philippines, together with other developing countries, needs to be creative in operationalizing the SDT principle and, in consultation with the local business and farmers' groups and other stakeholders in society, on how to get optimum benefits from the SDT clause and how this can really become operational. Our trade negotiators should remind their counterparts in other countries and the WTO leadership itself that the guiding Preamble of the WTO states:

***"...trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development."***

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But at the moment, the global trade negotiators seem to be more preoccupied with the tasks on how to forge agreement on various liberalization formulas rather than addressing the requirements of developing countries for 'sustainable development' based on their existing 'levels of economic development'. The contentious liberalization formulas include the following --

- 'bands' or tiers of tariff reduction for agriculture,
- 'benchmarks' or 'complementary approaches' on service sectors to be opened up, and
- tariff 'coefficients' to be used in computing for goods to be covered under NAMA.

Discussions on these formulas are supplemented by debates on the schedule of subsidy reductions in agriculture by developed countries, range of the special products (SPs) to be covered by the AoA, extent of liberalization in services under GATS, and inclusion of fishery products under NAMA and the likes. These are important issues but they can not replace the more important SDT issue as described above.

As to the specific DDR concerns, we reiterate the following:

**Agreement on Agriculture (AoA)** – The Philippines should stand firm in its support to the efforts of the G20 to extract commitments from the developed countries in reducing trade-distorting subsidies in agriculture – through clear, measurable and definitive targets. Likewise, the Philippines should help maintain the G33 alliance which is pushing for SPs and SSMs in the AoA. There should be flexibility clauses that allow developing countries to have as many sensitive products be declared as SPs and to have the facility to avail of protection through the SSMs.

The government should also correct the simplistic approach that trade is a question of market opening. If we have less items to export and a lengthening list of imports, market opening becomes a suicidal formula. But how can we have more exportables and less importables if our agriculture is poorly managed, our agricultural tariffs are way below those of other countries and the dumping and smuggling of certain imported agricultural products remain unchecked, especially in the ports outside Metro Manila? Clearly, we need a coherent and integrated approach to agricultural development. Further, even if we are negotiating for the SPs, we need to draw up already our own list of sensitive or special products.

**Non-Agriculture Market Access (NAMA)** – The Philippines should join the growing movement among developing countries demanding more flexibility on market opening and coverage under NAMA. Most of the proposed liberalization formulas tend to ignore the existing level of development among developing countries and 'kick away the ladder' of industrial development that was used by the developed countries themselves, such as the protection for critical or strategic or infant industries suitable to developing economies.

In short, we should be able to maintain the flexibility to develop our industrial capacity or strengthen our industrial base. For example, we should be able to develop our own integrated petrochemical industry, belated though this initiative may be. At the same time, our technocrats and tariff officials should help promote value-adding industrial

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complementarities and linkages, not foment artificial industrial divisions by passing tariff measures which pit one group of domestic producers against another group. The latter is often aggravated by the absence of an integrated industrial plan.

The Philippines should also junk the various NAMA liberalization formulas, including the original proposal of two times the 2001 MFN applied rates, which ignore the country's existing low tariffs resulting from its earlier unilateral tariff liberalization. The Philippines should also ask for the non-coverage of sensitive fishery products.

**General Agreement on Trade in Services (GATS)** – The Philippines should oppose the EU's 'benchmarking' proposal, which obviously seeks to pit the cautious liberalizers against the wholesale liberalizers regardless of development circumstances. For example, how can service liberalization in the Philippines or India be compared with service liberalization in Singapore?

Likewise, we should oppose the wholesale opening up of the entire service sector, in particular the EU's request for the general opening up of almost everything -- from banking and education to health and environmental services and to land, transport, energy, media and other service industries. The economic benefits of service liberalization, especially through 'commercial presence', are not clear, as investments in existing service industries imply mainly changes in ownership and control, not expansion of productive capacity. Moreover, the danger of monopoly or oligopolistic control is palpable, as what we have seen in the liberalization and privatization of the oil industry or in the case of Thailand today, the disappearance of its traditional retailers with the entry of Carrefour and other transnational retailers. The EU is even asking the Philippines to amend its Constitution to allow full foreign ownership of media services, full foreign involvement in real estate business and full foreign participation in the exploitation of natural resources and the operations of public utilities. This is like bringing back the colonial Parity Agreement with the United States, but this time extending the so-called 'parity' to all big global players to come in into the country without any assurance that such will lead to economic and job expansion.

**Trade-Related Aspects of Intellectual Property Rights (TRIPS)** -- On TRIPS, the Philippines should join the global demand of developing countries for clarity on Doha provisions on support for public health, access to existing medicines and R & D into new medicines, and biological diversity. There should also be outright prohibition on the patenting of plants and animals or their parts, of naturally occurring micro-organisms and biopiracy. In the case of the last, the Philippines is often victimized by transnationals patenting materials produced or planted in the Philippines with the benefits not even shared with our country.

We should oppose the efforts of developed countries to re-interpret the provision on 'data protection' under TRIPS (Art. 39) to mean 'data exclusivity', which, in effect, would prevent our generic producers to manufacture drugs whose patents have expired and which would keep medicine prices at atrociously high transnational prices. Likewise, we should oppose the plans of the transnational corporations to promote the 'TRIPS-Plus' or 'WTO-Plus' concept by bringing the IPR regime into bilateral and regional trade talks and putting in all the protective clauses favoring these corporations. We should recognize that competition outcomes in the global markets is often determined by control over technology,

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which many TNCs and developed states jealously guard, often through unfair use of patents, copyrights and so on.

**Trade facilitation** – As interpreted by the developed countries, trade facilitation is a question of 'policy coherence' in the trade, debt and agro-industrial policies of developing countries. In short, policy coherence and capacity building mean support for the policies advanced by the multilaterals – WTO, IMF, World Bank, ADB and so on.

However, we advance another approach to trade facilitation and policy coherence – the promotion of the concept of trade in support of development, social stability, institutional reforms, national sovereignty and job preservation and job creation. In short, genuine trade facilitation should support the concept of a strong state based on a strong economy with a solid agro-industrial base.

## **2. We should correct past liberalization mistakes**

A progressive Philippine position in the WTO should be complemented with internal reforms in the country. Specifically, we need to strategize measures on how to nurse back to health our eroded agro-industrial base and reverse the haphazard and one-sided manner by which we have opened up our economy.

One initial reform measure along this line is for the Philippines to raise our tariffs to higher or even at their maximum WTO bound rates, as appropriate. The Philippines should also abandon the 0-5 per cent tariff range, which is considered in global trade as a 'nuisance' range. Instead, we should do what Thailand, Malaysia and other countries are doing, that is maintaining high tariffs for their locally-produced items where appropriate. Apart from creating space for our trade negotiators, these twin measures will level the trading field for local industry and agriculture and will help the government solve its fiscal crisis. Instead of the divisive and contractionary expanded VAT, tariff adjustments or even the imposition of a ten per cent import surcharge on all imports can easily wipe out the budget deficit.

Other areas which require decisive political will and government-civil society cooperation are – reduction of the cost of doing business and farming, building up an entrepreneurial and industrial culture in the country and upgrading or modernizing our industrial and agricultural facilities. These are areas which require extended and separate discussions.

However, related to the task of upgrading our industrial and agricultural capacity is the need to develop our own product standards. As is well known, while developed countries have low tariffs, they are able to keep at bay imports from other countries through a sophisticated system of product standards, including phyto-sanitary ones. On the other hand, our country has become a dumping ground of poorly-made, unsanitary, dangerous and hazardous products made by other countries given the laxity of our customs officials and procedures and the absence of such product standards.

Of course, we are not advocating any precipitate withdrawal from the global market. The point is that our policy makers and trade negotiators should be more discerning and

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conscious in calibrating trade measures in support of development. In this context, we need to identify industry winners and losers under globalization, on how the displaced workers and farmers can be assisted and what are the safety nets and upgrading measures needed to insure the survival and expansion of Philippine industries, farms and jobs. In this regard, we are dismayed that in the Review of the Philippines' compliance with its WTO commitments, the WTO Secretariat made the strange observation that trade liberalization has been good, by and large, for the country. This was not contradicted by our own trade negotiators, who even agreed to the WTO suggestion that more liberalization will be good for the country!

We, at the FTA, reiterate our contrary position – the country needs a pause, a historic pause, from this liberalization mania. Instead, what we need today is a critical assessment of the Philippine integration in the global economy and the development of a more balanced program of global integration.

We say no to unbridled globalization and mindless liberalization! We say yes to sustainable and balanced development!

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