

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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**TRADE POLICY REVIEW MECHANISM**

**THE PHILIPPINES**

**MINUTES OF MEETING**

Chairman: Mr. A. Szepesi (Hungary)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman, introducing the review of the Philippines' trade policies and practices, welcomed the Philippine representatives and recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council was to base its work on two reports, one submitted by the Government of the Philippines (C/RM/G/33) and the other by the GATT Secretariat (C/RM/S/33).
2. Australia, Canada and New Zealand had given advance notice in writing of points they wished to raise during the meetings. These were conveyed to the Philippine delegation in Geneva. It was understood that these questions should not limit the scope of the Council discussion in any way.
3. The Chairman suggested that the review might emphasize the following main subjects:
  - (1) General objectives of Philippine economic and trade policies, particularly the evolution of policies since the mid-1980s; the policy strategies currently being implemented; and expectations for the future direction of trade policies. Specific areas might include new legislation and institutional structures established to implement liberalization, deregulation and privatization; participation in the emerging ASEAN Free Trade Area (AFTA); the phasing out of licensing in favour of tariffication; changes in regulations on foreign direct investment (FDI) and the incentives and investment objectives promoted in the Investment Priorities Plan (IPP).
  - (2) Use of major trade policy instruments, focusing on the mechanics of trade liberalization and other trade-related policy changes. Discussion might include mechanisms for determining the speed of overall tariff liberalization; the determination of specific rates for individual products and product groupings; procedures for designation of "strategic" products excluded from tariff reductions; motivations for excluding a majority of tariff lines from the Philippine offer to bind tariffs in the Uruguay Round negotiations; and reasons for requesting exclusions from the ASEAN Common Effective Preferential Tariff (CEPT) programme.
  - (3) Developments in the formulation of sectoral policies in the Philippines and measures that might be taken to assist the upgrading of both industry and agriculture.
4. The Chairman thanked the two discussants, Mr. John Buckley and Mr. Joseph Wong, who would speak in their own capacity. He invited the representative of the Philippines to give her opening statement, to be followed by the two discussants.

## II. OPENING STATEMENT BY THE REPRESENTATIVE OF THE PHILIPPINES

5. Like the previous two countries that underwent reviews - Romania and Poland, which both have economies-in-transition - the Philippines is in some form of transition as well; in transition to a more open, market-oriented, and responsible player in the multilateral trading community. The path along such a transition has not been easy. It took a lot of political courage to pursue the unilateral reforms in trade policy we began in 1981, soon after our accession to the GATT, especially against the background of serious political problems and faltering economic performance.

6. In recent years, more challenges have surfaced along the path of transition. We do not claim a monopoly of the challenges a global economic slowdown can wreak on a fledgling economy, nor of the effects international conflict can sow on small and vulnerable economies. But where else will you find economic planners and econometricians finding the need to incorporate in their forecasting exercise, and perhaps on a permanent basis, natural calamities such as scorching droughts, devastating typhoons, powerful earthquakes and historic volcanic eruptions!

7. The recent economic performance of the Philippines can best be described as a period of cyclical swings from bad to not-so-bad years, with a few relatively good years spread in between. After a prolonged period of economic expansion in the 70s, the first half of the 80s was dominated by recessionary years due to both domestic political conditions and developments in the international economy. From 1986 to 1989, economic growth improved with peak years in 1988 and 1989 when GDP grew by more than 7 per cent and 5.7 per cent, respectively. Since 1990, growth had slowed down, but the economy is expected to post modest recovery in 1993 owing to a large extent to stabilization measures taken in the last two years to control inflation, reduce the fiscal deficit, and strengthen the financial sector. But important challenges remain. For example:

- The Philippines continues to suffer an investment-savings gap that domestic economic performance alone will not be able to close. The Philippines will increasingly have to rely on foreign sources of capital through exports, foreign direct investments, and loans.
- Fiscal deficits, while reduced from 5.2 per cent of GNP in 1986 to 2.1 per cent in 1991, and to less than 2 per cent last year, will continue to be a major problem. The tax-to-GDP ratio, as the Secretariat document noted, is low by ASEAN standards.
- The current account balance will remain precarious, primarily because of the deficit in merchandise trade. The balance of trade was in deficit of roughly \$4 billion in 1990, and preliminary estimates indicate that this may have reached \$4.5 billion in 1992. For an economy that has merchandise exports of less than \$10 billion, this will indeed be a factor to reckon with.
- The gross inadequacy in infrastructure to support sustained growth can only be solved over the long-term. The severe shortage in energy may well be the most immediate challenge for Filipino businessmen and the population-at-large.
- Efforts to control inflation but, at the same time, keep interest rates within manageable levels will pose an important challenge to our policy-makers in achieving stability and predictability in the domestic economy that would be conducive for increased consumption and business expansion.

8. It is against these considerations that one must view the reforms and liberalization measures that the Philippines has unilaterally undertaken over the last decade. The Philippines embarked on a program of trade reforms consisting of the import liberalization program and the tariff reform program in 1981 to improve resource allocation and enhance the competitiveness of the export sector. The import liberalization program called for the phased shift away from quantitative restrictions to an essentially tariff-based protection régime. From 1981 to 1992, import restrictions on more than 2,700 agricultural and non-agricultural products were removed. Some 135 items continue to be restricted, which represent less than 5 per cent of our tariff lines. Of these 135 items, 69 items will remain under restrictions for reasons of health, security and safety while 66 items will be liberalized over time.

9. The second phase of the tariff reform program was launched in 1981. The second phase started in August 1991 with the issuance of Executive Order 470. In this program, average nominal tariff will be reduced from 26 per cent in 1991 to around 20 per cent by 1995. Government estimates indicate that the trade weighted reduction will be from 20 per cent in 1991 to 14 per cent by 1995. It will also substantially narrow down the wide dispersion of tariff rates with the clustering of final tariff rates to 4 levels. Although Executive Order 470 excludes some 208 sensitive items from the tariff reductions, and a more recent Executive Order - Executive Order 8 - allows the raising of tariffs for items to be tariffed subject of course to a phase down by 1995, current efforts will improve certainty and transparency for investors, producers and traders, and encourage them to gear up for a more competitive international environment.

10. I must also add that, despite these necessary relief measures, we do not preclude the possibility that such exceptions will be corrected in the very near future. One will only have to look at the recent experience with the import levy. First introduced as an emergency relief measure in December 1990 at 5 per cent, it was raised to 9 per cent in January 1991, only to be brought down to 5 per cent in August 1991 in the process of on-going policy refinements. It was removed in May 1992 except for certain petroleum products in advance of its scheduled lifting because the desired policy goals had already been achieved. I believe the record of the Philippines over the past twelve years is enough evidence that we are determined to proceed with reforms and liberalization.

11. Policies with respect to the foreign exchange and foreign investments were also recently substantially revised to complement reforms in trade policy. In 1992, the Philippine Government lifted several restrictions on the flow of foreign exchange. Among the most significant policy changes with regard to the foreign exchange was the authorization for exporters to retain 100 per cent of their foreign exchange receipts, in contrast to a previous policy where they were required to sell foreign exchange to banks and retain only 2 per cent of their receipts.

12. Residents may now invest abroad without prior Central Bank approval in any of the following cases: (1) the investments are funded by withdrawals from foreign currency deposits; (2) the funds to be invested are not sourced from authorized agent banks; and (3) the funds to be invested are sourced from authorized agent banks but in amounts of less than \$1 million per investor per year. These conditions are at present being reviewed by monetary authorities with a view to totally eliminating them.

13. The Foreign Investments Act of 1991, or Republic Act 7042, significantly reformed the foreign investment régime. It clearly defined the limits and restrictions on foreign investments and streamlined investment approval procedures. As of the present, a negative list of sectors where ownership is restricted to 40 per cent is in effect. This list will be subject to continuing review by

the National Economic Development Authority, and is the object of proposed legislations to further liberalize certain areas of activities presently restricted by law. The Philippines has achieved a lot in the last several years, but still has a considerable distance to travel along the path of transition.

14. A multitude of other concerns that span the whole spectrum of the Philippine economy need to be addressed:

- Concrete measures will have to be developed to address gross underdevelopment in the agricultural sector. The rôle of Government, given its meagre resources, will be put to task, particularly in making sure that credit, infrastructure, input assistance and institutional support are available to our farmers.
- Policies and schemes intended to promote exports will require further review and revision, where necessary. Current practices such as those on duty-drawbacks and bonded manufacturing warehouses will need to be revisited to ensure that they achieve better the objective of promoting export development.
- Financial discipline and privatization of government corporations will also remain to be a focus for our authorities. Although financial transfers to these corporations have been cut drastically in recent years, there has been success in privatizing them. These are necessary if we are to achieve a better balance in our fiscal situation.
- Measures to improve the energy situation will also be fast-tracked. Priority will be given to the rehabilitation of existing plants and the completion of projects already in the pipeline, including those we are undertaking with the help of foreign partners. Success in the energy development program will not only contribute to cutting down deficits in the balance of trade, but will also mean new investments for future explorations. A recent example of such success was the West Linapacan oil drilling sites which are estimated to have 140 to 240 million barrels of reserves.
- Tax collection efforts will be improved. While we cannot discount that new tax measures may be legislated, the effort now is directed more on improving efficiency in collections and minimizing tax evasion. This will invariably include considerations with regard to the present system of customs valuation, which is now being debated in Manila. Taking into account the revenue implications of such a move, a shift away nonetheless from the home consumption value, even in advance of the conclusion of the Uruguay Round, is not improbable.
- The institutional rôle of the Central Bank will also be strengthened, among others, via measures to strengthen its financial position.

15. On the whole, the Philippine Government is committed to a continuing review of the overall industrial promotion policy. I see efforts to rationalize the protection system for domestic sectors, especially import-competing ones, through an on-going review of the relationship between nominal tariff rates and effective protection rates with the objective of reducing distortions across sectors and harnessing international competitiveness. I see continuing efforts in improving industrial structure and performance, especially in key sectors that account for a major share of Philippine exports. The textiles and clothing sector is a very important sector in the Philippine economy. The Secretariat document has portrayed the Philippines as a country which considers the MFA as an advantage.

Maybe so. But had the MFA truly been a temporary measure, the structure and performance of the textiles and clothing sector could be markedly different today.

16. The Uruguay Round, once completed, will provide a further encouragement for adjustments and reforms. Trade rules such as those on anti-dumping, on intellectual property protection, and on investment measures will be brought in line with the rights and obligations in the Uruguay Round agreements. Policy with respect to the car industry is subject to a review every three years. While local content requirements are essentially voluntary, and agreed upon by foreign investors and the government prior to entry, this practice will be brought into conformity with the results of the Uruguay Round.

17. Another rationale for adjustments and reforms is related to the commitments undertaken by the Philippines in our part of the world. As a member of the ASEAN, the Philippines is committed to implementing the Common Effective Preferential Tariff scheme, as a means of achieving the ASEAN Free Trade Area in about fifteen years. The CEPT provides for a progressive reduction in tariffs on manufactured goods and processed agricultural products to anywhere between 0 and 5 per cent. Quantitative restrictions are also to be eliminated immediately, and non-tariff barriers over five years. Once available, details of the CEPT and the AFTA will be notified to the GATT in line with our commitment under the enabling clause.

18. Before concluding, I would like to take this opportunity, to appeal for support from our trading partners. We need our trading partners to provide the important and, if I may add, correct signposts along the path of transition. What we least need now are the obstacles some of our trading partners are wont to throw along the way, be they in form of restrictions on canned tuna and canned sardines, discrimination in the trade in tropical timber, lack of transparency in the determination of origin, or in exacerbating subsidization in the agricultural sector. Their action can greatly undermine our efforts in reforms and liberalization.

### III. STATEMENT BY THE FIRST DISCUSSANT

19. The first discussant (Mr. Wong) expressed appreciation for the political courage required to implement the Philippines' unilateral economic and trade liberalization measures despite major political and economic obstacles. His reading of the review reports brought two major thoughts to mind; the first being that economic reform could only achieve its desired objective in an environment of political and social stability, and the second the importance of an adequate and expanding infrastructure to support and keep up with advances in trade and investment.

20. In terms of skilled labour and natural resources, the Philippines compared favourably with its neighbours in the region, yet economic growth in the past thirty years had lagged behind. To the outside world, the new Ramos administration had signalled renewed hope and stability. The Economist, for example, in its 30 January edition carried a forecast of 2.1 per cent GDP growth for the Philippines in 1993, a substantial improvement over the estimated growth of 0.8 per cent for 1992. Against such a background, he requested further elaboration on how President Ramos' goals of achieving an economic growth rate of 10 percent a year by the end of his six-year term and raising the national income by a third were to be achieved, and in particular if there were any new initiatives in trade and investment policies which had not been noticed by the review reports. He noted that a major obstacle to foreign investment and economic development, and not just in the Philippines, was the problem of power shortages and asked the Philippines delegation to give an update of the situation and indicate when an adequate supply of electricity would cease to be an impediment.

21. The Philippines, he observed, was an example of the many developing economies which had implemented autonomous trade liberalization measures since the 1980s. Those measures had benefited not just the home economy, but other trading partners. The Philippines, however, had not been able to reap the full benefits of its reforms, partly due to fundamental weaknesses in the economy and partly due to an unfortunate string of natural calamities. The positive effects, however, of the Philippines' Import Liberalization and Tariff Reform Programmes should be acknowledged. The Secretariat report noted that, since 1981, import restrictions had been removed from nearly 2,800 tariff lines, and that average nominal tariffs were reduced from over 41 per cent in 1980 to some 25 per cent at present and were scheduled to fall further to around 20 per cent in 1995. He regarded the decision by the Government to convert quantitative restrictions on 178 HS lines into tariffs, and to reduce most of the post-tariffication (higher) rates significantly by 1995, as another welcome development. He observed, however, that a total of 208 articles remained subject to a final duty of 50 per cent after 1995 (paragraph 148(a) of the Secretariat report).

22. Autonomous trade liberalization measures by the Philippines and other developing economies required the support and encouragement of trading partners. A successful conclusion of the Uruguay Round would consolidate the benefits of various autonomous trade liberalization measures and provide a solid basis for further liberalization, not just in goods but in investment and services. A prolonged delay would put the whole multilateral trading system into jeopardy and stifle the efforts of developing economies for a better living. He noted that the Philippines' three biggest markets were the United States, Japan and the European Communities, which accounted for over 70 per cent of the Philippines' exports. Paragraphs 310 and 311 of the Secretariat report mentioned some perceived trade barriers to Philippine exports to the US, EC and Japan. What was the Philippines' perception of the opportunities and risks these three markets would bring to them in the foreseeable future? He also enquired as to how significant the bilateral trade agreements which the Philippines had concluded with twenty-eight countries, as well as the ASEAN PTA and CEPT Scheme, were in the promotion and expansion of Philippines exports.

23. The Secretariat report noted several deficiencies in the Philippines' system of valuation. The earlier the Philippines could complete its legislation to align its customs valuation laws to GATT rules and accede to the Customs Valuation Code, the better it would be for trading partners. He asked whether the Philippines' delegation could advise whether its Government had any target date in mind. One interesting observation which appeared in a number of places in the Secretariat report, he stated, was the "import substitution and anti-export bias" embodied in the Philippines' trade and industrial policies. Table V.1 on page 136 of the Secretariat report suggested that while effective protection for the importables sector would be reduced from 47 per cent to a still substantial 37 per cent in 1995, nothing would be done to the negative effective protection rate of 3 per cent for the exportables sector.

24. The conclusion that zero or negative effective rates of protection for exports would continue to affect the Philippines' ability to compete for domestic resources and to compete in export markets required serious examination. He asked whether the Philippines delegation agreed with the Secretariat's analysis and conclusion.

#### IV. STATEMENT BY THE SECOND DISCUSSANT

25. The second discussant (Mr. Buckley) began his comments by stating there was a general recognition of the progress that has been achieved and of the assets, particularly human, possessed by the Philippines. Any appraisal of the Philippines' performance over recent years, however, would have to accept that, while much had been achieved, there was still a distance to go. Indeed, commentators spoke of a development gap having opened up between the Philippines and some of the other economies in the region.

26. He noted that the Philippines economy had suffered more than its share of problems in terms of political instability and natural disasters. These had exacerbated the macroeconomic problems identified in the Secretariat report. It was worthwhile remembering, however, that like other agricultural producers, the Philippines had suffered from a highly distorted international trading environment for many of its traditional exports such as coconut products and sugar. Nevertheless, the Secretariat and Government reports detailed a range of significant policy reforms that had been undertaken by the Philippines in relation to foreign investment, foreign exchange and the financial sector; streamlining the tariff structure; and in addressing the sectoral imbalance in the economy. These changes had been made within the overall economic objectives of the Medium-term Philippine Development Plan, which sought recovery and sustainable growth, employment generation and poverty alleviation, based on acceptable inflation rates and given the external constraints.

27. In the area of trade policy, he stated that the Government had sought to promote a more outward-looking and competitive economy through appropriate exchange rate and tariff policies. These programs would result in significant reductions in tariff levels and the liberalization of imports. It remained true, however, that significant levels of protection still existed and would remain at the end of the tariff reform program. Quantitative restrictions were being removed, but in many cases they had been replaced with relatively high levels of tariffs. Thus, significant protection existed for a number of sectors, with a range of imports still regulated or prohibited. Although many of the purchasing monopolies had been disbanded, the Government maintained its responsibility for the purchase of rice. The Secretariat report also noted significant tariff escalation in a number of areas, and he was struck by the number of agencies involved in the approval of individual imports. He noted that import restrictions had led to a significant incidence of smuggling and under-valuation.

28. He said it would be useful to obtain more information from the Philippines delegation on why it was considered necessary to maintain such levels of protection. In a situation where the Philippines had a high dependence on imports of energy supplies and for imported inputs into the industries developing for export, protection imposed substantial domestic costs and maintained what the Secretariat had described as an 'anti-export bias'. He was also interested in how authorities determined what were 'deserving infant industries', and the appropriate period in which such industries should be protected. Like the first discussant, he was interested in an interpretation of the table on page 136 of the Secretariat report. A comparison in the table of previous levels of protection would have enabled the assessment of the extent to which the 'anti-export bias' was being moderated.

29. In spite of the problems, a number of export sectors appeared to have done well in recent years, and the pattern of trade had changed considerably in the past two decades. There had not, however, been a change in the direction of trade and the Philippines was heavily dependent on the markets of its three major trading partners. He asked for an assessment of the future for Philippine export commodities, particularly in the Asia-Pacific region, as well as on the rôle of regional cooperation in the Asia-Pacific region.

30. The discussant noted that trade reforms then underway would only slowly affect the traditional trade and industrial policies, and there was an issue over the speed of reform. He asked for an assessment of the likely pace of change in the future and whether there was any significant resistance to the general liberalizing strategy being followed by the Government.

31. In the area of foreign investment, he noted that considerable progress had been made in rationalizing procedures. The Secretariat report suggested that the restructuring of the Philippines economy could be strengthened by the removal of remaining constraints on foreign investment and, at the same time, it noted the cost of fiscal incentives which are made available to investors. It was encouraging to note the recent improvement in confidence, but it would be interesting, nonetheless, to obtain an assessment of the influence of infrastructure problems on future trade and economic performance and the effectiveness of the program of incentives. He wondered whether any changes in foreign investment policy, and its administration, were planned or contemplated.

32. On privatization, he noted suggestions in the Secretariat report that the program may not have lived up to expectations with respect to public enterprises (paragraph 283), although it had been relatively successful in disposing of under-performing assets. The report had also drawn attention to the related issue of competition to the effect that privatization needs to be accompanied by measures ensuring effective competition in privatized industries (paragraph 286, page 126), and that the benefits of privatization were likely to be dampened by the absence of anti-trust or competition laws. He expressed interest in learning more of the Philippines' privatization strategy in terms of future privatizations and intentions with respect to competition policy.

33. In concluding, he noted that, like many other countries engaged in the process of structurally adjusting their economies, it was clear that the Philippines' efforts needed to be complemented by broad improvements in international competitive conditions through successful completion of the Uruguay Round.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

34. Council members thanked the discussants for their constructive introductions, and generally complimented the Philippines and the GATT Secretariat for the efforts made in preparing their respective reports, which were considered to have provided a good basis for the review. Members praised the Philippine reforms undertaken since the early 1980s, and nearly all speakers urged that liberalization be continued and expanded. Active Philippine participation in the Uruguay Round, including as a member of the Cairns group of agricultural exporters, was widely appreciated.

35. The representative of India commended the unilateral liberalization measures of the Philippines, undertaken in the face of severe domestic difficulties. Efforts to address the traditional anti-export and import-substitution biases had succeeded in opening up the economy, by such means as simplifying the tariff structure, removing import restrictions on a majority of items, minimizing support given to agriculture, simplifying import-export procedures and reducing restrictions on foreign exchange transactions.

36. He noted, however, that further measures by the Philippines were called for, in order to integrate further into the world economy, and that the support of the international community was also required by means of a supportive external trading environment. This was especially true in terms of removing tariff and non-tariff barriers to Philippine exports, such as measures affecting sugar and sugar-containing products, higher tariffs on coconut oil, sanitary and health regulations, and seasonal tariffs on bananas.

37. The representative of Argentina was pleased to note the direction of Philippines' trade policy. Exports, more than 70 per cent of which were manufactures, had grown considerably in the preceding decade. In trade policy, tariffs had grown in importance and the average tariff had fallen from 41 per cent to 25 per cent. It was hoped that remaining quantitative restrictions would shortly be reduced. Measures to check smuggling appeared adequate, and, no doubt, in time trade liberalization would reduce the impact of such unfair trade practices. While the basic thrust of trade policy was reasonable, effective protection still favoured import-competing domestic industries. The reforms should reduce the impact of these policies, but these reforms would need to be consistent. He also asked whether an indication could be given of the time frame for the removal of measures affecting exports.

38. He questioned how the Philippine government would be able to implement the country's most recent development plan in consideration of current exchange rate levels. He enquired as to what would be the effect on salaries and earnings in real terms of changes in Philippine exchange rates. He also asked for details of the 15-year AFTA transition period, which seemed rather long, as well as information on excluded products, effects on labour movements in the region, etc.

39. The representative of Australia complimented the Philippines for implementing economic and trade reforms which had liberalized the economy under difficult circumstances, in particular the new foreign investments act, the tariff reform package, the liberalization of foreign exchange controls and the tariffication of quantitative restrictions. He hoped that progress made would be consolidated, and that inflation and the fiscal deficit would be further reduced.

40. Tariffs in certain sectors were still high and non-tariff barriers still applied to a range of goods. While praising what the Philippines had achieved so far, it was hoped that the Philippines would pursue further the liberalization of its trade policies and practices. The country's active

participation in AFTA and CEPT was also a positive development, provided that it complemented efforts in the Uruguay Round and in APEC to promote trade liberalization. Australia would be concerned, however, if this had the effect of diverting trade or investment. He suggested the Philippine government might also take steps to encourage further growth in foreign investment, including streamlining regulations and amending laws to give foreign investors security of land tenure.

41. Concern was expressed over the quantitative restriction requiring importers to buy one tonne of domestic coal for each tonne of imported coal, and he asked if there were plans to eliminate or phase out the measure. Also questioned was the Philippine home consumption value (HCV) system of customs valuation and associated changes involving pre-shipment inspection of exports. The objective was to prevent evasion of customs provisions, however, deficiencies in the system had been noted in paragraphs 165 and 190-194 of the Secretariat report. HCVs were calculated on the basis of domestic wholesale prices in the country of supply, and the inclusion of relatively high domestic costs had put a number of contracting parties at a disadvantage in relation to countries where domestic costs were lower. He asked how the Philippines intended to address the concerns of contracting parties adversely affected by the HCV system.

42. The representative of Australia noted that paragraph 22 in the summary observations of the Secretariat's report mentioned beef as one of the products included in the mid-1992 "tariffication" of quantitative restrictions. This had led to beef tariffs being raised from 30 per cent to 60 per cent, but the liberalization of customs controls had not yet been implemented. Consequently, beef trade was still constrained by the import licensing system. The Philippine delegation was asked when the import licensing system would be lifted, and what alternative measures could be implemented to liberalize the beef trade. The delegation was also asked whether quarantine measures enacted in September 1988 affecting fresh fruit and vegetables were operating in practice as non-tariff restrictions.

43. The representative of Japan stated that the Philippines was critically important for stability and prosperity in the Asian region. South-East Asia was one of the few regions in the world where rapid economic growth had been taking place, and attention given to the region and to the Philippines had been growing markedly. The Secretariat report was well-written, he noted, but descriptive and not as thought-provoking as some previous Secretariat reports.

44. Japan applauded the significant shift away from quantitative restrictions, as embodied in the Import Liberalization Programme (ILP), although a number of items remain regulated. A major effort had been made in tariff reform, with the simple (nominal unweighted) average tariff expected to decline to around 20 per cent by 1995 from 24 per cent in 1992. The Philippines offer to increase tariff bindings from 7 per cent to 37 per cent in the context of the Uruguay Round negotiations was described as a contribution to the liberal, multilateral system. This figure was higher than some ASEAN countries, but others had a higher degree of bindings.

45. There had been remarkable improvements in the field of investment policy, and the Foreign Investment Act of 1991 expanded the number of economic sectors open to 100 per cent foreign ownership. Since August 1992, exporters were no longer required to sell their foreign exchange receipts to banks and could retain them or even invest abroad. He welcomed those steps, but said there could be room for further improvements. Further stability in the Philippines should contribute to even more investment.

46. Japan welcomed and supported the initiative taken by the ASEAN countries to establish the ASEAN Free Trade Area. Japan strongly hoped that trade expansion through these efforts would promote the economic development in the region and also contribute to the world economy. The CEPT scheme, of course, needed to be consistent with the principles and provisions of the GATT. He asked how the Philippines saw intra-ASEAN trade, as well as with other trading partners such as the United States, developing in the years ahead.

47. He concluded by stating that the Philippines had taken significant steps toward trade liberalization and attached great importance to the multilateral trading system. Future prospects for the economy were good; he wished the trend toward liberal and multilateral trade would continue, and be further accelerated in the days ahead.

48. The representative of the Republic of Korea noted that trade with the Philippines was an important component of overall trade for his country. He expressed concern over the presence of tariff peaks for such products as footwear, furniture and textiles, and wondered if the recent changes in trade policies would require some time to implement fully. He expressed concern over the Car Development Programme and requested additional information, including the goals of the program and the expected timeframe for lifting of the local content requirements.

49. The representative of Malaysia, speaking of behalf of the other ASEAN CONTRACTING PARTIES (Indonesia, Malaysia, Singapore and Thailand), stated that "People's Power" had ushered in a new government and a new economic direction, one that had been further strengthened with the election of the Ramos government. ASEAN attached great importance to the overall growth and stability of the Philippines economy, and that these factors were important for the success of ASEAN's cooperation plans as a whole. The spin-off from a strengthened and outward looking ASEAN economy would benefit the world trading system at large, and in this regard ASEAN welcomed all efforts undertaken by the Philippines to be more outward looking.

50. To promote a more outward-looking and competitive economy, the Philippines had embarked on a program of trade reform involving the shift from quantitative restrictions to tariffs, and reduction of average tariff levels. This not only provided transparency and certainty for trading partners, but also encouraged more competitive industries, a much needed ingredient for the Philippines to expand its export markets. The new political climate in the Philippines boded well for the strengthening of ASEAN economic cooperation, in particular the AFTA and the CEPT. ASEAN believed that with the CEPT and the steps being taken to establish AFTA, the Philippines could become more closely integrated with the world economy.

51. With the rationalization of economic decision-making currently underway in the Philippines, and the move towards privatization of economic enterprises, the Philippines would play an active rôle in fulfilling the aims of GATT. Greater attention, however, had to be paid to human resource development and infrastructure development. To accelerate the industrialization process, the tariff liberalization program needed to be complemented by substantial investments, which were currently lacking domestically and needed to be sourced from overseas.

52. ASEAN hoped the creation of AFTA would provide further stimulus for foreign investment in the Philippines, together with the various ASEAN industrial joint venture and complementation schemes, designed to provide large-scale production, and the large, growing ASEAN market. A successful Uruguay Round and a more conducive external trading environment would further enhance

efforts to achieve trade and economic objectives, as well as the Philippine's rôle in the multilateral trading community.

53. The representative of Austria stated that the HCV valuation method had resulted in considerable difficulty for exporters from his country, and enquired how long it would require for the Philippines to become members of the Customs Valuation Code. He expressed concern over the low minimum valuation level for implementation of pre-shipment inspections, and wondered if there were plans for raising this minimum.

54. The representative of Mexico noted that an essential element for the success of the current economic reform programme would be the perception of economic agents as to the degree of certainty and irreversibility of the programme. In this respect, the Government of the Philippines was to be congratulated for the firm commitments it had made to economic reform and, in particular, the trade liberalization, with a view to improving economic efficiency and restoring stability. The reduction of inflation and the resurgence of economic activity were positive signs. However, there were certain structural problems, including the low level of savings, chronic fiscal deficits and balance of payments difficulties. What was the Philippines doing to encourage savings and reduce its BOP problems? What plans did the Government have to resolve the fiscal deficits through increasing tax revenues and extending the privatization programme? With respect to trade policy, he cited the tariff reductions and elimination of quantitative restrictions as examples of how the liberalization had contributed positively to the international system. The Uruguay Round offer to increase tariff bindings from 7 to 37 per cent of the number of items, as well as the AFTA, would be seen increasing credibility and confidence in the economic programme. However, high rates of effective protection, especially in manufacturing, inhibited the reduction of the anti-export bias of the economy. It was also a worry that the Government continued to influence the markets for products such as rice and maize. There was no question that the Philippines was on the right course, but to advance it also needed the support of the international community, particularly a successful conclusion to the Uruguay Round.

55. The representative of New Zealand recognized that the Philippines had undergone a long period of political, social and economic upheaval, and that the climate produced by this uncertainty had affected trade policy reforms. The Aquino Government undertook to correct the situation, and he was pleased that the current administration planned to carry on reforms. He was concerned, however, over provisions in the 1987 Constitution restricting particular economic activities, and enquired if there were any institutional constraints to further trade liberalization and economic reform.

56. New Zealand had addressed specific written questions to the delegation of the Philippines. New Zealand looked to AFTA, together with the recently concluded CEPT, to support the GATT process of trade liberalization, and had urged that the CEPT be properly notified to GATT Contracting Parties.

57. Like a previous delegation, he stated that new tariffs had been introduced (for example on bovine and sheep meat) without removal of the non-tariff barriers they were intended to replace. There was a danger that the reform process might stall, with a consequent intensification of protection. He urged the Philippines to remove as soon as possible any quantitative restrictions still in place. Other product areas still subject to import licensing included agricultural products of significant interest to New Zealand. The requirements were administratively cumbersome, and New Zealand exporters faced difficulties. He supported the intention to phase out the system of import licensing, and expressed interest in knowing the timetable for such a move.

58. New Zealand shared some concerns previously expressed on the Philippines' use of the HCV system of customs valuation. He recognised that less developed Contracting Parties were often highly dependant on customs revenues for maintaining a stable balance of payments régime, and that pre-shipment inspection was a necessary factor in this equation. He was pleased that the Philippines was seriously looking to align its customs valuation laws to GATT rules, and encouraged this to be done as soon as practicable, including membership in the GATT agreement on Customs Valuation.

59. The Philippine regulations on product registration were complex, and of particular concern to New Zealand exporters of processed food products. While he recognised that the system aimed to protect the interests of consumers, end-users and the general public, exporters would appreciate greater transparency in the way the standards were set and administered. He asked if there was a timetable for relaxing or phasing out these requirements.

60. The representative of Canada stated that his comments were supplementary to written questions which Canada had already passed to the Philippine delegation. He congratulated the Philippines for its gradual but persistent process of trade liberalization, and urged the Government to further eliminate quantitative restrictions and reduce the levels of protection, particularly in the agricultural sector. Of particular note were initiatives to reduce protection for less efficient performers in the manufacturing and agricultural sectors, and actions in the financial sectors to lower interest rates and facilitate access to lower-cost investment capital.

61. The representative encouraged the Philippines to increase its level of tariff bindings in the context of the Uruguay Round, and noted that tariff escalation remained fairly prevalent across a range of sectors. He asked if the Government intended to reduce this relatively high level of tariff escalation, and also encouraged the Philippines to accede to the Tokyo Round Codes on Government Procurement, Customs Valuation and Anti-dumping. Becoming a signatory to these codes would go a long way towards remedying potential trade policy irritants, he stated, such as use of the HCV valuation method and unclear government procurement practices.

62. He requested further documentation on Philippine procurement practices and procedures, with specific reference to the telecommunications, power generation and transmission, and construction-equipment sectors. He noted that according to the government of the Philippines, accession to the codes was delayed by "the long process of legislation required to align domestic laws". He encouraged further efforts to increase transparency, such as the publication of tariff commission reports. Concerning the CEPT, he invited the Philippines (and other ASEAN countries) to table all tariff and related information to the GATT.

63. The Philippines was asked to give a more complete explanation of its criteria for continuing to regulate certain items, along with examples, as well as a detailed list of vegetables and vegetable products which would be fully liberalized by the end of the import liberalization plan. Deregulation of quantitative restrictions had resulted in many cases in the establishment of extremely high tariff levels, which would apparently remain on many agricultural products after the import liberalization plan had been fully implemented; this imbalance in protection distorted both domestic production and consumption patterns. Canada asked the Philippines to indicate when it expected to lower tariff protection for such items as oilseeds and oilseed products, apples, and live animals and meat.

64. The representative of Switzerland expressed approval of the increased openness of Philippine trade policy and the specific measures taken, including deregulation and privatization. She noted that direct government intervention in the economy had been restrained, the private sector was encouraged

to play the dominant rôle in economic development, protection was declining and internationally competitive industries encouraged.

65. She enquired how far the development plan for 1987-92 had reached its targets, especially for SMI promotion, deregulation, privatization, etc., and whether the promotion of heavy industries remained a Government objective. Expressing approval of the Philippine offer to increase the level of bound tariffs to 37 per cent of the total in connection with the Uruguay Round negotiations, she hoped that this figure might soon be substantially increased.

66. The Philippines was commended for the fact that after 1995 only three sectors would have average tariffs of over 40 per cent. Noting, however, the presence of tariff peaks for such products as chemicals and machinery, the representative encouraged the Philippines to harmonize those peaks in line with the overall tariff level. For the 135 products presently subject to quantitative restrictions, a specific list of items was requested at the tariff line level together with the exact extent of the restriction.

67. Membership in the remaining Tokyo Round Codes was also urged, as well as the renunciation of Article XVIII status in consideration of the statement that no measures had been taken under this Article since 1984. In the area of FDI, the representative of Switzerland encouraged the Philippines to further liberalize, as well as clearly to specify industries on the negative list. Stating that regional arrangements must comply with GATT rules, she also urged that AFTA and the CEPT be notified to GATT under Article XXIV with all tariff concessions detailed at the tariff line level.

68. The representative of the European Communities stated that Philippine reforms in the areas of tariffs, quantitative restrictions and FDI should be encouraged and continued. Despite complaints on certain trade practices by the Communities, he observed that Philippine exports to the Communities had actually grown faster in recent years than exports to the United States or Japan.

69. On tariffs, he stated that even the 20 per cent average level to be achieved after 1995 was too high, and would have a negative effect on the Philippines's ability to achieve a high and sustained degree of economic growth. He noted that a number of sectors would continue to have tariff rates of 50 per cent, even after 1995. The 7 per cent level of bound tariff lines was described as remarkably low, and he welcomed the offer to increase it to 37 per cent in the context of the Uruguay Round.

70. Concerning customs valuation, the representative questioned whether US\$500 was a practical minimum level for requiring pre-shipment inspections, and said this had caused problems for EC exporters. Even more serious, the use of the HCV method of customs valuation had strongly affected Community exports to the Philippines, especially of agricultural products. The HCV method lacked transparency and created uncertainty: according to exporters, assessments for identical products imported at the same time could vary by 26 to 61 per cent. He enquired whether the Philippines intended to adhere to those Tokyo Round Codes where the country was only an observer.

71. Noting the presence of quantitative restrictions in the motor vehicles and components sector, he asked whether they were appropriate considering the relatively small size of the domestic market and the resulting lack of economies of scale, which would result in overpriced products and a lack of competitiveness. On the other hand, he praised the positive results achieved by the Philippines following the liberalization of FDI regulations. At the same time, he regretted the presence of the

40 per cent equity limit for FDI in such sectors as natural resources, and enquired what future Government intentions were regarding investment in those sectors.

72. In concluding, the EC representative stated that ASEAN should make a full notification to the GATT Council concerning AFTA and the CEPT.

73. The representative of Sweden, speaking on behalf of the Nordic countries, noted that for the past ten years the Philippines had gone through a reformation and liberalization of its trading system, and that the process had been carried out in an environment not always friendly to Philippine reform efforts. Nature's manifestations as well as developments in the global economy, in combination with a heavy external debt, had placed heavy burdens on the Philippines.

74. The Nordic countries warmly welcomed the Philippines' engagement in ASEAN cooperation, and its active participation in shaping AFTA, noting that the Nordic countries were among the first to testify to the positive effects of this kind of arrangement. For the sake of transparency and information, however, it was their firm opinion that arrangements of this kind should be properly notified and detailed information given to all GATT members.

75. The Philippine and Secretariat reports stated that under the Multifibre Agreement, the Philippines had a bilateral agreement with Sweden restricting the exports of garments and textiles. This was incorrect, as Sweden was no longer a member of the Multifibre Agreement and had abolished all import restrictions for textiles, apart from tariffs, as of August 1, 1991.

76. An important ingredient in Philippine liberalization had been the shift away from quantitative restrictions and a lowering of the average tariff level, which provided for greater transparency and facilitated imports into the Philippines. For exporters, the predictability of a system was, however, just as important as transparency, and the increase of bindings up to 37 per cent offered in the Uruguay Round was still not satisfactory, especially as in most cases these were ceiling bindings.

77. He stated that Philippine tariffs would still be high after 1995, and assumed reforms would be continued, with further tariff reductions and removal of more import restrictions. He noted that the Philippines had envisaged autonomous tariff reductions from the beginning of 1993 as part of the CEPT scheme, and asked if they had been introduced yet and what products they concerned. He also asked for additional information on the specific reasons for legislative delays in adopting the Tokyo Round Codes, and noted the Philippines would be expected to become signatory to the Codes concerning Customs Valuation and Anti-Dumping when the Round was finished. He asked if this process was currently underway in the Philippine legislative system.

78. Concerning government procurement, and Secretariat report statements that in several sectors, for instance infrastructure, Philippine firms were favoured, he asked if the rules could be described in more detail, including what projects were covered. The HCV system for customs valuation and the minimum value for pre-shipment inspection caused problems for traders. He also enquired about reported plans to break up government production and distribution monopolies in the electricity and telecommunications sectors.

79. The representative of the United States congratulated the Philippines on progress made during the 1980s and early 1990s toward a more open and transparent trade régime, stating that the effect of the changes was to increase the international competitiveness of the Philippine economy.

Nonetheless, the import substitution and anti-import policy bias trade had not yet been entirely eliminated.

80. The United States remained concerned about the Philippine dependence on import duties for general Government revenues, and noted tariffs remained high enough in some sectors, particularly agriculture and manufacturing, to make imports uncompetitive. A specific U.S. concern was the continued use of the HCV valuation system, apparently as a means of generating revenues. Describing HCV as an "artificial valuation system", the representative urged the Philippines to eliminate it quickly as the Philippines was the only GATT member still using the system. On CEPT, the Philippines was asked how these initiatives affected its trade policies and obligations to other members.

81. She noted that some 208 products identified as "strategic" would continue to attract 50 per cent tariff rates after 1995, including rice, vegetable oils, sugar, fruit, certain consumer goods and leather products. For such liberalized agricultural products as fresh and canned fruits, processed foods, wine, beef, etc., tariffs had been raised substantially. For beef imports, the requirement of a veterinary quarantine certificate was described as an unremoved quantitative measure. In the manufacturing sector, she noted that the level of tariff escalation would remain significant through 1995 and beyond.

82. She congratulated the Philippines on reforms made to FDI regulations. Areas of concern for the United States, however, were performance requirements for investments in the motor vehicle sector, as well as screening procedures used in awarding investment incentives. Other investment-related concerns were remaining equity restrictions on investments in such sectors as mass media, security agencies, engineering, architecture, law and the retail trades. For the services sector specifically, she stated that restrictive practices were applied to such areas as insurance, advertising, public utilities and finance.

83. The final area of concern expressed by the representative was intellectual property rights, where Philippine enforcement was described as inadequate and the Philippines was urged to move more closely to international norms. Specific concerns were expressed over copyright and trademark protection, as well as on counterfeiting. In concluding, she noted that a list of written questions would be given as well.

84. The representative of Romania commented that certain Philippine regulations and trade practices appeared rather complicated. He asked details of the criteria used by the Philippines in deciding tariff levels and in determining products to be subject to quantitative restraints, and stated that low levels of tariff bindings could lead to suspicion over the credibility of the Philippine trade reforms.

85. He observed that export promotion and import liberalization had become major elements of Philippine trade policy. In the past, these objectives might have seemed contradictory, but at this time they now appeared to be complementary.

86. The representative of Brazil commended the Philippines for the courage to liberalize autonomously, in contrast with the attitude currently found in many developed countries. He observed, however, that the reforms were not yet complete, including in the area of customs valuation. In steel, for example, exporters from his country had encountered difficulties with the HCV valuation method.

87. The representative of Hungary appreciated the efforts made by the Philippines to implement their ambitious program of economic and trade reforms despite domestic political difficulties and natural calamities, and strongly encouraged Philippine authorities to continue upon that path. Stating there was a growing interest in Hungarian business circles in developing trade with Philippine firms, he asked for confirmation that Philippine companies were no longer required to obtain special permits from the Philippine International Trading Corporation in order to trade with Hungary.

88. He commented that the present Philippine regulatory framework, while seeming to be transparent, nevertheless remained rather complex. He asked for comments of the Philippine delegation concerning the alleged anti-export and import-substitution bias noted in the Secretariat report. To the representative, it appeared to be somewhat strange that the Secretariat report devoted little more than one page to describing the external environment facing the Philippines. In addition, he labelled as questionable at first sight the Secretariat conclusion that the MFA was not really a trade barrier for Philippine clothing exporters as its phasing out would lead to competitive challenges from lower-wage nations.

89. Stating that the liberalization of Philippine economic and trade policy regulations could achieve the expected results only if the external trade environment was fully supportive, he said a successful, early conclusion of the Uruguay Round would make a significant contribution.

90. The representative of Pakistan stated his country's appreciation for the liberalization measures undertaken by the Philippines, and hoped that tariffs would be lowered even further in the future. He expressed concern over the effects on the Philippines of trade barriers in foreign countries.

91. The representative of Poland began by stating appreciation for the new TPRM report format. He observed that the Philippines had set ambitious economic growth targets of about 10 per cent annually under the most recent development plans, and enquired by what means the country plans to achieve these goals. In light of such targets, he asked why the real exchange rate had been allowed to appreciate over the past two years. He asked what trade diversion effects might be expected as a result of implementing the CEPT, as well as requesting a list of "socialist" countries where trade still required approval from the PITC.

## VI. COMMENTS AND RESPONSE BY THE REPRESENTATIVE OF THE PHILIPPINES

92. As a preliminary response at the end of the first day's session, the representative of the Philippines assured the Council that trade reforms would continue to progress. She noted that the HCV valuation method used by the Philippines had been based on procedures used earlier by the United States, and that its use had only drawn serious complaints by foreign exporters following the enforcement of PSI measures. She noted that two bills for the revision of the HCV valuation method had been introduced into Congress, and would be taken up for debate the following year. One obstacle to liberalization had been anticipated revenue losses.

93. On PSI measures, the representative stated that the minimum applicable level had been dropped to US\$500 due to collusion between Philippine importers and foreign exports to subdivide invoices and escape the previous US\$5,000 minimum. For quantitative restrictions on coal, she said they were planned to be lifted by December 1994. The local content and other arrangements for motor vehicles had saved over US\$300 million in foreign exchange, she stated, while increasing employment and component exports. In any case, the measures were subject to a review on a three-year basis. Among the remaining 135 items affected by quantitative restrictions, a time-table for lifting restrictions on 66 items was being determined. Only cars and motorcycles still remained under rationalization programmes. On the issue of beef, the elimination of licensing requirements had been delayed due to legal challenges to the tariffication order, but these challenges were overruled and the sector was now liberalized.

94. Recommencing at the start of the second day's session, the representative of the Philippines said she would first address the issue of effective protection rates (EPR) and the Secretariat conclusion on Anti-Export Bias, which, she supposed, was premised on the negative effective protection rates for exportable products. She noted that present methodologies on the calculation of the effective protection rates were imperfect as they relied on a number of simplifying assumptions. Moreover, the input-output tables of the Philippines, from which the EPRs were derived, required further refinement to reflect more realistically the interlinkages among industries. For those reasons, EPRs needed to be interpreted very narrowly, and could not be the only basis for concluding alleged anti-export bias. Nonetheless, the Tariff Commission would embark on a project to review estimation of EPRs, specifically on exportable products.

95. With regard to export prohibitions, permits were not required for exports, except in the case of 22 items (which include textiles and garments that are subject to bilateral restraints). There was, however, a one-stop export documentation centre which assisted all exporters, including those of the 22 regulated items. To supplement earlier information on customs valuation and the Home Consumption Value, she stated that any change in the valuation system would require new legislation and, in any event, the Philippines would be bound by the results of the Uruguay Round. In the meantime, an Appeals Board operated in Manila, composed of a representative from Customs, the Central Bank, the Department of Trade and Industry and two representatives from the private sector. Importers who believed that valuation was not carried out properly could seek redress from this Board.

96. The Medium-Term Development Plan had not yet been approved by Congress, but the Ramos administration sought to pursue the following: solving the power supply problem by September 1993, with fast-tracked projects put into operation as scheduled; improving the peace and order situation to reduce the risks of doing business; undertaking more aggressive trade promotion and marketing of domestic goods abroad to keep the external accounts position stable; proceeding

with pump-priming activities immediately, with vigorous efforts also made to raise public revenues to avoid expanding public debt; working for the immediate financial and institutional restructuring of the Central Bank in aid of sound monetary management; and improving the capability of local government units for planning and project implementation to accelerate development in the countryside.

97. On the Philippines' accession to the Anti-Dumping and Government Procurement Codes, she noted Congress was conducting public hearings and consultations on proposed changes to the anti-dumping law, while with respect to government procurement there were difficulties in identifying entities to be included in the positive list, to a large extent due to the on-going process of privatization of government corporations. In any case, the Philippines would be bound by the Uruguay Round agreements as far as Anti-Dumping and Government Procurement were concerned. On tariffs, tariff bindings and tariff escalation, the Government believed that the increase from 7 per cent to 37 per cent already constituted a significant undertaking for a developing country like the Philippines, but was still in the process of reviewing the level of the ceiling bindings, which might be improved in the context of the Uruguay Round.

98. Escalation in manufacturing tariffs had been reduced with the clustering of tariff rates around four levels by 1995, and the number of HS items with a 50 per cent tariff would be reduced from 1,173 to 208. Those 208 agricultural and manufactured items, earlier described as "strategic", more appropriately, should be described as "sensitive" products; and their tariff rates would remain at 50 per cent as provided in Executive Order No. 470. They include primary and processed agricultural products include sugar, coconut, corn, rice, unmanufactured and manufactured tobacco, fruits and fruit juices. Manufactured products included luxury goods such as cosmetics, perfumes and spirits. The list would be reviewed in accordance with the Medium-Term Development Plan, she noted, with the objective of effecting further reductions in the levels and dispersion of tariff rates.

99. On the Import Liberalization Program, of the 135 items still subject to import restrictions, some 69 items would continue to be subject to restrictions for reasons of safety, health and national security, such as dangerous and illicit drugs, ammunitions and firearms, chemicals for the manufacture of explosives and pesticides. The remaining 66 items would be reviewed to determine the timing for lifting import restrictions, and included items covered by rationalization programs and those requiring legislation by Congress to effect liberalization. However, imports of commercial vehicles and consumer durables, including consumer electronic products, had already been liberalized. Once items were tariffed the quantitative restrictions were removed, she noted, such as in the case of beef.

100. On import liberalization, quarantine regulations and government intervention in the agricultural sector, she clarified that fertilizer imports had been liberalized. The only regulated agricultural items were rice, corn and pesticides. Imports of onions, garlic, potatoes and cabbage were prohibited, except for seedling purposes. Philippine quarantine regulations followed international norms and were applied on the basis of technical merit. So long as potential importers complied with quarantine rules and regulations, imports of any product were allowed. As part of their inspection system, government agencies implementing quarantine regulations periodically updated their list of countries known to have pests and diseases. With regard to Australian fresh fruits and vegetables, the Philippines had difficulty in accepting area freedom certification for fruit flies as it had been advised that the pest was endemic to Queensland. The proposal for a Filipino inspector to supervise cold treatment for Australian fruits and vegetables was an arrangement with which they themselves complied for similar exports of fresh fruits. With regard to the government's

support mechanism and input assistance to rice and corn farmers, these were negligible and well within the *de minimis* level in the Uruguay Round Draft Final Act.

101. On foreign investment, the Philippines would continue to review existing laws, rules and regulations to improve the investment climate. This included the passage of bills providing for long-term leases of private lands to foreign investors, amending the condominium law, suspension of the nationality requirement on investments of multinational institutions and participation of foreigners in retail trade. To assist investors, a One-Stop Action Centre was located at the premises of the Board of Investments.

102. With respect with the Car Development Program, she stated the domestic price of cars in the Philippines was one of the most competitive in the region despite the high tax on the automotive sector. Direct employment provided by the participants and assemblers in 1990 was around 9,000, and employment generation for parts manufacturers and other ancillary industries was placed at 100,000. There were no fiscal incentives with regard to the CDP, she stated. Importation of cars was now allowed under certain conditions. There were plans, however, to further liberalize trade, particularly with respect to luxury cars, provided certain conditions were also met. No local content requirement was envisaged in the luxury car category. In any event, existing local content arrangements would be brought into conformity with the TRIMS agreement once the Uruguay Round was concluded.

103. On the CEPT and the AFTA, the ASEAN Heads of Government, at their meeting in Singapore in 1992, had recognized that intra-ASEAN economic cooperation should be further enhanced to sustain economic growth and development of all member states which were essential to the stability and prosperity of the region. With this, it was agreed that an ASEAN Free Trade Area (AFTA) would be established within fifteen years. AFTA therefore, was only a shared concept of a long term objective and to date, details were still being worked out. She expressed the opinion that although the CEPT or the AFTA might cause some amount of trade diversion, such schemes would also potentially lead to trade creation owing to the high growth potential of the ASEAN region.

104. The Common Effective Preferential Tariff Scheme or CEPT was agreed upon as the main instrument by which the objectives of an AFTA would be attained. The CEPT Scheme provided for reduction of tariffs on all manufactured products, including capital goods and processed agricultural products, down to the 0-5 per cent range within fifteen years, beginning 1 January 1993. It allowed the temporary exclusion of sensitive products, subject to a review in the eighth year to determine the final exclusion list. Tariff rates on around 38,000 items had been included in the CEPT by the ASEAN countries. This represented an average of 88 per cent of total tariff lines of ASEAN member states, with coverage ranging from 80 per cent to 98 per cent among the six member countries. Some 13,000 items had been committed under the fast-track (that is, implementation within seven to ten years), while the balance of 25,000 was under the normal track.

105. Cognizant of the adjustments that would need to be undertaken by domestic industries, exclusion on a temporary basis of products deemed sensitive was allowed, however, these exclusions would be reviewed at the eight year with the possibility of transferring these products into the CEPT. For the Philippines, around 80 per cent of tariff lines based on an eight-digit HS classification would be included in the CEPT. Around 900 items would be reduced to 0-5 per cent under the fast-track program, while 3,500 would be covered under the normal track. Tariffs on 681 products, which represented 12 per cent of total tariff lines, and deemed sensitive, would be temporarily excluded for

a maximum of eight years. Once the operational details of the CEPT are finalized, ASEAN would notify the Committee on Trade and Development.

106. On government procurement for telecommunications and power generation equipment, she stated that there was no government procurement policy for telecommunications equipment, as the telecom industry was open to the private sector. There was a list of accredited suppliers for telecommunications equipment, but this was only to ensure that such equipment complied with technical specifications in the Philippines. Power generation and distribution had been deregulated, and the private sector could carry out procurement as it wished provided it complied with environmental requirements and synchronized with activities of the National Power Corporation in order to avoid duplication of efforts. However if the project was classified as a public utility, the private operator would have to apply for a franchise and comply with nationality requirements.

107. On privatization, the program launched on 8 December 1986 had been a success. It had expanded private economic activity, thereby focusing government energy and resources on the provision of basic public goods and services. It had improved the investment climate, and broadened the ownership base and developed the capital market, as well as minimized government losses and generated revenues from priority government expenditures such as those for infrastructure and the Comprehensive Agrarian Reform Program.

108. Of 122 government-owned or controlled corporations, seventy-two have been disposed of accounting for 58 per cent of asset values and representing P22 billion in cash. The biggest items sold included the Philippine National Bank, Philippine Airlines, Philippine Plaza Hotel and the Union Bank. With respect to transferred assets, 288 out of 399 had been sold, realizing P31 billion in proceeds. The large accounts sold included Delta Motors Corp, MERALCO Foundation and Bukidnon Sugar Central. The remaining assets for disposal were the more difficult accounts, due to litigation and legal issues, heavy indebtedness and deteriorated condition of the assets and the location thereof. The Government had embarked on a revitalized privatization program which involved intensification of efforts to sell existing identified assets as well as identification of other assets for privatization.

109. On Hungary, Romania, and Poland's question on the rôle of the Philippine International Trading Corporation, she informed the Council that Philippine trade with Hungary, Romania and Poland no longer required clearance from the PITC. The delisting of Poland and Hungary was effected on 21 February 1991, and that of Romania on 13 August 1992.

110. On Intellectual Property Rights and Services, she noted that one delegation had earlier expressed an understanding that these topics were not covered by the terms of reference of the Trade Policy Review. She stated, however, that the Government shared the concerns of the United States in the areas of IPR protection and enforcement, and had participated actively in the Services negotiations in the Uruguay Round. The Uruguay Round, once concluded, should be able to address the concerns of the United States, she stated. In the meantime, she appealed to the United States to exert maximum restraint in employing unilateral measures under its Special 301 provisions. For the information of the Council, she noted that the Philippines had been put on the U.S. Priority Watch List last year.

## VII. FURTHER COMMENTS

111. The representative of New Zealand asked for confirmation that licensing requirements were now eliminated for not only beef, but for all meat products mentioned under Executive Order No. 8, specifically including sheep meat. The representative of the Philippines replied that this was the case for all products covered under the Order.

112. The representative of Canada asked if a date could be specified for the expected accession of the Philippines to the Anti-dumping Code, and whether government procurement policies existed for the area of construction. He urged that tariff reports be published in the interests of domestic and international transparency. The representative of the Philippines responded that bills concerning accession to the Anti-dumping Code were currently being hotly debated in Congress. No restrictions existed for construction-related government procurement, other than the requirement that firms be registered and conform to local building codes. Previous quantitative restrictions on imports of construction had been eliminated. For tariff reports, private firms had furnished information on the basis of confidentiality, and this could not be publically revealed.

113. The representative of the United States enquired as to the likely timeframe for revisions to the HCV valuation method. The representative of the Philippines responded that, like in the United States, the time required to complete the legislative process could not be specified in advance. A likely scenario, however, was a initial transition to the Brussels Definition of Value to reduce revenue losses, followed by a later transition to acceptance of transaction value.

114. The representative of the European Communities commented that use of the HCV valuation method gave a negative image to Philippine trade policies. He wondered if a link could be made between the use of an arbitrary valuation method such as the HCV and the fact the Philippines had not yet joined the Customs Valuation Code.

115. The first discussant observed that merely preparing the TPR reports was an important process in itself for the country under review, provoking months of domestic fact-finding and analysis, and sometimes even resulted in trade policy reforms before the COUNCIL reviews took place. He noted, however, that no responses had yet been made by Philippine trading partners in connection with the difficulties encountered in their markets by Philippine exporters. He insisted that the three main trading partners of the Philippines had more than an average level of responsibility in this regard. He concluded by stating that he was confident the liberalization of Philippine trade policies would be continued.

116. The second discussant noted the general concern expressed by members over Philippine use of the HCV valuation method. Despite possible inaccuracies in the calculations, his interpretation of the main point regarding anti-export bias was that some remnants of the previous import-substitution mentality in trade policies may still exist. The Philippine willingness to make autonomous reforms was important, and he hoped trading partners would also make contributions.

117. The representative of the Philippines made a final response by stating that help in trade liberalization must be received "from the other end too", meaning from trading partners. In term of anti-export bias, the government had been addressing the issue through tariff reform. She noted that tariff averages on a trade-weighted basis were scheduled to fall to 14 per cent by 1995. FDI was expected to be further liberalized in the future; meanwhile, the IPP should be considered as a kind of "positive list" for approved investment sectors. Efforts would be made to make results of tariff headings at least partially available to the public.

## VIII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

118. I would like to conclude the first Trade Policy Review of the Philippines with my own understanding of the salient points emerging from these discussions. As usual, these closing remarks have been prepared on my own responsibility, and are not intended to substitute for the Council's collective appreciation of Philippine trade policies and practices. The full discussion, together with the response of the Philippines, will be reflected in the minutes of the meeting.

119. In her introductory statement, the representative of the Philippines said that the country's economic performance had shown marked cyclical swings in recent years. A deep recession in the first half of the 1980s had been followed by peak years in 1988 and 1989, succeeded by a slowdown since 1990. Helped by stabilization measures taken in the last two years, the economy was expected to show some recovery in 1993. However, major problems included heavy reliance on foreign capital resources; the level of fiscal deficit; the precarious current account balance; inadequacies in infrastructure, particularly energy; and the need to maintain a balance between controlling inflation and promoting economic growth.

120. Under the import liberalization programme, import restrictions on more than 2,700 products had been removed since 1981. Remaining restrictions covered less than 5 per cent of tariff lines, and approximately half would be liberalized over time. Others would remain in being for health, safety and security reasons. The second phase of tariff reform would lead to a reduction in the simple average nominal tariff from 26 per cent in 1991 to around 20 per cent by 1995 (on a trade-weighted basis, from 20 to 14 per cent), and would narrow tariff dispersion substantially. Some duties had been increased in liberalizing non-tariff measures, but would be reduced by 1995. The import levy, except on certain petroleum products, had been removed ahead of schedule. Many restrictions on foreign exchange availability had been lifted in 1992, and exporters could now retain the whole of their foreign exchange receipts. Similarly, foreign investment by Philippine residents might now be made without Central Bank approval in certain cases; other restrictions were being reviewed, with a view to their elimination. The régime governing foreign investment in the Philippines had been redefined and streamlined under the 1991 Foreign Investments Act. Remaining restrictions were subject to continuing review; legislation to further liberalize certain areas of activities was under discussion.

121. General concerns in respect of the Philippines' future economic development included the need to develop the agricultural sector; the operation of export promotion policy, including duty drawbacks and bonded manufacturing warehouses; improving the financial performance of State-owned corporations, and continuing the programme of privatization; the rehabilitation of existing power plants and the development of new energy projects, including exploration and development of oil resources; the improvement of tax collection, and minimizing tax evasion; and strengthening the financial position of the Central Bank. Reform of the customs valuation system was under consideration in Congress.

122. The Philippines sought to rationalize the structure of inter-sectoral protection in the economy in order to reduce distortions, promote international competitiveness, and improve industrial performance in key sectors, including textiles and clothing; in this connection, the Philippines emphasized that the structure of the sector could have been markedly different in the absence of MFA-related distortions. The motor vehicle development policy was also subject to regular review. Local content requirements in this field were essentially voluntary and would be brought into conformity with the result of the Uruguay Round. Conclusion of the Round would also encourage

adjustment and reform through the new rules to be established on anti-dumping, intellectual property and trade-related investment measures. In regional trade, the Philippines was committed to implementing the ASEAN Common Effective Preferential Tariff (CEPT) Scheme, aiming to achieve a free trade area in some fifteen years. All these developments would be greatly assisted by more active support from the Philippines' trading partners. Discrimination and other obstacles to Philippine exports, including the effects of agricultural subsidies and complex rules of origin, could undermine the Philippines' efforts to liberalize its economy and trade.

123. Council members warmly welcomed the measures taken autonomously to liberalize trade, foreign exchange and foreign direct investment, implemented by the Philippine Government against the backdrop of natural calamities combined with political and economic uncertainties. Members strongly encouraged the continuation and expansion of the reform process. At the same time, the need was emphasized for trading partners to support and encourage the Philippines' efforts through liberalization of access for Philippine exports, many of which faced various tariff and non-tariff barriers in major markets. In this regard, it was noted with concern that recent trade actions, especially by some developed countries, appeared to be giving negative signals. Members stressed that a rapid conclusion to the Uruguay Round would assist the process of reform in the Philippines.

124. Participants welcomed the tariff reforms undertaken, under which the simple average had dropped significantly from 41 per cent in 1981 to some 25 per cent currently, falling further to 20 per cent by 1995, and the tariff structure had been simplified. However, the present level was still significant and peaks remained; tariff escalation remained substantial, and the traditional "anti-export bias" of previous trade policies would be only partially corrected by the scheduled tariff cuts. Questions were also raised concerning the reasons why 208 "strategic" items were not scheduled for tariff reduction.

125. Members appreciated the Uruguay Round offer by the Philippines to raise its level of tariff bindings to 37 per cent, from the current 7 per cent of tariff lines, but urged that the level be increased further as a means of ensuring the stability and permanence of reforms. The publication of reports on Tariff Commission hearings would also increase transparency, both domestically and internationally.

126. Members commended the widespread liberalization of quantitative restrictions made by the Philippines since 1981, and the recent steps to tariffication of some remaining quantitative restrictions. Clarification was requested on the rationale for the maintenance of restrictions on 69 items as well as the timetable for liberalization of the other 66 items. Licensing procedures were described as cumbersome, and additional streamlining was urged. Concern was expressed over the increase in duties for beef and other meat products in connection with tariffication, without concomitant elimination of licensing requirements. This had led to a tightening in market access for such products.

127. Participants welcomed the statement that the Home Consumption Value (HCV) method of import valuation was being reviewed and urged a rapid conclusion to the legislative process. The Philippines was the only contracting party now employing such a procedure. The HCV method, which established arbitrarily high and unpredictable customs values, should be rapidly replaced with procedures based on transaction value. Some members questioned why a minimum level of US\$500 had been set for pre-shipment inspection. Members encouraged the Philippines to accede to the Tokyo Round Agreements on Customs Valuation, Anti-Dumping Procedures and Government Procurement.

128. Details of the recent ASEAN CEPT agreement, signed in 1992, were requested by members, as well as schedules of specific tariff concessions and information on possible trade diversion effects. Some members expressed concern over the length of the 15-year implementation period. A number of participants sought notification of the CEPT, and of the ASEAN Free Trade Agreement, under the relevant provisions of the General Agreement, with a view to permitting a full examination by contracting parties.

129. Members also commended the recent liberalization of the Philippines' foreign exchange regulations. This had permitted easier trading conditions. Measures enacted in 1991, permitting expanded equity holding in a wide range of sectors, had also assisted foreign direct investment. Concern, however, was expressed over remaining restrictions limiting ownership in mining and other sensitive sectors to minority levels, as well as restricting the security of land tenure. Members also sought greater transparency in Government procedures for approval of investment incentives.

130. On sectoral issues, questions were raised on the rationale for trade-balancing restrictions on coal; the justification for tariff peaks on imports of chemicals, machinery, footwear, furniture and other products; and the effects of recently introduced phytosanitary procedures affecting fresh fruit. Members also requested information on tariff and non-tariff measures applied to oilseeds, meats, live animals and processed foods. Questions were raised on the use of local content requirements in connection with the Car Development Programme, and a possible timetable for their elimination. Some members emphasized that the MFA could not be regarded as benefitting international trade in textiles.

131. Other issues raised by participants included:

- macro-economic policies aimed at rectifying persistent fiscal deficits and increasing the savings ratio;
- measures to counter recent real exchange rate appreciation;
- a perceived lack of clarity in Government procurement regulations, especially for infrastructure projects, power facilities, general construction and telecommunications;
- the list of countries whose trade was handled by the Philippine International Trading Corporation; and
- intentions to strengthen measures regarding copyright and other intellectual property rights.

132. Replying to comments and questions, the representative of the Philippines noted that the existence of an anti-export bias could not be inferred only from the negative effective protection rates for exportable products, as present methodologies for such computations relied on a number of simplifying assumptions. The Philippine authorities were nonetheless continuously reviewing the tariff structure. The Tariff Commission, for instance, would embark on a project to review the estimation of EPRs, specifically on exportable products. Permits were only required for exports of 22 items; a One-Stop Export Documentation Centre assisted all exporters.

133. New legislation would be required to make any changes in the system of customs valuation and the use of Home Consumption Value. Importers, who believed that valuation had not been carried out properly, could seek redress from the Appeals Board. Two bills, currently with Congress, recommended a change in the valuation system. The Philippines would be bound by the results of the Uruguay Round.

134. The Medium-Term Development Plan had not yet been approved by Congress. Broadly, the Administration sought to solve the power problem by September 1993; to improve the peace and order situation; to undertake more aggressive trade promotion and marketing of exports; to proceed with pump-priming activities immediately; to restructure the Central Bank in aid of sound monetary management; and to improve the capability of local government, to accelerate development in the countryside.

135. Congress was presently conducting public hearings and consultations on proposed changes to the Anti-Dumping law. The government procurement area was a complex matter, partly due to the ongoing process of privatization of government corporations. The Philippines would be bound by the Uruguay Round agreements in these fields.

136. The proposed increase in the scope of tariff bindings from 7 to 37 per cent constituted a significant undertaking for a developing country like the Philippines. The level of ceiling bindings was still being reviewed. Escalation in tariffs on manufacturing had been reduced; the number of items with a 50 per cent tariff would be cut to 208 agricultural and manufactured items by 1995. The list would be reviewed in accordance with the Medium-Term Development Plan with the objective of effecting further reductions in the levels and dispersion of tariff rates.

137. There were 135 items still subject to import restrictions. Of these, some 69 would continue to be restricted for reasons of safety, health and national security. The lifting of restrictions on the remaining 66 items would be reviewed.

138. Fertilizer imports had been liberalized. The only regulated items in agriculture were rice, corn, and pesticides. The prohibition of imports of onions, garlic, potatoes and cabbage, except for seedling purposes, was under review. Philippine quarantine regulations followed international norms and were applied on the basis of technical merit; the Philippines had proposed a Filipino inspector to supervise cold treatment for Australian fruits and vegetables. Support for rice and corn farmers was negligible.

139. The Philippines would continue to review existing laws, rules and regulations with a view to improving the investment climate. To assist investors, a One-Stop Action Centre was located at the premises of the Board of Investments.

140. The domestic price of cars in the Philippines was one of the most competitive in the region, despite high taxes. The sector provided direct employment of around 9,000, and some 100,000 in the parts and other ancillary industries. There were no fiscal incentives under the Car Development Programme. Importation of cars was now allowed under certain conditions and there were plans to further liberalize trade, particularly with respect to luxury cars, for which no local content requirement was envisaged. Local content arrangements would be brought into conformity with the TRIMS agreement once the Uruguay Round was concluded.

141. The ASEAN Heads of Government, meeting in Singapore in 1992, had recognized that intra-ASEAN economic cooperation should be further enhanced to sustain the economic growth and development of all member states, which were essential to the stability and prosperity of the region. It was agreed that an ASEAN Free Trade Area, or AFTA, be established within 15 years to attain this objective. Although the CEPT or the AFTA might cause some trade diversion, the scheme would also potentially lead to trade creation stemming from the high growth in the ASEAN region. For the Philippines, around 80 per cent of tariff lines would be included in the CEPT; around 900 items

would be reduced to 0-5 per cent under the fast-track program, while 3,500 would be covered under the normal track, and 681 sensitive products (12 per cent of total tariff lines) would be temporarily excluded for a maximum of eight years. Once the operational details of the CEPT were finalized, ASEAN would notify the Committee on Trade and Development.

142. There was no government procurement policy for telecommunications equipment; the telecom industry was open to the private sector. A list of accredited suppliers for telecommunications equipment was maintained to ensure that such equipment complied with technical specifications in the Philippines. Power generation and distribution had also been deregulated.

143. The Philippines privatization programme, launched in December 1986, had expanded private economic activity and allowed the Government to focus its resources on the provision of basic public goods and services. It had improved the investment climate, broadened the ownership base and developed the capital market; minimized government losses and generated revenues for priority government expenditures. Many government-owned or controlled corporations had already been sold or transferred. Disposal of remaining assets was more difficult, but a revitalized privatization programme involved intensification of efforts to sell identified assets, as well as identification of further assets for privatization.

144. The Philippines' representative confirmed that trade with Hungary, Poland and Romania no longer required clearance from the Philippines International Trading Corporation.

145. While noting the view expressed that Intellectual Property Rights and Services were not covered under the Trade Policy Review, the Philippines shared the concerns of the United States in the area of IPR protection and enforcement. The Uruguay Round, once concluded, should address these concerns. In the meantime, the Philippines appealed to the United States to exert maximum restraint in employing unilateral measures under its "Special 301" provisions.

146. In reply to further questions, the representative of the Philippines confirmed that all quantitative restrictions on meat, including other types than beef, had been removed in the context of tariffication. In relation to anti-dumping procedures, the aim was to align the Philippines' anti-dumping provisions with those of the existing Code; the Senate had also been made aware of the provisions of the Draft Final Act. There were no remaining Government procurement restrictions on construction equipment, although previously such restrictions had existed on commercial vehicles. Consideration would be given to publication of Tariff Commission findings, keeping in mind the difficulties stemming from confidentiality of information provided to the Commission by the private sector. She recognized the concerns expressed by members on customs valuation and reiterated that, currently, two draft bills were being considered in Congress. The aim was to move first to the Brussels Definition of Value and then subsequently to the transaction value method; it was felt that a direct move to transaction value would involve too much loss of revenue. It was not possible to predict how long the legislative process would take, although the Government sought rapid progress.

147. The discussants expressed their satisfaction with the debate at this meeting and with the positive development shown in the TPR process as a whole. Not only did it give a clear view of the trade policies and practices of a contracting party but it set off a process of reflection, and even helped to spur reforms, in the country under review. Trade policies and practices, however, were shaped not only by domestic but also by external considerations. To this end, it was necessary for measures taken autonomously by countries under review to be supported by liberalization in other markets, particularly the major trading entities.

148. In conclusion, the Council welcomed the statements made by the delegation of the Philippines. It encouraged the authorities to pursue the process of trade reform and liberalization which had been underway for some time. The Philippines' active participation in GATT and the Uruguay Round was fully recognized; an open, dynamic multilateral trading system, and a successful outcome of the Round, were seen as crucial to the continuation of the reform process.