THE WTO AND ITS OVERALL IMPACT IN THE PHILIPPINES OVER THE PAST 10 YEARS

INTRODUCTION

After 10 years (1995-2005) as a member-state of the World Trade Organization (WTO), the worsening poverty of small farmers, workers, consumers and other vulnerable sectors in Philippine society is glaring. Studies and concrete realities speak that the WTO has only been beneficial to developed countries like the United States, Canada, the European Union (EU), Japan and China.

Governments in countries cited above continue to give subsidies to their agriculture sector. This gives way to an over-production of goods being dumped at the world market. These products are sold in much lower prices so that small farmers in countries like the Philippines lose their own local market. Furthermore, the dumping of cheap finished products in underdeveloped countries leads to the closure of factories resulting in further unemployment.

This primer, a small contribution to an intensifying campaign against the unequal and unjust policies of the WTO, is divided into two parts:

1. A short discussion on the WTO and on the coming Ministerial Conference or MC-6 in December of this year; and
2. The WTO's over-all impact in the Philippines 10 years after the country became a member of this international trade organization.

This primer is dedicated to our small farmers, producers and other vulnerable sectors as well as consumers. Let this primer humbly contribute to our continuing, united assertion of our independence as a sovereign nation.

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I. The WTO and the MC-6

A. What is the WTO?

The WTO is the major international organization that ensures the implementation of trade policies based on free *trade.* This was established on January 1, 1995 as a result of the negotiations in the *General Agreement on Tariffs and Trade-Uruguay Round* or GATT-UR. GATT is an international agreement on trade, upheld by different countries and was in effect from 1947 until 1994. Presently, the WTO is composed of 148 countries and states.

The concerns of the WTO include the strengthening of the Agreements on Agriculture (AoA) and the many aspects of world trade like food, factories, industries, different aspects of services, inventions, results of scientific researches, intellectual property and technology.

1. What is the overall objective of the WTO?

The over-all objective of the WTO is to structure world trade along the so-called *free trade* or *globalization.*

2. What is free trade?

Based on the concept of free trade, the widest range of benefits could only be attained by people worldwide if capitalists could freely do business in any part of the world. But 10 years after the Philippines became a member of the WTO, it is clear that wherever and whenever big capitalists can freely do business in developing countries, poverty becomes all the more rampant among the majority of the people or the world's poor.

3. What are the general policies of free trade?

Free trade, as a concept, supports the policies of liberalization, deregulation, and privatization. These giant terms may be defined as follows:

(a) **Liberalization** – the world virtually becomes one big market for all products coming from all countries. In other words, limiting the entry of imported products is no longer enforced in any country.

(b) **Deregulation** - does away with the responsibility and right of each government to interfere with the business of big capitalists and in the flow of trade. With the concept of deregulation, the government's sole responsibility is to ensure the easy flow of imported products within one's country.

(c) **Privatization** - allows the sale of government businesses and properties to the private sector, thus, completely taking away government's role in the flow of trade.

B. The MC-6 and its foreseen effects in the country

1. What is MC-6?

The MC-6 is the Sixth Ministerial Conference or meeting of the WTO. This will be held in Hong Kong from the 13th to the 18th of December 2005. As the highest conferential body in the WTO structure, the MCs are set every two years. From the establishment of the WTO, five MCs have already been convened. The first was in Singapore in 1996, then, in Geneva in 1998, in Seattle in 1999, in Doha in 2001 and in Cancun in 2003.

Primary negotiators and ministers of member nations and states will attend the MC-6 to forge additional and new agreements on world trade.

Most of the agreements in the GATT-UR in 1994 will lapse this year, 2005. In 2003 in Cancun, Mexico, the WTO aimed to come up with a new outline of agreements. But this did not materialize because a big number of countries rejected the outline proposed by US and EU on agriculture. Brazil, India and China are big countries which are not as developed as the US and EU but are exporters of agricultural products, too, so that they led in opposing this proposal. This opposition group was called G-20 and the Philippines was part of it. The G-20 represented the developing countries even if they differ in their economic status.

2. What may happen in the MC-6?

Because of the aborted agenda of the MC-5 in Cancun, the wealthy nations will make certain that clear cut agreements are met in the MC-6. In other words, further export-orientation and import-dependence of poor nations will be pushed without consideration of the ill effects that these will have on the lives of the poor sectors. People's organizations in underdeveloped countries like the Philippines should be very vigilant about what may happen in the MC-6 and they must wage an intensive campaign against further unjust policies more particularly on the agreements on agriculture.

C. What are the agenda of the MC-6?

The General Council of the WTO approved the "July Package" agreement on 1 August 2004. In this, the outline of the flow of negotiations for December 2005 was drawn. This is divided into four: the new modalities of Agreement on Agriculture (AoA), non-agricultural market access (NAMA), proposals for the General Agreement on Trade and Services (GATS) and trade facilitation.

1. The new modalities of the AoA is the main agenda of MC-6.

New policies are outlined for easy liberalization of the agricultural sector**.** Its objective is to set policies towards a substantial decrease in tariffs and subsidies for agriculture. This is divided into three: <u>market access</u>, <u>domestic support</u> and <u>export competition</u>.

<u>Market Access</u>. This is the bulk of goods entering the country and the country's products for export. Examples of this are the import of rice, chicken, beef, fruits and fish in our country and our export of bananas and mangoes to other countries. This ensures that every country will do away with all the policies that hamper the free entry of commodities from outside and that the only protection against importation that may remain will be the tariff. In compliance with this policy, the Philippine government repealed the *Magna Carta for Small Farmers* that bans the importation of agricultural products to our country.

<u>Domestic</u> <u>Support</u>. The Philippines is among the poor countries and because of this, we were given 10 years to lower the 13% government support for agriculture. Among the domestic support are: the construction of farm-to-market roads, irrigation and price subsidy like that of the NFA on rice. This kind of support is categorized under the Amber box.

Meanwhile, wealthy countries are exempted from cutting down subsidies for their agriculture. Exemptions have been classified through the "blue box" and the "green Box".

Within the <u>blue box</u> are subsidies that are directly paid to the farmers in the wealthy countries to lessen or regulate their production. They have to lessen their production in order to maintain the prices of their agricultural products at a high level.

Within the <u>green box</u> are types of subsidies such as marketing assistance, research, food aid and infrastructure.

Only the developed countries have big subsidies under the "blue box" and "green box". Because of these exemptions, subsidies for agriculture in rich countries tend to increase. This is the reason why their products remain protected in the world market.

<u>Export Competition</u>. This pertains to the subsidies given by the wealthy countries for their agriculture to increase their production and the surplus products that they can dump in markets of poor countries. They also dump agricultural products in the form of food aid.

2. Non-agricultural market access o NAMA.

This sets the mechanisms so that non-agricultural goods, which were not covered by WTO agreements in the past, will now be under the WTO. Policies on fish trading and on the use of ports are among the proposals.

3. Proposals for the General Agreement on Trade and Services (GATS)

This aims to push member countries to take a stand or be committed to a greater liberalization of the sector on services. Among the agreements under GATS are: the contracting of professional services in other countries, incomes from foreigners including tourism, allowing foreigners in local commerce, and unhampered travel of persons in other countries.

4. Trade Facilitation

This pertains to additional agreements and policies among countries for faster export and import.

If the new AoA will be pushed through at the MC-6, these will further bring the economy down the drain, worse than ever in the past 10 years under the WTO. A more liberal policy on export will give way to the cheaper dumping of surplus products from wealthy countries in poor countries like the Philippines. Thus, the issues of AoA, NAMA, GATS and trade facilitation will further serve the interests of the developed countries. The liberal entry of imported products will be very bad for manufacturing, fishery and agriculture of poor countries. Poor countries have no capability to export to wealthy countries as their products cannot command high prices.

II. The Overall Impact of the WTO in the Philippines

A. What are the WTO's overall effects in our economy?

The WTO resulted in the sluggish growth of our agriculture and the bankruptcy of our industry as evidenced by the number of people who lost their jobs in the industrial sector.

Since the establishment of the WTO, the country was a consistent importer instead of increasing its export products. Based on data gathered by the Bureau of Agricultural Statistics (BAS), our agriculture had more exports than imports from 1980 until 1993. In 1994, when the Philippines became a member of the WTO, the situation was reversed - importation became bigger than exportation, hence, the Philippines is a loser in trading.

In 1995, our export and imports in agriculture incurred US$150M in losses. This amount grew to US$1.1 B in 1999 and in 2003, losses amounting to US$933M was registered. The concrete effects of these losses are glaring in the economic conditions of our farmers and in the lack of employment opportunities outside of agriculture.

Our unemployment problems have worsened. Data from the National Statistics Office (NSO) showed that the number of unemployed or out of jobs increased from 2.3 million Filipinos (8.4%) to 3.6 million (10.2%) in 2003. Not included from the list are those who do not look for formal employment. Meanwhile, the ordinary worker's wage continues to fall along with the falling of the value of the peso.

B. What are the WTO's effects on agriculture?

The following are among the WTO's direct effects on agriculture:

1. **Imported agricultural products flooded the country while export earnings went down**. The country imported more agricultural products like rice, vegetables, fruits and canned goods that resulted in the falling of the prices of our farmers' products. Imported products became a competitor of local products and this provided an opportunity for big merchants to dictate cheap prices on our own products.
2. **Local production went down and our small farmers experienced bankruptcy.** This result was clearly observed in the case of rice farmers especially during the early years of the WTO. These later years, the growers of vegetables in the Cordilleras, of onions in Central Luzon, of garlic in the Ilocos Region and the rice farmers in the whole country have also been affected.
3. **The costs of production continuously increased.** While imported products lowered the prices of our local products, the prices of farm inputs like fertilizers, pesticides, etc. continuously increased compounding the losses of our farmers.

For instance, in 2003, rice importation increased from 8% to 32%. A kilo of imported rice was as low as P10.40 while a kilo of local rice was up to P22. Because of this, Filipino traders opted to sell imported rice leading to big losses on the part of our small farmers. On the other hand, the government promoted hybrid rice, supposedly to increase rice production while irrigation systems were installed only on a small portion of our arable lands. With this came imported fertilizers and pesticides that raise the costs of production. This may have resulted to bigger production but obviously not bigger earnings for our farmers.

C. What are the WTO's effects on the people in general?

Based on the data of the Social Weather Station (SWS), 15% of the population is hungry. (Philippine Daily Inquirer or PDI, October 5, 2004) The United Nations also reported that 34% of the total population is living below the poverty threshold. This percentage is the highest in the whole Southeast Asia. (Today, Sept. 1, 2004). The Asian Development Bank (ADB) also cited that more than 12 million Filipinos live on less than US$1 per day. (PDI, August 27, 2004).

The situation of the workers and small farmers is similar. In January 2005, 4.03 million or 11.3% of the whole 35.83 million labor force are unemployed (PDI, 28 April 2005). Under the WTO, many factories closed shop because of the importation of cheaper products. In the case of those employed, their earnings are not enough to meet the basic needs of their families. According to a study in March 2005, P663 is needed daily for a family of six in Metro Manila to have enough food and enjoy a decent living. But the minimum daily wage in Metro Manila is P300. Aside from this, many employers do not pay the legally mandated minimum wage. Because of the government's bankruptcy, the costs of basic services like electricity, water, transportation, etc. continue to increase while wages remain low. Based on the PDI, January 23, 2005 issue, the incomes of the richest 1% (around 150,000 families) is equivalent to the incomes of the lowest 38% of the country's population.

In most Filipino households, the **women** are mainly responsible for the food on the table especially for their small children. In a situation where the sources of food, whether from the seas or from farmlands, are getting smaller, the women had to switch to new jobs. In the main, about 77% of women who used to be in agriculture and fishery have switched to non-agricultural jobs like services and small entrepreneurship.

Over the past 10 years as a member of the WTO, the Philippines, which used to be a net agricultural exporter, has become a net agricultural importer. The data cited above cannot belie this reality. Indeed, hunger and poverty worsened among our most vulnerable sectors in the cities and countryside over the past 10 years. Clearly enough, the Philippines did not lead to the “bright future” the government had promised when the country became a member of the WTO in 1995.

Glossary

Import- Procuring products of other countries. In earlier years, Philippine imports were led by wheat, milk, soy beans and rice but in later years, more imported products are being dumped in our country.

Export- Trading our own products in other countries. The Philippines' top agricultural exports are coconut oil, bananas, pineapple, mangoes, shrimps, prawns and tuna.

Subsidy- A kind of assistance given by the government to producers aimed at raising production, lowering production expenses and ensuring the development of the sector. To the contrary, free trade aims to minimize or remove subsidies allotted to agriculture.

Tariffs - Taxes on the importation of products based on a percentage of the value of the imported product. For instance, if imported rice costs P10 per kilo and tariff is 50%, it will become (P15) per kilo.

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