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Political Economy of Liberalizing Foreign  
Trade: Philippine Experiences

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Political Economy of Liberalizing Foreign Trade:  
Philippine Experiences

Florian A. Alburo

Abstract

The Philippines has had a long history of liberalization experiences. They span a wide range of policy direction from a regime of full decontrol to a mixture of restrictions and free trade. Perhaps this explains why the country has not been able to hold on to a trade direction that has been sustained on a long-term basis.

Four liberalization episodes have been described in this paper not in terms of the technical character of the trade sectors but of the processes that went into their evolution and their eventual fallout. Several forces are identified as impinging on these processes: the overall political ethos; the Executive and Legislative branches of government; the bureaucracy; external forces of the IMF and the World Bank, among others; various vested interest groups; and coalitions among them. These forces have marshalled a variety of tactics to pursue their causes from lobbying to exaggerating the extent of injury to the economy from liberalization drives.

The argument of this paper is really to suggest that liberalizing foreign trade be immediate given the political economy of it which would attempt at delay or postponement. If there has to be a protracted timetable, such should not be long enough for political forces to mount a resistance. In a transition from import-substitution to export orientation and freer trade, immediacy is even more critical since vested interests are more powerful.

In a transition from a closed economy to an open outward looking regime, immediate liberalization is also argued both to prevent the emergence of strong vested interests and organized resistance, and to send an unmistakable signal of commitment. In fact, other than possible opposition from the bureaucracy and state-operated-enterprises there would hardly be any opposition to a liberalization drive by the party-in-power itself.

Of course, it goes without saying that accompanying reforms and other policy measures are equally important and pursued in tandem with trade liberalization. These would include some economic growth, institutional support for industries of comparative advantage, among others.

The Political Economy of Liberalizing  
Foreign Trade: Philippine Experiences

Florian A. Alburo\*

1. Introduction

There has been some kind of an explosion in the literature on the political economy aspects of trade liberalization. The framework followed has ranged from game theory to rent-seeking behavior and pressure groups in explaining tariff setting and specification of trade policies. A common denominator among them seems to be an interaction between suppliers of trade policies (politicians, legislators, bureaucrats) and demanders of them (vested interests, industry groups), and rational behavior can be postulated to be an optimization problem, and eventually equilibrium rests where marginal returns equal marginal costs. Even the behavior of politicians seeking votes calculate trade-offs between some loss of constituency with gain in financial returns from lobbyists.

Viewing the behavior of trade policy setting in this light implies a measure of stability and continuity of the overall economic environment. This may not however always be the case. For example, in authoritarian regimes, there would not be an effective legislature through which lobbying can yield positive results. This does not mean vested interests cannot make inroads -

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in influencing trade policy. They may be exercised through the bureaucracy. Then there may be changes in the political scene for which there may be no continuity to the framework (e.g. transitional economies from socialist/dictatorial/authoritarian to democratic).

Empirical validation of the framework can of course use more objective indicators by hypothesizing the direction of the correlation with trade policy instruments. But the richness and dynamics of the real political economy aspects of trade behavior get lost in a purely econometric exercise. The first stage is therefore essential i.e. to trace the processes of how foreign trade is liberalized or how reforms are resisted. Subsequently a more quantitative track is followed where the classificatory scheme is clear.

This paper is aimed at this first stage. It is an attempt to (a) extract from the liberalization experiences of the Philippines the political economy aspects of them, and (b) draw out lessons for policy making. Accordingly, the next section describes the various episodes in liberalizing foreign trade. It is derived mainly (in terms of the first three episodes) from previous work with G. Shepherd (G. Shepherd and F. Alburo, 1991).

The third section spells out the political economy aspects of the episodes. It identifies the forces and activities that eventually shaped trade policies in the various episodes whether for greater liberalization or more protection.

In the fourth section, we try to derive some lessons from the Philippine experiences described. These belong to two specific instances: (a) where the economy is in a transition from import-substitution to greater liberal outward orientation if not export bias, and (b) where the economy is in a transition from a closed, highly protected system to a more open outward orientation. The environment under these two instances may vary considerably in terms of the evolution and strength of vested interest groups.

The last section provides concluding statements in terms of prospects for the Philippines for sustaining the liberalization of its foreign trade, and for other countries in transition in terms of instituting trade reforms and successfully maintaining them.

We rely here essentially on a description of the various forces and activities that circumscribe the political economy of trade policy. The more detailed data and empirical record are set aside and referred to in other studies where appropriate.

## 2. Episodes in Liberalizing Foreign Trade

This section summarizes the various liberalization episodes which we have documented in detail elsewhere (Shepherd and Alburo, 1991). The recent liberalization episode (post-1986) has also been described separately (Alburo, 1991). Although we will also look, where appropriate, at the economic environment and impacts surrounding each episode, the focus is more on forces, activities, and actors that figure in the liberalization drive or in its resistance.

### Episode 1

Prior to the first episode of trade liberalization in 1962, international commerce was restricted by a complex system of controls administered by an Import Control Board, originally a separate government entity, but subsequently part of the Central Bank. Goods for imports were classified according to the degree of essentiality and licenses were issued for their importation.

The overbearing bureaucracy that the controls spawned, the fits and starts of industrial growth, and the ensuing graft and corruption all catapulted decontrol as a political issue in the presidential elections of 1961. The existing two-party system (which evolved formally after the country's independence from the United States in 1946) did not disagree on weeding out graft from the licensing system. The parties disagreed on timing and sequencing. The incumbent president campaigned on a platform of gradual decontrol spread over a number of years and a system of multiple exchange rates. The opposition (who eventually won) argued that the runaway abuse of the system called for complete and immediate decontrol.

One of the first acts of President Diosdado Macapagal upon assumption to office in January 1962 was abolishing the control system. The 1962 episode included (a) removal of licensing for practically all imports, (b) simultaneous raising of tariff rates (between zero and 400 per cent), (c) currency devaluation that realigned exchange rates with prevailing black market rates (which were 100 per cent more than the official rate), and (d) temporary

export taxes. This was a classic trade liberalization but was undertaken as a political issue. Agricultural exporters supported Macapagal because of the attractiveness of immediate appropriate foreign exchange returns (given the fact that they had to surrender their export proceeds at official rates) in terms of higher retention and realized exchange rates.

The impact of the 1962 liberalization was generally favorable by many macro accounts. There were of course industrial dislocations from import-substituting industries to exports (Treadgold and Hooley, 1967). The resource reallocation was perhaps mitigated because of the drastic changes in tariffs. Without the benefit of effective protection analysis (which Macapagal did not have access to), it was not clear which way protection was going. But none of the fears most expected from decontrol happened between 1962 and 1965 (Alburo, 1986).

Macapagal lost to Marcos in the 1965 elections and thus possibly sustaining liberalization. This was starting to be doubtful anyway. There was a growing fiscal deficit that rose with elections. The peso began a systematic overvaluation. And expansionary policies led to trade accounts deterioration and controls were reinstated. The number of product items subject to restrictions increased.

The backlash to this episode came from opposition Congress which had viewed the industries and capital idled by decontrol to be a waste of resources. Marcos carried this as a political agenda (having been made the opposition candidate after losing the

nomination to reelectionist Macapagal). The legislative mood favoring planning and intervention resulted in the creation of the Board of Investments and greater reinstitution of controls.

### Episode 2

This episode occurred in 1970 but is different from our understanding of liberalization (decontrol) in 1962. First, there was no removal of restrictions though there was no initial increase of them. Second, as a compromise to freer trade, incentives were given to exporters in terms of imported inputs. Third, the peso was devalued consistent with an outward orientation but restrictions were retained for balance of payments reasons. Liberalization was essentially export promotion.

This type of liberalization was a way of placating exporters by giving them better rates (through the 1970 devaluation) and access to free trade prices for their inputs. After all, the Philippines' exports of manufactures were starting to pick up by then. It was also a way of keeping the domestic markets protected.

The political turmoil of the period had little to do directly with economics. It was a product of the re-election victory of Marcos and students, labor groups and congress which were ignored in policies.

Other events helped create this episode. Congress legislated a law creating export processing zones (EPZ) and took a hand in the selection of the first EPZ especially the budgetary allocations for infrastructure. Then there was a commodity boom which provided

windfall for a number of the country commodity exports which helped the traditional exporters. Finally, the public in general and consumers in particular were carried away by the overall political turmoil and the ensuing Martial Law (declared in 1972) parameters to mount an opposition to continued protection to import-substituting manufacturers.

It is difficult to assess the effects of this episode. Generally, the macroeconomy fared poorly; low growth (except in the two years of the boom), spurt in inflation arising from the 1969 election spending, deterioration in the terms of trade etc. The growth from the boom was short-lived and continuing protection, despite export promotion, prevented real structural change from taking place. And a desire to keep the country moving, given lack of checks and balances, led to heavier reliance on external debt.

There were calls for greater liberalization and trade reforms especially from external advise (ILO, 1974). The rhetoric of reforms was often heard but hardly implemented, nor was part of cohesive vision and active policy coordination. The politics of one-man rule was not exploited in terms of further trade liberalization.

### Episode 3

The notion of trade liberalization adopted in Episode 2 is quite different from the policy in the first episode. Liberalizing foreign trade catered only to the exports of manufactures and

confined in export processing zones. In the rest of the country continuing restrictions to foreign trade remained.

Towards the end of the seventies the proportion of import items subject to restrictions had reached 33.5 per cent (Alburo and others, 1992). This is aside from the distortions of the tariff schedules that had been in operation since the first episode.

Episode 3 took place in 1980, engineered by technocrats and prodded by the World Bank through its Structural Adjustment Loan (SAL) program. Liberalization in this episode refocused the understanding back to overall trade and industrial sectors. It had 2 basic components: (a) tariff reforms and (b) import liberalization.

There was no open opposition to this liberalization episode with no Congress nor a vigilant and free press. But neither was there an overall understanding even among the few technocrats which bannered freer trade. For example, there was hardly a significant realignment of the real exchange rate to correct its increasing overvaluation over the years based on both price parity and the degree of restrictions. More importantly, there was no constituency to this liberalization move, either in terms of a smaller set of policy-makers and bureaucrats or a larger base of stockholders. The latter of course could not be established without an effective representative government or parliament.

There was therefore resistance to the liberalization in terms of specific industries or products though not at a general level. That there were reversals to the lifting of import restrictions

implied success in the resistance (Alburo, 1986). Indeed since liberalization decisions were essentially technocratic and carried out through memoranda to authorized agent banks, the vehicle for reversal was clearer.

Tariff reforms included a major restructuring of tariff rates spread over 5 years, a reduction of maximum rates at 50 per cent and a minimum of 10 per cent and a narrowing of tariff rate spreads.

Import liberalization, on the other hand, involved the lifting of various licensing and bureaucratic restrictions to imports. This was done through several phases spread over a shorter time frame than tariff reforms.

The SAL was meant to modernize a number of industries (e.g. textiles) which would be affected by trade liberalization. Given the adjustments, it was anticipated that the modernization programs in tandem with the trade reforms will improve the country's competitiveness in export industries.

This liberalization episode was overtaken by the 1983 economic crisis, manifested by a foreign exchange shortage and a debt problem. Imports were therefore restricted, those scheduled for lifting of licenses were aborted, and those liberalized re-restricted.

Changes in the tariff code, however were continued as scheduled having effectively no bearing in as much as restrictions were binding. By 1985 the reforms in the tariff structure were completed with a new tariff and customs code.

The economy collapsed in 1984 and 1985 (i.e. successive negative growth during these two years). This in turn triggered a government decision to declare national elections in 1986 to stave off further economic decline arising from the political turmoil. The proportion of import items subject to restrictions increased from its 33.5 per cent rate in the decade of the seventies to 35.4 per cent by 1984.

While codal tariff rates fell during this episode, they did not really matter significantly as import restrictions dominated foreign trade. This component of liberalization, though completed, was ineffective.

A new regime came into power in early 1986 through an extra political process that led to the dissolution of the prevailing political structures, the reorganization of government machineries, and the reformulation of the country's economic programs and plans.

#### Episode 4

The new government began this episode in April 1986 in the context of its larger economic agenda with a firm commitment to trade liberalization. Because tariff restructuring had been essentially completed, the episode centered on import liberalization. The derailment of Episode 3 had left more than 1200 items under restrictions. The main elements in the episode included (a) classification of all items into those for immediate liberalization and those for continued regulation, (b) decisions on

which products would be liberalized first and later and (c) the provision of necessary tariff protection.

The new-found democracy espoused by the regime opened the focus of the debate beyond the items for liberalization and into the general issues of protection and freer trade. It was a return to the environment of the first and second episodes. This opening of the debate exposed a lack of cohesiveness to the liberalization commitment even among Cabinet Officials and questioned the strength of its constituency.

In the initial period of this episode, it was the Executive branch which conducted public hearings on the items for liberalization, instituted measures for interim protection to affected sectors, and decided on the timing and phasing of liberalized items.

The Congressional and local elections of 1987 added another vehicle for sustained debate on trade liberalization, shifted the venue for its opposition from the executive to the legislative branch, and created a new layer in decision making involving trade. Without a coherent understanding of the direction of foreign trade policy, vested interests could pit one force of influence with another.

With the participation of Congress, this episode was characterized by (a) postponement of liberalization for industries in progressive manufacturing programs, (b) increase in tariff rates beyond 50 per cent for certain products, (c) temporary protection

via rising but phased down tariff rates, and (d) continuous inquiry into the concept of liberalization. There was some success in this episode. The proportion of import items subject to restrictions declined to 6 per cent by 1990, all export taxes were abolished, and tariff rates further liberalized to the trade reforms. The exchange rate hardly accompanied macroeconomic policies to achieve the desired liberalization attempt, foremost has been the apparent inadequacy of trade policy requirements - the perception of structural effects of the trade reforms. The exchange rate hardly adjusted to the trade reforms. The trade sector itself, movement came later. But even within the trade sector itself, there were a number of setbacks. For one, the criteria for classifying products for regulation or liberalization seemed arbitrary. Dangerous drugs and chemicals for explosives are candidates for import regulation but along with this has been used vessels and used tires. For another, items were liberalized while the temporary protection (via increases in tariff rates and eventual phase down) came much later. Finally, the original radical tariff restructuring (through an Executive Order) that would have streamlined tariff rates ended up as a watered-down legislative bill that lengthened the period of tariff changes (spread over 5 years) and retained wider spreads in rates. The economy did recover in 1987, picked up in 1988 but declined again in 1989. More disturbing, trade deficits continued to mount during this fourth episode, with exports unable to

accelerate much more gain a foothold. The initial stages of the episode were not vocally objected to given the positive economic growth rates (apart from lack of mechanisms for resistance), but when the economy faltered, the grounds for attributing negative consequences to liberalization became more valid.

### 3. Political Economy: Forces and Activities

This section describes the forces and activities that facilitated or hindered the liberalization of foreign trade in the Philippines. In as much as these have been drawn from various episodes of Philippine experiences, they are unique to the country. At some point, they may be grafted into particular models of the political economy of trade liberalization.

More dominant yet not as apparent is the overall political regime and its vision that underlies the drive for liberalization. In the Philippines however this means not just the political regime but the changing nature of the regimes that define the environment for liberalization. Thus the first episode faltered with a change in administration. Where the openness or outward orientation is not constitutionally enshrined but dependent on the political party in power means a strong force to reckon with in efforts towards trade reforms. In the case of the second and third episodes, the force was tied more narrowly to the personality of the leader.

A second force is the political power exerted by the Executive and Legislative branches of government. Where the officials of both branches belong to the same party and vision, the

liberalization processes tend to move faster (and symmetrically for protectionists). Where they differ in both composition and philosophy, liberalization efforts would suffer one way or the other.

Given opposition elements in the two branches, the behavior of either is to put one over the other. While the executive can devise ways to implement its defined policies, legislation can strike back via changes in law or the creation of new institutions. For example, in the first episode, the President unilaterally dismantled the control system and overhauled tariff rates in the face of an opposition congress and the likely protracted debate on trade policy. This did not prevent congress from creating a law mandating intervention in foreign trade — although fortuitously this took place when the incumbent president was defeated at the political polls.

But even if both branches belonged to the same political leaning, the processes of policy decisions will still take some route. For one, the diversity of legislators (with different constituents) suggest they may be more open to a wider set of compromises. For another, Congress may want to institute its own system of understanding and discussing policy options in addition to the Executive means. However as long as the final policy outcome take strong roots, this political roundabout process may be worthwhile.

More pointedly, a strong constituency for liberalization must be built and maintained through the political processes. Once

there is a broad support for it, the administration needs to safeguard the commitment through continuous dialogues, interaction and education.

Another force in the political economy of liberalizing foreign trade is the bureaucracy itself. Often bureaucrats are underestimated in terms of their capacities to facilitate or hinder trade. Yet from customs officials to bank agents, the hierarchy of the public and private bureaucracies exerts a strong influence in carrying out protection or liberalization. The extent to which bureaucratic layers are created is tantamount to regulation. Conversely, streamlining processing steps, signatures, and documentation facilitate a larger volume of transactions.

The bureaucracy has natural advantages as a force in foreign trade transactions. First, it is easily identifiable, whether the customs agency, private banks, or licensing bureau. Second, even without changes in overall policy the bureaucracy can give it either a more flexible or rigid interpretation. Finally, there is a certain amount of vested interest among bureaucrats to maintain a status quo especially where that means regulatory powers. In the third episode, the reversals to the schedule of liberalization were made at the bureaucracy.

A fourth force is external to the country. This is the policy advice from bilateral and multilateral institutions. Too often trade liberalization is a common policy prescription between the IMF and the World Bank along with other donor agencies. This force carries with it other institutions including commercial banks which

often await the "seal of good housekeeping" prior to its regular transactions with the country. As noted earlier, the third episode had the mark of influence from this external force.

The question is not whether trade liberalization policy is valid or not. It is rather whether such policy, if attributed to external source, generates local support for its sustainability. It is important that such a policy be perceived as an indigenous decision, arrived at by Filipino policy makers and a Filipino political system. Congruency can be admitted but attribution must be national. The third episode was a technocratic design, perceived to be influenced by external agencies, and clearly lacked the support of a wider indigenous officialdom.

On the private sector side, a fifth force is the array of industrialists, traders groups, and organized business associations which pursue their individual or collective interests in agreeing to or opposing liberalization policies. Usually there has been no unanimity among these groups on trade reforms especially at the detailed level. In the first episode exporters sided with decontrol while local industrialists opposed it. It was only later that broader business groups declared the long-run benefits from decontrol.

Consumers groups have never constituted as a force in the course of liberalizing foreign trade. As with all other cases, benefits from liberalization are so widely spread among consumers that there is no organizing mechanism. Contrast this with the

narrow injury to specific groups which therefore stimulate organized resistance.

There have however been spotty intellectual activism against liberalization especially during the beginning of the second episode (Alburo, 1986). But it was more because of the old debate between import-substitution and export orientation than of the specific items for liberalization.

In summary, there are bound to be forces of strength among some vested interests in promoting or opposing liberalization. The ability of these forces to succeed in turn depends on their initial conditions prior to the policy change.

A final force is one of a coalition among unlikely elements. In the case of the fourth episode multinational corporations (MNCs) which have been exploiting domestic markets under heavy protection found themselves siding with nationalists in postponing and opposing liberalization. An unlikely call for protection espousing similar sentiments but for different objectives came from MNCs and the protectionists.

The various activities that these forces have used to promote their interests included any or a combination of the following: (a) lobbying with the Executive or legislature or the bureaucracy in specific cases, (b) delaying or postponing liberalization where it appears to be inevitable, and (c) exaggerating losses or impact arising from liberalization moves.

In most of the episodes described in the previous section, active lobbying took place before the Executive branch or with the

legislature. During the period of Martial Law rule, lobbying took place in the halls of the bureaucracies. Unlike purely political lobbying (i.e. supporting candidates or politicians in anticipation of future favors), economic lobbying was for a specific action to be taken or withdrawn. The players of the lobbying were therefore those with clear quantitative gains from a specific course of action. The evidence in the Philippines seems to show that concentrated industries are major actors in lobbying given the fact that protection promotes concentration if not monopoly and that these are likely to lose much from liberalization (Abenoja and Lapid, 1991). In the case of reversals to the liberalization in the third episode, those industries that successfully reversed decisions (e.g. consumer durables) were those with high concentration ratios.

Sometimes, liberalization as a general policy is inevitable. The activities of various forces are not therefore to oppose it but to delay or postpone the specific inclusion of products and sectors in the program. And where decisions at certain levels of the Executive or the bureaucracy are not considered final, efforts will continue. In the context of the fourth episode, the activities included (a) re-classifying products for continued regulation (e.g. used tires) or postponing liberalization towards the end of the program, (b) continuous appeal to higher levels of the bureaucracy on the basis of incomplete information, and (c) calls for review of specific cases. In fact even in the more limited liberalization programs such as the ASEAN enhanced preferential trading

arrangements (PTA), the efforts have been to put products which would be significantly affected into the last group for liberalization.

All throughout the various episodes, industry groups and vested interests enhanced their cause by exaggerating losses to labor and the national economy arising from imports from abroad. These activities have also exploited labor's organizations in maintaining the status quo. It has only been in recent times (during the 4th episode) that there has been greater understanding of the dynamics of inter-industry linkages and the effects of liberalization on the development of downstream industries. Yet this notion of prospective impacts (more employment, output etc) are less tangible than real losses arising from closures due to competition from imports. It is thus important that liberalization has a wide base of support and take place in an environment of perceptible positive economic growth.

#### 4. Lessons to Learn

The political dimensions of the 4 episodes of trade liberalization suggest limited lessons to learn from - in the absence of a more rigorous framework for looking at the forces and activities. The lessons are also in the form of the anticipated political aspects that came with the liberalization of foreign trade.

To start with, we assume that the government in power is fully convinced and committed to trade liberalization. This reflected in

the unanimity of its officialdom's vision and coherence of policies and the strong and wide constituency it has from the broader society. Its task is therefore to define and implement policy measures, assure their continuity, and prevent reversals and slippages arising from a narrow but active opposition.

What is clear however is that the Philippines has experienced the gamut of trade policy options - from the drastic decontrol measures of the first episode to the phased program of liberalization and tariff restructuring of the third and fourth episodes; from the full use of political processes to the monolithic decrees of Martial Law; and from the narrow participation of technocrats to the broad involvement of a variety of sectors.

If we are to look at the process of liberalizing foreign trade in terms of its impact, it would appear that the drastic and immediate reforms that characterized the first episode produced the least organized resistance and negative effects. Yet without the necessary accompanying macroeconomic reforms the effects were not sustainable. On the other hand, there was a blip in growth from the export promotion episode in the early seventies although it is not clear the spurt had been triggered by trade liberalization. In all episodes, what is important to understand is that unless other economic reforms take place as well, impact is likely to be short-lived. What those associated policies or accompanying measures as well as their timing and sequencing are spelled out elsewhere (Papageorgiou and others, 1991).

More generally, the various liberalization episodes in the Philippines suggest two streams of lessons. One applies to moves from a fairly closed economy towards an open outward-oriented situation. The other applies to moves from an import-substitution regime towards an open, outward - and export-oriented economy.

Although the Philippines was never a closed economy similar to the formerly centrally-planned economies of Eastern Europe and Asia, it had an elaborate and effective foreign trade control system in force prior to the first episode. Imports were allowed in specific cases but not as a conscious effort towards import-substitution. Indeed if the latter happened early on, it was a mere accident (Baldwin, 1975). Moreover foreign goods prices were fixed by a mandated exchange rate which was not expected to clear the demand for and supply of foreign exchange.

The abolishment of the control system through an overnight executive act left the opposition (both in Congress and among industrialists) in shambles. Although eventually opposition mounted over time, this did not manifest itself during the regime of the Macapagal administration which did have the political mandate for liberalization. Technically speaking, the huge import premia which the controls spawned were simply washed away by the immediate liberalization and sheltered the domestic economy from negative repercussions. Indeed the opposition was really more ideological and stemmed from an incomplete understanding of the resource allocation effects of decontrol.

If we characterize the first episode as a move from a closed system to a more open environment, its demise in 1965 can be attributed to several factors. One was that Macapagal lost in his reelection bid and with it a commitment to liberalized trade. Another was that the changes in the tariff rates which were implemented simultaneous to the dismantling of the control system created changes in effective protection - and probably left the industrial structure truly dominantly import-substituting.<sup>1</sup> But in fact changes in tariffs were probably unnecessary and could have been made more uniform since the simultaneous peso devaluation offered a natural neutral protection. Third was that there were weak accompanying adjustments to the trade liberalization. Finally there were other essential reforms which were not carried out (e.g. land reform) which could have galvanized structural transformation.

Notice that the episode's fallout had little to do directly with political forces related to industries displaced or with vested interest groups. The reversal to the liberalized environment, through changes in legislation, had a more ideological undercurrent.

The import-substitution structure was already rooted by the time of the second to the fourth episodes, influenced in part by the tariff schedules of the first episode. The setting therefore of the succeeding liberalization attempts was essentially a transition from a regime of import-substitution to an export-oriented era.

Yet these episodes were the ones for which the measures were half-hearted, there was organized resistance, bureaucratic inertia, or unexpected coalitions. In all cases, there was some success to derailing liberalization attempts. Here the context was not lack of conviction on the importance of outward orientation but of the political will to carry out the policy direction and overcome opposition.

For sure, the strength of the vested interests was in the direction of delay or postponement of liberalization. The long period of time between the first and the third episodes had built enough force among protectionists not only to command a political constituency but ideological converts as well.

The task of resistance therefore in this kind of transition is to go for gradualism - first to ensure benefits are diluted, but more importantly to work for political regimes that are more responsive to protection. Failing that, it is the bureaucracy that is targeted as the arena for resistance.

This argues then that immediate reforms may have to be pursued and carried through. The political opposition may try to aim for delay or postponement yet if the starting point is immediate, this will reduce the area for compromise.

##### **5. Conclusions**

The Philippines has had a long history of liberalization experiences. They span a wide range of policy direction from a regime of full decontrol to a mixture of restrictions and free

trade. Perhaps this explains why the country has not been able to hold on to a trade direction that has been sustained on a long-term basis.

Four liberalization episodes have been described in this paper not in terms of the technical character of the trade sectors but of the processes that went into their evolution and their eventual fallout. Several forces were identified as impinging on these processes: the overall political ethos; the Executive and Legislative branches of government; the bureaucracy; external forces of the IMF and the World Bank, among others; various vested interest groups; and coalitions among them. These forces have marshalled a variety of tactics to pursue their causes from lobbying to exaggerating the extent of injury to the economy from liberalization drives.

The length of time in which import-substitution had been rooted in the country in the post 1962 episode strengthened the hold of vested interests and their capacities to resist liberalization. They were able to build the political network for protection, exploit ideology to their advantage (as in the coalitions of the fourth episode), and gain foothold into the bureaucracy.

Gradualism in liberalization seems to be a hallmark of the resistance movement. In the context of Philippine experiences, this means that each step is defined and to be taken only after reviewing the previous steps i.e. succeeding elements are not to be specified over a given period. This gradualism is then translated

into delays, postponement and even reversals as liberalization proceeds.

Yet gradualism would have a vocal constituency especially in situations or countries, like the Philippines, where protection has long been the environment or where import substituting industrialists have been entrenched. There are several reasons for this. First, there is a political appeal to gradualism especially if the injury to affected sectors and the concomitant unemployment are magnified. Second, it provides ample time to mount an organized opposition to further liberalization ranging from the cause of nationalism to "Buy Philippines" campaign. And the organization is stronger the longer has been the regime of import-substitution. Finally, it allows room to build a network within the bureaucracy that will work for gradualism which can expand to the legislature and other corridors of policy decision-making.

This does not mean there is no merit to gradualism. After all, sectoral rigidities, inadequate resource mobility and capacity, and other distortions may constrain quicker structural adjustments, or there may be just plain weak responses to real price changes. But such gradualism must be well-defined, with various elements spelled out in both timing and sequencing of implementation, and irreversible. This means a definitive timetable for liberalization. Five years for such gradualism, given recent Philippine experience, seems "too long" - indeed long enough to mobilize political machineries for further delays or

reversals. If there is merit to gradualism, a liberalization program needs to be completed within 3 years or less.

The argument of this paper is really to suggest that liberalizing foreign trade be immediate given that there is a firm commitment to it, a strong and wide constituency is behind it, and efforts have been taken to increase the stakeholders for it. If there has to be a protracted timetable, such should not be long enough for political forces to mount a resistance. In a transition from import-substitution to export orientation and freer trade, immediacy is even more critical since vested interests are more powerful. There is a trade-off between the time long enough for resistance to take hold and the time for the economy and resource allocation within it to adjust to a new and open environment. Adjustment indeed will require time (often long enough for political opposition to reverse liberalization measures) - but as long as the signals are clearly sent and some support is given for industrial restructuring transformation will be more rooted.

In a transition from a closed economy to an open outward looking regime, immediate liberalization is also argued both to prevent the emergence of strong vested interests and organized resistance, and to send an unmistakable signal of commitment. In fact, other than possible opposition from the bureaucracy and state-operated-enterprises there would hardly be any opposition to a liberalization drive by the party-in-power itself.

Of course, it goes without saying that accompanying reforms and other policy measures are equally important and pursued in

tandem with trade liberalization. These would include policies to achieve some economic growth, institutional support for industries of comparative advantage, among others.

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