Discussion Paper No. 9104 June 1991

Sustaining Trade Liberalization and Reforms in the Philippines

by

Florian A. Alburo

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1.0 Introduction

The Philippines has experienced at least three trade liberalization episodes in its economic history. None has ever been self-sustaining in the sense of keeping the liberalization momentum going although an episode may have been successful from the point of view that the political regime in power sustained it during its incumbency.

This paper attempts to explore a number of factors which may affect the long-term sustainability of trade liberalization and reforms in the Philippines. The next section expands the notion of liberalization not in its purely technical meaning but in the context of how it was understood in Philippine experiences. The third section looks at the characteristics of the various trade liberalization episodes including more recent attempts at trade reforms since 1986. Section 4 examines a number of factors, singly or simultaneously, which may have affected the sustainability of the trade liberalization measures. Finally, some conclusions are drawn.

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*Professor of Economics, School of Economics, University of the Philippines.

It might be argued that the clue to what sustains trade liberalization would come from studying those countries which have experienced it. And the Philippines has never experienced a sustained trade liberalization. It is perhaps more appropriate to look at other records of liberalization.

While this is true, a distinction must be made between a successful or failed liberalization episode and a sustained liberalization. The former implies that a liberalization period (successful or failed) is only part of the country's long-term history (which may have both successes and failures). The latter means trade liberalization has been sustained on a more permanent basis. It would be interesting though to understand sustained failures in trade liberalization.

All these approaches are complementary of each other. What we have are rich historical and analytical documentation of trade liberalization experiences of the Philippines (Sicat and Power, 1971; Baldwin, 1975; Alburo and Shepherd, 1991). They serve as a basis for sorting out what might have been reasons for the success or failure from becoming self-sustaining.

2.0 An Understanding of Trade Liberalization

The technical meaning of the process of trade liberalization is quite clear to those who study it.[1] The supposed benefits from it (on a net basis) are also quite clear.[2] However its understanding by those who implement it or who influence its implementation may not be the same. Apart form evoking heated and emotional discussions, a limited understanding of it may hinder acceptance or fail to solicit a constituency to allow implementation and sustainability of policies.

One understanding is to leave the fate of trade transactions to markets alone. A variant of this is the relegation of national interests to internationally well-entrenched groups that actually dictate international prices. The objection to trade liberalization stems from an assertion that markets are not free anyway, if not controlled by foreigners then certainly by multinational corporations. Conversely, the need to protect Filipino businessmen stems from an implicit desire to produce all goods (the self-sufficiency argument) or inability to compete because of unequal initial endowments. If trade is to take place, in this understanding, government will have to supervise the transaction or a government firm or entity (with resources that can match international traders) itself participates.

There may be a rationale for government to be involved and object to a trade liberalization policy. And such a rationale may be appropriate. Two cases in the Philippines illustrate this rationale. Because of the bureaucracies involved in trading with Socialist countries plus the fact that their international transactions are through state trading, the Philippine International Trading Corporation was established. In the other instance, because of the vulnerable nature of small coconut farmers to fluctuations in world copra prices, the government (until 1986) was the only seller of the commodity in the world market (de Dios, 1984).

Another understanding is that liberalization involves the removal of restrictions and thus "freeing" trade. Government officials and businessmen agree that bureaucratic restrictions to trade are inefficient but balk at the idea of import liberalization since, again, it puts the country's industrial structure under the influence of world trade. Yet decontrol or import liberalization is not synonymous with free trade in as much as the tariff structure can always be altered to provide a more transparent protection to domestic industries.[3] With liberalization the country loses a direct hand in guiding its industrial development and fending off unwanted products.

This particular understanding is generally confined to international transactions and not to domestic trade, i.e., there is no objection to liberalization if it means freer domestic trade. *One reasons why this is not closely* associated with the earlier notion of liberalization is that there is faith given to (domestic) markets.

Then there is liberalization to mean "setting prices right." This ranges from one extreme of liberating domestic prices from the monopolistic power exercised by multinational corporations to the other extreme of a freer entry dictating domestic and border price ratios where the wedge would only be published tariff rates and transport costs.

These different understandings of trade liberalization are really misunderstandings of what reforms are necessary in the trade sector. As a result the meanings are narrow in scope. Thus for a given merchandise trade deficit, liberalization is objected to because the problem is import reduction and not export expansion without appreciating that liberalization would affect both. Import liberalization is objected to because some existing industries will falter (and become uncompetitive) without understanding that it affects downstream (which may become more competitive) and upstream industries together.

This narrow (mis)understanding of trade liberalization in the Philippines' economic history especially among policy decision makers has accounted for its lack of cohesive support from a broad sector. If it was given, it was for wrong reasons.

None of the liberalization attempts in the Philippines had been undertaken for the basic objective of structural reform (see the next section). Even within a limited scope of correcting balance of payments problems, liberalization had not been viewed as a reform of all accounts in the aggregate.

What all this means is that to the extent that the understanding of trade liberalization is not clear, it will be short-lived and may lead to side-effects attributed to it. Even the current liberalization, already frequently stated as structural reform, is seldom understood as such and policies are pronounced that nullify its intent.

3.0 Characteristics of Liberalization Episodes[4]

This section describes some characteristics of the several trade liberalization episodes in the Philippines. The characterization includes the meaning of it in terms of the major policy adopted, the surrounding policy and economic environment, adjustment measures taken, the public debate on the policies, the subsequent economic impacts, and the political dimensions of the resulting trade regime. In the first part, the previous episodes are briefly summarized. Then the current attempts at liberalization will be detailed. Finally the current progress of the present liberalization is outlined.

3.1 Previous Episodes

A complicated comprehensive import control system managed by a bureaucracy prone to graft and corruption had been prevailing since 1949 when President Diosdado Macapagal abolished the system as his first act upon assumption to office in 1962. The decontrol process was swift and absolute unlike his predecessor Garcia administration which adopted a 4-point program involving multiple exchange rates.

The 1962 trade liberalization (called decontrol at that time) included (a) removal of licensing requirements for practically all imports, (b) simultaneous raising of tariff rates (between zero and 400 percent), (c) currency devaluation that realigned exchange rates with prevailing black market rates, and (d) temporary export taxes.

Although confined to the trade sector, the 1962 decontrol seemed to be a classic understanding of trade liberalization. Yet it was never promoted as such by the regime. Rather decontrol was understood to be the process by which rampant graft and corruption, which the licensing system had institutionalized, would be eliminated. The public debate revolved around this issue and if anything, economic rationale was only incidental. However, fearful perhaps of a protracted debate if

Congress had to pass on these measures, the 1962 liberalization was promulgated by an executive act, including changes in tariff rates.

It was the business sector and economic managers which looked at the liberalization from an economic perspective pointing out that decontrol despite short-run dislocations will in the long run benefit a wider mass base. But since the (positive) comments came after the liberalization, we do not know how strong would have been the lobby against it without the mechanism of Congress.

In this liberalization program the government prepared for transition adjustments. It kept tariff rates on essential goods low and provided subsidies through governmental parastatal unit National Marketing Corporation (NAMARCO) as retail outlet. It sought foreign exchange loans from the IMF and the US government in anticipation of import surges.

The impact of the 1962 liberalization was generally favorable by many macro accounts (GNP, current account, employment, inflation, etc.). There were of course industrial dislocations from import-substituting to exports (Treadgold and Hooley, 1967). The resource reallocation was perhaps mitigated because of the drastic tariff changes. 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's loss in the 1965 elections to Marcos denied possible sustainability of the liberalization. With a fiscal deficit that traditionally rose with elections, a growing peso overvaluation (especially between 1967 and 1969), and expansionary policies, trade accounts deteriorated and controls were slowly reinstated and the number of product items subject to restrictions increased. Liberalization was successful but failed to be sustained.

The next liberalization occurred in 1970 but by then its understanding had acquired a different perspective. First as a compromise to freer trade, incentives were given to exporters in terms of imported inputs. Second, the peso was devalued consistent with an outside orientation but retained restrictions for balance of payments reason. Liberalization was essentially export promotion.

The resistance to sweeping liberalization (a la 1962) came from Congress which had viewed the industries and capital idled by decontrol to be a waste of resources. It was a short step from this to favor planning and intervention (via the creation of the Board of Investments) and at the same time export promotion. The balance of payments deficits in 1968 and 1969 (election year, at which Marcos was reelected) were attributed to decontrol.

If the 1962 liberalization was confined to the trade sector, the 1970 one, if indeed it was a liberalization in pure terms, affected only a segment of the trade sector--exports. The legislation of export incentives in 1970 instituted free trade in enclaves and export processing zones removed from the rest of the country.

The IMF played a significant role in this episode providing advice and adjustment resources and the country started to draw down on stand-by arrangements. But since its scope was narrower this liberalization had little jolting effect on resource allocation.

It is difficult to asses the effects of this episode. Generally, the macroeconomy fared poorly: low growth, spurt in inflation resulting from the 1969 election spending, deterioration in terms of trade, etc. Manufactured exports (the target of the 1970 liberalization) did not really rise until 1974 and traditional exports were increasingly taxed.[5]

After Martial Law was declared in 1972 the regime introduced economic reforms that lacked a cohesive vision and policy coordination. With the end of the commodity boom of 1973-74 (which benefited the country) continuous fiscal deficits were financed by external borrowings (in the midst of terms-of-trade deterioration).

The third liberalization refocused the understanding back to the trade and industrial sectors. With a loan prodding from the World Bank through its new Structural Adjustment Program the 1980 trade liberalization included (a) tariff reforms and (b) import liberalization.

There was hardly any public debate surrounding this episode and thus no open opposition. Engineered by technocrats this liberalization was by far more systematic, apparently sequenced, and phased. Yet the reversals of policies, whether specific products or industries, were not few (Alburo, 1986).

The changes in the tariff codes continued on schedule, reducing peaks from over 100 percent to 50 percent and narrowed dispersions between 10 and 50 percent. Much of these changes however were meaningless if restrictions continued to be imposed. Thus opposition to liberalization was expressed in the import licensing side.

Unfavorable external environment characterized this liberalization reflected by recession in developed country markets and deteriorating terms of trade. On the other hand the Philippines had been suffering from balance of payments problems with no serious resolve to correct them by exchange rate adjustment and instead continued to rely on debt to drive the economy.

The larger economic crisis of 1983 aborted the liberalization drive although the tariff reform was completed. Reimpositions of restrictions were made amidst scarcity of foreign exchange.

3.2 Current Attempts

After the new (Aquino) administration took over the government in 1986, it formulated an economic agenda derived from a report prepared by a task force (Alburo and others, 1986). After the agenda was adopted a medium-term Philippine Development Plan (MTPDP) evolved.

Although a watered-down version of the original task force report, the new regime was careful in saying that the agenda and plan contained a package of reforms across the economy--from land reform to financial restructuring, from social services to public administration.

Trade liberalization in the Aquino administration picked up from where the last episode was aborted. This is in the area of import liberalization. In particular since many items scheduled for liberalization from 1983 (and those earlier which were re-restricted) were never implemented, the starting point were these. The entire list was classified into 3 groups A, B and C aside from those which were liberalized between May 1986 to April 1988. What is important to note is the arbitrariness of the lists where A is scheduled for liberalization by June 1989, B where decisions have to be made in 1989 and C which are for continued regulation. For example the latter mixes in list dangerous drugs, chemicals for explosives and firearms with used tires and used vessels.

Its early implementation in 1986 triggered much public debate especially given the new-found democracy restored by the new regime. In addition the government conducted lengthy public hearings to hear views from those opposing or benefiting from it. These means were not formal mechanisms of lobbying and thus appeals for delay or exemption were coursed through the trade minister. In the end the program was executed with full transparency.

The principles governing timing and sequencing however failed to be carried out well. In some cases temporary tariff protection could not be provided at the same time as the liberalization. Or some final products were liberalized ahead of their inputs. Or unnecessary items were also liberalized early (e.g. apples, oranges, etc.).

In the early attempts at trade liberalization consistency in the process of carrying it out prevailed. In particular despite clamor for reversal in some cases (e.g. apples), the government did not accede and only allowed health regulations to minimize imports.

At the start of the current liberalization drive, the exchange rate was, by most quantitative estimates, overvalued.[6] Yet it moved imperceptibly as more imports were allowed. Thus a trade deficit opened up in 1987 as the economy picked up.

The changes in the tariff rates occasioned by the liberalization distorted the structure of tariffs that had been completed as part of the 1986 Tariff Reform Program. And because of the inter-industry nature of the products involved, further distortions took place.

The new regime took 2 steps to address these problems. First minimum tariff rates were set at 10 percent and this affected products originally restricted for which tariff rates were zero. Second the tariff structure was reviewed looking into the number of levels, maximum and minimum rates, and criteria for adjustment.[7]

After internal consultations within government and public discussions, the government defined a quantitative criteria for tariff setting and allowed higher tariffs under specific settings (100 percent) and zero for basic inputs.[8]

Industrial rationalization programs of government have also constrained the current trade liberalization efforts. More specifically, progressive manufacturing programs, or local content requirements of industries provide a rationale for protection. This is where the connection between trade and industry lies. This has been the constant source of tension and disagreements in Philippine economic policy and decision making.

3.3 Current Progress

After Congress was restored through elections in 1987, another arena was added for the trade liberalization debate. Congress asserted its right to determine tariff policy by modifying administration bills to allow tariff rates at 100 percent (which the President vetoed), delaying action on tariff changes, and conducting public hearings.

In addition the submission by the Philippines of a new Memorandum of Economic Policy (or Letter of Intent) to the IMF in mid-1989 to cover the period up to 1992 created new (more binding) parameters to the country's trade liberalization drive. In fact the government succeeded in putting off complete import liberalization till 1994, reduced the number of items to be liberalized by 1989, and began a monitoring system for imports managed by the Trade department.

The Memorandum of Economic Policy (MEP) effectively displaces the current economic agenda of government embodied in its Medium-term Philippine Development Plan. And because the MEP is generally confined to financial programming, its internal consistency with the Philippine Development Plan is now subject to question.

Congress has also been agitating for legislative investigation into the import liberalization program and the whole notion of trade policy.

Apart from Congressional assertion of trade policy and liberalization and that related to the MEP, several interrelated moves have a bearing on the country's ability to maintain trade liberalization. First is the current review of tariff setting which has reopened the possibility of wider tariff rate dispersion, lower floors and higher ceilings despite attempts to keep the criteria precise. This review of tariff setting has put one foot of protection seekers into the door of trade policy. There is perhaps a reason for this. Recall that in the 1980 trade liberalization there was very little policy debate about the tariff changes. However to open this up again will in some sense be a reversal. What is needed is to keep an open debate of the rationale for tariff reform.

Second is the current Congressional (Senate) interest to revamp the Investment Incentives Act (Executive Order No. 226) to be more responsive to country concerns of poverty and employment generation and investor concerns of maximum foreign equity and land ownership. The investment priorities plan is also being examined with a view to setting towards a stronger industrial base. This review will ultimately impinge on trade liberalization and what alternative paths it would take. It is part of the investment code to restrict imports as among the incentives provided.

Third is the series of industry rationalization programs encouraging the development of Filipino industries via a combination of trade restrictions and incentives. Conveniently used in the past for objecting to trade liberalization, closer scrutiny of the programs may or may not widen the scope for trade reforms. "Progressive manufacturing programs" is a form of picking winners and as long as the criteria for selection is vague or not rooted in the country's potential comparative advantage, the room for including many industries or products is always large.

Then when decisions are up as to whether a list of products is to be freed from import restrictions, the vague notion of rationalization will always be raised as basis for delay or exemption from trade liberalization. In short, without a clear-cut understanding of what can be internationally competitive, this move can derail an appropriate trade reform.

Fourth is the slow developments in the Uruguay Round of Multilateral Trade Negotiations (URMTN) which has encouraged Philippine trade officials to seek more bilateral arrangements, withhold further liberalization, and seek credit for past tariff reductions. More importantly, the continuing friction among developed countries on trade liberalization has increased the Philippines' resolve to postpone trade reforms until breakthroughs are accomplished on important negotiating areas (e.g. agriculture).

Then there is the attractiveness of managing trade exemplified by creating a Philippines Inc. composed of industry task forces which map out the array of products to be traded. The contention here is that as long as unfilled quotas are known or that markets exist that the Philippines can supply, the industrial response can be generated. This is a move that is analogous to the Japan Inc. of managing trade. As in the move towards industry rationalization, this method also opens wide possibilities of putting trade liberalization on hold, limiting products for open trade and rationalizing restrictive policies.

4.0 Some Factors of Sustainability

In this section, lessons are drawn out from the various episodes of trade liberalization in the Philippines in terms of what would have led to their sustainability or prevented their failures.

What seems technically paramount to sustaining trade liberalization in the Philippines is its acceptance as an integral part of an overall package of structural reforms and not an isolated task of freeing imports and exports from bureaucratic restrictions. Trade liberalization, in this context, is an important aspect of restructuring the economy. In fact emphasis on the policy package has always been the theme of the current attempts at trade reforms. However given the present dislocation of policies in the light of the MEP it is doubtful whether sustainability let alone success can be achieved. The present attempts (at liberalization) have lost its being an integral element to the structural nature of the package of policy reforms. If liberalization is to take root, the rest of the package (incorporated in the government's economic agenda) has to be taken into account.

On hindsight, it is equally doubtful if the Macapagal liberalization would have been sustained (had he been reelected). For one, decontrol was not part of a larger package of reforms and even trade liberalization was viewed as a political act and not as a basic economic policy. For another the regime then had no knowledge of the implications of the ad hoc tariff changes it instituted on the overall economy or the specific trade and industrial sectors. Indeed other than removing large import premia enjoyed by licensed importers, the import-substitution structure of the economy remained intact. And then there was no broad-based institutional reform to provide the stimulus to real economic change (e.g. land reform or agricultural modernization).

It is clear that there are inherent self-limitations to trade liberalization when removed from overall economic reforms. Whether it was in the 1962 episode or the current attempts ignoring the simultaneous pursuit of other economic policies will definitely limit a liberalization's sustainability.

While trade liberalization means setting prices right, its long-run sustainability depends not on whether prices are right but whether they are rigid. Changes in the price ratios between tradeables and non-tradeables are the trigger that accompany liberalization. But if once the initial right prices settle, they are maintained (because they were right at the start), its sustainability is imperilled. For instance in the Macapagal decontrol, prices became rigid a few years after either through tariff rate adjustments or keeping the exchange rate overvalued (the former having a non-neutral and the latter neutral effect on prices). Then there is the question of whether all prices are set right or are these just the trade prices. Setting prices right then becomes a necessary but not sufficient condition for the sustainability of trade liberalization.

Trade liberalization puts the prices of traded goods right but its sustainability will require accompanying policies also to set prices right if the suggested all-prices-right are too tall an order. This is the specific exchange rate changes that is important to it.

One important factor to the sustainability of trade liberalization is the set of adjustment measures taken to cushion its initial negative effects. These range from foreign exchange requirements to support possible import surges to temporary employment programs. The extent to which these adjustment measures are availed of depends on the success of the liberalization itself. Indeed there may be no need for them if the policy strategy is effective. Thus in the 1962 episode, adjustment contingency was unused.[9] On the other hand for both the 1970 and 1980 episodes, the adjustment resources were fully used.[10]

Then when trade liberalization becomes part of an overall package, the adjustments take on a larger context. In the 1980 episode, the adjustments also included modernization programs for the textile and engineering industries which would be affected by trade liberalization. Some public infrastructure may be part of adjustments that will support old or new industries to compete internationally.

Some modicum of economic growth is probably necessary to keep the momentum of trade liberalization going. More specifically, in order to mitigate (temporary) unemployment consequences, a positive growth may be a more efficient way of attaining adjustment. After all, in a country like the Philippines where there is a large pool of unemployed, and a regular increase in the labor force every year, some growth in the face of the impact of trade liberalization will facilitate adjustment to a new situation. In fact it may be difficult for liberalization to be acceptable in the context of unemployment and no growth.

Removing the source of distortion in the external sector specifically and in the overall economy more generally will contribute to sustaining trade liberalization. To correct one distortion with another distortion will not solve the problem. The 1970 episode is a case in point. The provision of export incentives and exchange rate adjustment in the restrictionist regime isolated the policy of trade liberalization on a circumscribed area (e.g. bonded warehouses, processing zones) from the rest of the economy which continued to suffer from the distortions. In the 1962 episode, the source of the distortion was clearly the licensing system (which was removed) and the unrealistic exchange rate (which was adjusted).

In terms of the details of implementing trade liberalization, it may be important to pay attention to timing and sequencing issues. If the program is liberalization of import restrictions some principle has to be followed in the order by which products are to be liberalized. For example, inputs have to be removed from the restrictive list first before outputs. And since exports are competing abroad, they also should be ahead in the liberalization process. But this will hold true only if there is a phasing of the liberalization (as in the current drive) but not if the policy is immediate (as in the 1962 decontrol).

A stable economic and policy environment is also essential to sustaining trade liberalization. This means the more general macroeconomy parameters and the ability of the policy regime to be consistent in policy decisions. Underneath the notion of a stable economic environment is the condition of the potential gainers and losers from trade liberalization as well as broad income and wealth distribution. Not in any of the liberalization episodes has the environment for gainers and losers been evaluated in the Philippines. It is not so much the strength of the ones affected by liberalization but the stability of the groups that would keep the debate open at high level and not deteriorate into chaos.

Relatedly, the initial conditions of the internal and external economies would be relevant to making trade reforms work and sustaining it. Since trade liberalization is a jolt in the system, conditions must be such that adjustments are smooth in the internal and external environment at the start of the policy implementation. For example the 1980 reforms had difficult initial conditions to begin with both domestically and externally. The likelihood of not sustaining it and in fact reversing it was very high. The 1983 crisis simply facilitated the failure of the 1980 trade liberalization.

What seems to be politically paramount to sustaining trade liberalization is the political expediency of the policy. For instance it was easy for the early Marcos era (1966) to continue liberalization but at the same time begin his own program of economic policies (e.g. rice and roads, increasing fiscal deficit) without understanding the need to maintain consistency between the two. Witness then the exchange crisis in 1969. And of course the earlier 1962 decontrol was couched in political terms expedient to Macapagal in gaining ground that the earlier President Carlos Garcia had likewise (partially) exploited.

That Macapagal pursued decontrol as a political agenda suggests he had anticipated positive results even though he had a more radical solution for decontrol.

That Marcos followed it (but at the same time crafted a banner issue of rural development) equally suggests he had perceived the liberalization to have endowed positive results. The expediency of pursuing variations of the same theme means liberalization had impact. Internal inconsistency however created the problem for sustaining it.

In other words, as long as there is a political reason i.e. that there are constituents for the policy move, it will be taken. But the building of a strong constituency for trade liberalization needs a process of appreciation understanding and convincing.

Combining technical and political dimensions, sustaining trade liberalization requires explicit transparency in the debate and policy decisions. When pursued in the light of a strong political leadership, sustainability appears to be half-attained. It is true that the 1962 decontrols did not have either the transparency nor debate accompanying the policy. But they were the basic political issues. If the swift decontrol instruments were taken it is clear they had had the benefit of arguments one way or the other especially during the presidential campaigns. The early 1986 import liberalization also had the same level of transparency and debate where losers and gainers, users and producers, had equal access to public policy hearings. And when all is said and done the policy was pursued firmly. Contrast the lack of transparency in the 1970 and 1980 episodes and one finds unsettled lobbying on the basis of access to the powers-that-be and not on the basis of quantitative and qualitative assessment of merits. Thus it was easy for policy makers to reverse policies, discriminate the effect of them and perhaps even sell them.

Finally it is important that any liberalization policy is perceived to be an indigenous decision, arrived at by Filipino policy makers and a Filipino political system. The extent to which there is prodding by multilateral or bilateral partners (especially in ex ante sense) dilutes the potential sustainability of trade liberalization. Constituency formation is behind the reason for a decision formed out of own-understanding of the economic problems. Congruency can be admitted but attribution must be national.

5.0 Conclusion

Trade liberalization as a policy will always be a contentious subject. This can be gleaned from the historical experience of the Philippines. And one reason is that among all policy instruments with the most far-reaching effects on the economy it is perhaps trade and industrial policy that matters. There are thus two stages in its implementation. The first is the process of starting and succeeding in it. The second is the process of sustaining it.

There will also always be constituents and strong adherents for or against trade liberalization or wider trade reforms. Success in starting it requires the creation of an atmosphere in which the various interest groups surface in open debate. Even more important is a political mechanism and will for sorting out the debate and arrive at a definite policy direction. There is no question that the 1962 decontrol benefited from this atmosphere where it was the central political issue of 1961. Then when decisions were made there was a social support for it (though feeble opposition remained).

There are of course limitations to the scope of trade liberalization and in this paper emphasis was made on seeing it as part of a larger package of economic reforms. This is a critical technical matter. What is important for starting it is an active participation, in as transparent a debate as possible, of various interests--exporters and domestic-demand producers, nationalists and internationalists, protectionists and free traders, corporate leaders and poverty groups--towards a full understanding of the policy in the short and the long run and the factors associated with its success and sustainability. The 1986 liberalization benefited from this although eventually nullified somewhat by lack of policy coordination in the government.

Once trade liberalization initially succeeds (in the sense that restrictions are eliminated) sustaining it becomes a more telling task. For one the losers will emphasize their injuries while the gainers will minimize their profits and the debate is re-opened. For another lobbying will intensify aiming to reverse policy, delay it or terminate it. And then as short-term costs and injuries are magnified, long-term benefits become hazy, and improvements speculative, its constituency erodes.

In the end, sustaining trade liberalization and reforms in the Philippines involves a trade-off among the various interest groups, between short-term and long-term and between comparative advantage (both actual and potential) and self-sufficiency. Sorting out these issues is an economic matter. Adjusting through them and arriving at concrete policy decisions is a political matter.

This paper has identified a number of factors of sustainability. It is important to pay attention to them as trade liberalization is considered, implemented, and sustained.

FOOTNOTES

1. Under a small-country assumption, trade that is liberalized simply means that domestic and international terms-of-trade between tradeables and non-tradeables are identical. In reality however where tariffs and transport costs do prevail, there is bound to be deviations between domestic and international terms-of-trade.

2. The discounted present value of the balance of trade is supposed to be greater under a liberalized regime than otherwise.

3. In the General Agreement on Tariffs and Trade (GATT), member countries like the Philippines (which acceeded in 1980) are not really expected to free their trade but commit to non-discrimination, and transparency in protection. See F. Alburo, E. Medalla, and F. Pante, "Philippine Trade Policy Options," in M. Ariff and Tan Loong-Hoe (editors), ASEAN Trade Policy Options (Singapore: ISEAS, 1989).

4. This section borrows heavily from F. Alburo and G. Shepherd, "Liberalizing Foreign Trade: the Experience of the Philippines," in A. Choksi and others (editors), Liberalizing Foreign Trade, Volume 2: Lessons of Experience in the Developing World (Oxford: Basil Blackwell, 1991).

5. By 1974, the real wage rate in the Philippines dramatically declined relative to both earlier years and her neighbors which probably increased the exports of manufactures.

6. See for example de Dios (1984).

7. Instead of complicated tariff rates, the levels were in 10 percentage points from 10 to 50 percent. While this simplified the rates, the room for tariff escalation for integrated manufacturing processes (e.g. steel industry) became narrow and thus required intermediate rates.

8. The government adopted the domestic resource cost (DRC) concept as the major criteria for determining whether protection should be given a product and a modified "critical price" measure as basis for the needed tariff level.

9. It has already been noted that the initial IMF Stand-by Arrangement was not availed of nor was the US contingency debt used.

10. This included IMF Stand-by, policy-based loans and the specific structural adjustment loans.

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