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EC 1992: ITS IMPACT ON TRADE AND INVESTMENT IN THE PHILIPPINES

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1. INTRODUCTION

Economic integration refers to the reduction of economic barriers between a group of countries but not between those countries and the rest of the world. Internal economic integration can take on several forms representing different degrees of integration. These are:

Free Trade Area: Countries eliminate tariffs among themselves but maintain their own tariffs against the outside world. E.g., European Free Trade Area (EFTA)

Customs Union: Countries agree not only to eliminate all tariffs among themselves but also to form a common tariff against the outside world.

Common Market: Countries go beyond the requirements of a customs union for goods by removing restrictions among themselves on the international movement of factors of production. E.g., European Economic Community (EEC)

Economic Union: Countries proceed further to unify their fiscal, monetary, and socioeconomic policies. This is what the European Community (EC) is ultimately planning for in the 1990s.

The theory of a customs union is used in analyzing the effects of economic integration. The literature on this tells us that integration can lead either to trade creation or trade diversion. It gives rise to trade creation by increasing imports from a partner country. However, if the price of imports from the partner country is higher than that in the rest of the world, trade diversion occurs. This is necessarily inefficient and involves price discrimination which results in a deadweight loss. Trade creation is beneficial while trade diversion is harmful. Therefore, economic integration can either improve or worsen the allocation of resources depending on which one of the two opposing effects dominates.

One of the most recent developments in Europe is the plan to form a single market in the 1990s. This plan entails the removal of all remaining obstacles to trade in goods, services, and capital as well as the free

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movement of labor within the European Community. This paper tries to assess the impact of the economic integration that is taking place in Western Europe on a developing country like the Philippines. Ours is a small economy whose growth depends to a large extent on foreign trade and investment. The present study focuses on the effects of the formation of a European Single Market on Philippine trade, particularly on the country's major exports such as garments, electronic components, and agricultural products.

Section 2 of this paper describes what the European Single Market is. Section 3 gives a background of EC-Philippine trade and investment relations. Section 4 analyzes the possible effects of the European Single Market on the trade and investment relations between the Philippines and the EC. Section 5 summarizes the findings and outlines the policy implications of the study.

2. THE EUROPEAN SINGLE MARKET

An Overview

Through a treaty signed in Rome in 1957, six nations of Continental Europe (West Germany, France, Italy, Belgium, Luxembourg, and the Netherlands) formed the European Economic Community (EEC). In 1973, the United Kingdom, Denmark, and the Republic of Ireland joined the Community while Greece joined in 1981, and, more recently, Spain and Portugal. After 32 years, the Community was already a common market; internal tariffs were abolished and a common tariff towards the outside world was adopted. However, protectionist measures such as those that are physical (stoppages at intra-EC customs posts in geographical frontiers), technical (restrictions that operate within national territories), and fiscal (value-added tax or excises on goods imported from other EC countries) barriers to trade still persisted, and, in many cases, these barriers were proven to have distorted trade expansion among member states.

Combined with its protected markets, Western Europe was greatly alarmed in the early 1980s by the spread of a new disease called "Euroschlerosis." During this period, EC faced slow growth, high inflation, unemployment, and weaknesses in its key high-tech sectors. These conditions prompted the EC to propose the deregulation of industry and finance. Many believed that the creation of a single European economy might be the best way to increase the competitiveness of European firms and to address the challenge posed by Japanese, American and the newly industrialized countries' (NICs) firms.

In 1985, an EC Commission White Paper entitled "Completing the Internal Market" came out, outlining in minute detail 279 directives and guidelines to remove the barriers still existing in the Community. This paper intended to implement a genuine common market by liberalizing trade in goods and services and allowing the free movement of labor and capital among the twelve EC member states. In 1987, the Single European Act was signed and this specifically provided for the Community to adopt measures to complete the internal market over a period set to expire on December 31, 1992. Furthermore, accompanying measures were added on the monetary, income distribution, research and development, and social areas.

The European Single Market

The main features of the European Market Program[1] are:

- The removal of the remaining disparities in import and export arrangements and the design of a unified procedure to simplify trade with third countries.
- A mutual recognition of technical regulations, standards, tests and certificates.
- The opening up of public procurement to all firms established in the twelve European subsidiaries of foreign firms that will have the same access as European companies.
- The liberalization of the movement of capital in a nondiscriminatory fashion.
- The liberalization of financial services. Banks from third countries providing EC banks with national treatment and effective market access will now be able to enjoy the same treatment as EC banks.
- The strengthening of competition policy, in particular, a tighter rein on national "state aids" to businesses.
- The liberalization of transport, telecommunication and information services.

Europe as a single entity will represent a market of 320 million people, placing it on the same footing as the US and Japan combined and controlling 40 percent of world trade. A recent study (Cecchini Report) showed that the Program, if fully implemented, will represent an economic growth in the community of between 5 and 7 percent of the EC's Gross Domestic Product (GDP), five million new jobs, and a decline in consumer prices of by as much as 6 percent. Moreover, the removal of physical, technical and fiscal barriers would heighten competition and lead to four major benefits:

- a significant reduction in costs due to a better exploitation of economies of scale;
- improved efficiency, and a rationalization of industrial structures and prices which are closer to production costs;

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1. Statement of Mr. A. Matutes, EC Commissioner for North-South Relations.

- adjustments between industries as a result of the fuller play of comparative advantage in an integrated market; and
- a flow of innovations, new processes and new products, stimulated by the dynamics of the internal market.

There is no denying that the march towards 1992 is on, although there are many difficulties in the process. To date, the Community's Council of Ministers and the European Parliament have adopted more than 70 percent of the directives and regulations forming the internal market. Despite this delay, the EC has already removed many physical and technical barriers to trade. Exchange controls have been lifted in most European countries, although fiscal barriers to trade still remain a problem.

Both European and foreign companies are making adjustments and anticipating the challenges. A wave of mergers, combined with an upsurge in capacity-expansion and R&D investments, is currently taking place. The number of mergers and acquisitions made by Europe's top 1000 companies increased dramatically from 303 in 1986-87 to 622 in 1989-90.

Two Viewpoints

The assessment of the effects of the European integration is complex and difficult. Two opposing schools of thought are emerging from the discussions. On the one hand, there are those who think that the abolition of all obstacles to trade in goods, services, and capital will reinforce existing barriers towards non-EC members and lead to the creation of new ones. The abolition of EC internal barriers to trade may be achieved at the price of higher protection against nonmembers. Moreover, with the accession of Greece, Spain, and Portugal, these are likely to put up a strong resistance to increased imports from developing countries since they are competing with them with similar products such as leather, footwear, textiles, clothing, and steel. In the field of investment, there is also the possibility that European investment in third countries can be diverted to the EC's own low-cost member countries in Southern Europe. Finally, access to the benefits of the single market may be made conditional on the treatment afforded to EC firms outside the Community. This reciprocity approach to trade will result in the strengthening of trade blocks and will increase trends towards bilateralism in international trade negotiations.

On the other hand, there are those who think that the harmonization and liberalization of Europe will, in the end, lead to positive results such as greater prosperity and significant gains in terms of GDP growth, lower prices, and higher volumes of trade. This implies a higher demand for imports by the EC and hence, a bigger opportunity and favorable repercussions for third countries' exports. Moreover, the harmonization of national regulations, standards, and procedures for testing, certification, packaging,

aging, advertising, labelling, processing, veterinary, and phytosanitary controls will allow the free circulation of all products that comply with EC standards. The mutual recognition of each member state means that a product acceptable for sale in one country should be acceptable throughout the Community. This implies that if existing standards in one EC country are met, then that would be sufficient to gain entry to the markets of other member states.

Reactions from EC Trading Partners

Though aware of the positive effects, ASEAN trade officials are wary of the outcome of EC 1992. In the recently concluded colloquium on "ASEAN and Europe 1992," trade ministers from Indonesia, Malaysia, and Singapore expressed their apprehension over a unified market turning more self-reliant and self-centered and strengthening trade barriers to compensate for higher market competition. Cited was a study conducted by Hiemenz and Langhammer (1988) which concluded that EC economic integration would only be attained at the expense of more discrimination against suppliers from non-EC countries which include the ASEAN.

Meanwhile, the European Commission has continued to reassure the rest-of-the-world that (1) the Community does not intend to build a "fortress Europe," (2) the Community will remain an open economy, and (3) the economic gains resulting from the creation of the internal market will benefit everybody. Nevertheless, these do not dispel the concerns and fears among EC trading partners who are still awaiting more concrete signals that the EC is indeed committed to free trade. Issues such as whether or not internal liberalization of remaining barriers will extend to the external front or whether or not the EC would seek "reciprocity" from non-EC countries by making access to the benefits of post 1992 Europe conditional on the treatment afforded to EC firms outside the Community, are still unclear. Many fear that an approach like the latter will prompt protectionist countermoves that may replace multilateral free trade with bilateral trade between large regional blocs.

Powerful economies like the US, Japan, and a few other countries (South Korea and Taiwan) have started to adapt to the changes taking place in the European continent. Together with European companies, American and Japanese firms have begun to undertake their strategies to prepare for the keen competition in 1992. The Japanese, Americans and South Koreans are increasing their presence in Europe by expanding their investments and setting up joint ventures. Apparently, Europe in 1992 and beyond is likely to be dominated by the most powerful forces. These are the ones best equipped in automation and international marketing. Companies which are not competitive on either front will fall by the wayside.

3. TRADE AND INVESTMENT RELATIONS BETWEEN THE EC AND THE PHILIPPINES

Trade

After the US and Japan, the EC is the Philippines' third major trading partner. Among EC member states, our largest trading partner is West Germany, followed by the United Kingdom, the Netherlands, and France. For the period 1975-88, the Philippines had a trade surplus with the EC, except for the years 1975, 1982, and 1983 (see Table 1).

In 1988, Philippine exports to the EC amounted to 17.65 percent of total exports (see Table 1). Our exports consist mainly of coconut oil, coconut and copra products, pineapples, tuna, wood and wood products, semiconductors, and garment manufactures. In the same year, imports from the EC represented 12.74 percent of total Philippine imports. These are composed largely of chemicals, medicines, manufacturing inputs for semiconductor devices, parts of electrical equipment, diesel engines, aircraft and aircraft parts as well as agricultural products such as milk, flour, vegetable saps, juices, and malt.

As a developing country, the Philippines is one of the beneficiaries of the EC GSP[2] scheme. Under this scheme, most of our export products can enter the EC duty-free. However, certain exceptions exist and these consist of major exports such as coconut oil (with GSP rates ranging from 2.5 to 13 percent), pineapples in syrup (10-15 percent + levy), pineapple concentrates (17-17 percent + levy), leaf tobacco fillers and binders (6 percent), cocoa butter (8 percent), and Robusta coffee beans (4.5 percent). Other important export products such as frozen, prepared or preserved tuna (with MFN[3] rates ranging from 22 to 24 percent), centrifugal and refined sugars (80 percent + levy), and fresh or dried bananas (20 percent) remain completely excluded from preferential treatment.

Except in agriculture, tariffs in the EC have generally become unimportant protectionist devices. Tropical products, in particular, remain highly protected through the EC's Common Agricultural Policy (CAP). The CAP grants price supports and subsidies to agriculture, thereby insulating this

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2. The GSP is a unilateral or non-reciprocal scheme where developed countries accord preferential tariff treatment to finished and semi-finished industrial products of developing countries. The scheme is temporary and non-binding in nature so that preference-giving countries can withdraw offers wholly or in part at a later date.

3. MFN rates are customs duties applicable to imported goods originating in countries which are contracting parties to the General Agreement on Tariffs and Trade (GATT). The GATT sponsors multilateral reduction in developed countries' tariffs on manufactured goods within the context of the MFN clause. This clause ensures that trade is conducted on the basis of non-discrimination and that all contracting parties grant to each other treatment as favourable as they give to any country in the application of import and export duties and charges. The GSP is a general waiver from the MFN clause.

Table 1
TOTAL PHILIPPINE EXPORTS TO THE EEC, 1975-1988
(F.o.b. value in thousand US dollars)

Year	Exports	% Share	Imports	% Share	BOT
1975	371724	16.20	429385	12.41	-57661
1976	484092	18.81	438014	12.05	46078
1977	581212	18.45	469500	11.99	111712
1978	634121	18.52	598536	12.65	35585
1979	930779	20.13	850717	13.85	80062
1980	980781	16.95	827532	10.71	153249
1981	926896	16.19	819108	10.31	107788
1982	728061	14.50	813932	10.62	-85871
1983	816022	16.30	879860	11.75	-63838
1984	682991	12.67	674099	11.11	8892
1985	648377	14.01	433246	8.48	215131
1986	913990	18.88	586682	11.28	345308
1987	1082243	18.92	781872	11.61	300371
1988	1248917	17.65	1039855	12.74	209062

Note: % Share refers to Exports or Imports divided by Total Philippine Exports or Imports. BOT refers to the Balance of Trade, i.e., Exports minus Imports.

Sources: Foreign Trade Statistics of the Philippines (1977, 1984, and 1988), National Census and Statistics Office..

sector from the effects of international competition. Its presence serves as an obstacle to our export of tropical products to the EC.

EC protectionism is more evident in the presence of nontariff barriers (NTBs). Table 2, which gives an idea of the significance of such barriers, lists the various NTBs affecting our major exports to the EC. These barriers take the form of quantitative restrictions and specific limitations such as import quota, import licensing and unspecified import restrictions.

The international trade in clothing and textiles is strictly regulated by the Multifiber Agreement (MFA). Textiles and clothing have long been declining industries in Europe. The MFA was initially conceived in 1974 and has been renewed several times to allow industrial countries to undertake adjustments.

Within the MFA, the EC's overall quota is subdivided into national quotas. There are also individual regional quotas which apply only to specific EEC member states. The restrictive and complex nature of the MFA is illustrated by the fact that aside from quotas, garments and textiles are subject to a number of other NTBs (refer to Table 2). Textile products from the Philippines have been hit by Article 115 of the EEC Treaty invoked by France, Ireland, and Spain. Under this Article, a member state can apply to the European Commission for authorization to introduce either protective measures or intracommunity surveillance measures to monitor the flow of indirect imports. Article 115 is clearly being used as a protectionist policy instrument aimed at cushioning sensitive products of the EC member states from international competition.

Investment

Historically, the US has been the country's largest source of foreign equity investment. Between February 1970 and September 1991, it posted a cumulative investment amounting to US$1,835.74 million which represented 51 percent of the total cumulative foreign equity investment. This was followed by Japan with a share of 18 percent. Its cumulative investment amounted to US$649.98 million for the same period. The EC ranked third with a share of 11 percent. It registered a cumulative investment of US$399.90 million (see Table 4).

4. IMPLICATIONS OF THE EUROPEAN SINGLE MARKET ON TRADE AND INVESTMENT IN THE PHILIPPINES

On Trade

EC-Philippine trade relations can be summed up by the continuing benefit that we derive from the EC GSP scheme on the one hand, and by the protectionist context of the existing level of NTBs, on the other. Given

Table 2
TARIFFS AND NONTARIFF BARRIERS (NTBs) AFFECTING THE TOP 12 PHILIPPINE EXPORTS TO THE EC

	Rate of duty (in %)	
	MFN	GSP
1. Coconut oil, crude	5-20	2.5-13
Oilcake and other residues of coconut	free	excluded
Desiccated coconut	2	free
NTBs: Certification requirement, import levy, import restriction, licensing, entry control measure, quota		
2. Semiconductor devices (e.g., diodes, transistors) manufactured from materials on consignment basis	14 imported	free
Electronic Microcircuits	14	free
NTBs: Bilateral quota, discretionary licensing, tripartite accord, restriction (unspecified)		
3. Lauan, red	free	excluded
Lauan, white	free	excluded
Plywood, ordinary	10	free
NTBs: Entry control measure, automatic licensing, surveillance, quota by country, marketing standard regulations, tariff quota		
4. Garments	13-14	free
NTBs: Packaging requirement, global quota, bilateral quota, discretionary licensing, testing and certification requirement, restriction (unspecified), surveillance		
5. Tuna, prepared or preserved in airtight containers	24	excluded
Tuna, frozen (except fillets)	22	excluded
NTBs: Restriction (unspecified), bilateral quota, quota, licensing, import levy, reference import price, technical requirements, tariff quota		
6. Pineapples in syrup in airtight containers	22-24+2 ADS/Z	10-10+(L), 12+(L), 15+(L)

Table 2 (Continued)

Pineapple concentrates	19+ - 42 + AGR	17-17+(L)
NTBs: Bilateral quota, licensing, additional duty on sugar, import levy, import restriction		
7. Footwear	20	free
NTBs: Bilateral quota, licensing, global quota, restriction (unspecified), Surveillance		
8. Furniture	5.6	free
NTBs: Quota by country, automatic licensing		
9. Articles of basketwork or wickerwork	6.2	free
NTBs: Discretionary licensing, quota by country		
10. Leaf tabacco fillers and binders, not stripped Virginia-type, flue-cured	23	6
NTBs: State trading, entry control measure, import levy		
11. Cocoa butter (fat or oil)	12	8
NTBs: Quota, selective internal tax, health certification, licensing, import levy		
12. Robusta coffee, raw or green, not roasted	5	4.5
NTBs: Quota by country, restriction (unspecified)		

Notes: (L) indicates that the good referred to is subject to the levy system. ADS/Z indicates that an additional duty is levied on the sugar content of the product concerned. AGR refers to levy.

Sources: GSP Scheme of the EEC for 1986, UNCTAD, 1986; DOUANES, EEC 1987-88, Brussels; Tariff Commission, Philippines.

the concern to improve Philippine export performance vis-à-vis the EC, what does EC 1992 mean to us? Does its formation represent an opportunity or threat for Philippine exports? In which product areas do we have the competitive advantage and the capacity to possibly penetrate markets?

There is a mood of both optimism and pessimism about the emergence of the European Single Market. This arises from the two opposing schools of thought earlier identified. Firms and enterprises of non-EC countries fear exclusion while others within the EC fear being forced out by

American and Japanese companies or by the larger and more powerful ones. Despite these apprehensions, there are some positive aspects which should not be overlooked. These center on two main points. First, Europe 1992 will have a combined population of 320 million people. This means a larger market which exporters can take advantage of. Europe 1992 will also result in an increase of from 5 to 7 percent of the EC GDP. In addition, five million new jobs are expected to be created, and consumer prices are expected to fall by as much as 6 percent. These will, in effect, induce a beneficial externality for exporters. Higher demand for imports by the EC implies bigger opportunities for third countries. Second, the application of common standards and regulations will benefit exporters in terms of reduced transaction costs derived from trading with a single market, instead of trading with twelve different markets with twelve different sets of national requirements.

The first point implies that, as a result of the removal of NTBs, the EC's demand for imports will expand and, hence, trade will be intensified. Opportunities for entry will increase and these will have a considerable impact on competition and product innovation. This brings us to the question: in which specific products do we expect trade and competition to be intensified? Specifically, trade and competition are expected to be intense in activities belonging to high technology, high demand industries such as office machinery, data processing machinery, telecommunications equipment, medical equipment, basic chemicals, and pharmaceuticals (Buigues and Jacquemin 1988). These are industries dominated by Japan, the US, West Germany, and, to a certain extent, the NICs (South Korea and Taiwan) since they have already acquired the necessary technology in some of these industries.

The expected rapid growth in these high technology, high volume industries would have a considerable impact on electronic components which we are currently exporting. There are substantial economies of scale to be gained from this sector. Scale economies will depend, to a large extent, on market share. At the moment, our market share is so low for us to be able to influence the market for electronic components (see Table 3). Note, however, that the more competitive environment induced by the completion of the European Single Market will most likely favor an increase in direct investment and contracted processing work in low-wage countries outside the EC. Some gains are to be expected to the extent that the Philippines can attract investments of this kind.

For mass consumer products like motor vehicles, radios, TV sets, and household equipment, as well as for traditional, low demand industries such as textiles, agro-food, beverages, and tobacco, the impact of the completion of the internal market is expected to be relatively lower. Nevertheless, the potential market that these group of products offer represents an opportunity which exporters can take advantage of. Export products of major

Table 3
MARKET SHARES OF TOP 12 PHILIPPINE EXPORTS TO THE EC FOR 1982 and 1983

(Market share is defined here as the value of EC imports from a particular country divided by the value of total EC imports from the world. The figures are in percent.)

		1982	1983
1. Coconut oil, refined other than for technical or industrial use	World	16485	20928
		(in '000 US $)	
	Netherlands	42%	36%
	W. Germany	18	37
	U. Kingdom	14	4
	Belgium-Lux.	12	13
	France	8	7
	Philippines	0.7	0.8
Coconut oil, crude for technical or industrial use	World	107099	130992
	Papua N.G.	3%	5%
	Sri Lanka	3	3
	W. Germany	2	
	Philippines	86	85
Other than for technical or industrial use	World	111648	124902
	Papua N.G.	12%	3%
	W. Germany	11	
	I. Coast	5	12
	Polynesia	3	3
	Netherlands		3
	Philippines	65	66
Oil cake and other residues of coconut	World	163212	168675
	Sri Lanka	2%	
	Papua N.G.	2	2%
	Indonesia	28	29
	Philippines	60	59
2. Electronic microcircuits	World	1989196	2656782
	US	23%	23%
	W. Germany	9	12
	U. Kingdom	8	9
	Japan		8
	France		7
	Singapore	9	6
	Malaysia	4	4
	Philippines	3	3

Table 3 (continued)

Transistors	World	297400	325508
	France	17%	17%
	US	15	13
	Netherlands	14	18
	Italy	8	8
	W. Germany		8
	Malaysia	10	7
	Singapore	3	3
	Philippines	0.7	0.7
3. Lauan, red	World	654518	915630
	Brazil	7%	8%
	I. Coast	7	
	Malaysia	36	38
	Indonesia	17	14
	Singapore	7	8
	Philippines	12	13
Lauan, white	World	334324	352803
	I. Coast	53%	52%
	Cameroon	15	14
	Gabon	8	9
	Liberia	7	8
	Congo	5	4
	Philippines	2	3
Plywood, ordinary	World	689781	819798
	Finland	16%	16%
	US	13	15
	Canada	11	10
	France	7	7
	Indonesia	5	9
	Malaysia	4	4
	Singapore	4	4
	Philippines	4	3
4. Jerseys, pullovers, slipovers twinsets, cardigans, bed jackets and jumpers, of synthetic fibers, knitted or crocheted	World	1014925	1018638
	Italy	52%	49%
	S. Korea	10	8
	Taiwan	8	9
	Hongkong	5	4
	W. Germany	3	4
	Thailand	1	1
	Philippines	0.6	0.6

Table 3 (continued)

Dresses, skirts, suits and costumes, women's, girls' and infants', of synthetic fibers, knitted or crocheted	World	380017	366637
	W. Germany	23%	22%
	Italy	10	9
	U. Kingdom	9	8
	Greece	6	5
	Hungary	5	5
	Singapore	1	1
	Thailand	0.8	0.6
	Philippines	0.5	0.3
Trousers, breeches and the like, men's and boys', of cotton, other than knitted or crocheted	World	1170068	1316968
	Bel-Lux.	17%	18%
	Hongkong	14	14
	France	7	6
	Tunisia	5	5
	Italy	2	19
	Singapore	1	1
	Philippines	0.5	0.4
Jackets, blazers and the like, men's and boys', of man-made fibers, other than knitted or crocheted	World	96095	91605
	Finland	17%	13%
	W. Germany	11	10
	Yugoslavia	9	12
	S. Korea	8	8
	U. Kingdom	6	6
	Philippines	2	–
Dresses, women's and girls' and infants', of man-made fibers other than knitted or crocheted	World	238592	270130
	W. Germany	15%	18%
	France	14	13
	U. Kingdom	13	12
	Hongkong	10	10
	Netherlands	9	8
	Philippines	0.7	0.6
Blouses, women's, girls' and infants', of man-made fibers, other than knitted or crocheted	World	380903	341400
	Hongkong	24%	23%
	W. Germany	10	12
	Italy	7	7
	France	5	5
	U. Kingdom	4	5
	Singapore	3	2
	Indonesia	2	1
	Philippines	1	1

Table 3 (continued)

Other outer garments, women's, girls'and infants', of cotton other than knitted or crocheted	World	101912	136902
	Hongkong	37%	28%
	France	9	10
	Italy	7	9
	India	7	7
	W. Germany	5	5
	Thailand	3	2
	Singapore	3	2
	Philippines	0.3	0.2
Coats and jackets, women's, girls' and infants', of man-made fibers, other than knitted or crocheted	World	230926	234340
	S. Korea	17%	17%
	W. Germany	16	15
	Hongkong	9	8
	Bel-Lux.	6	
	U. Kingdom	4	
	Yugoslavia		9
	Romania		8
	Thailand	1	0.5
	Philippines	2	2
Brassieres, manufactured from materials imported on consignment basis	World	173721	191870
	Austria	14%	14%
	France	12	13
	Hongkong	9	8
	U. Kingdom	9	8
	W. Germany	7	6
	Thailand	1	1
	Philippines	4	5
5. Tuna, frozen (except fillets)	World	136319	138048
	Spain	28%	29%
	Australia	7.9	7
	S. Korea	4	
	I. Coast		8
	Singapore	1.2	3
	Indonesia		1
	Philippines	7.7	6
Tuna, prepared or preserved in airtight containers	World	152944	188795
	I. Coast	30%	29%
	Senegal	24	27
	Japan	9	6
	Italy	4	–

Table 3 (continued)

	Portugal	4	-
	Philippines	4	5
6. Canned pineapples	World	31410	34280
	I. Coast	28%	18%
	Kenya	15	21
	S. Africa	9	11
	Martinique	6	-
	Swaziland	-	8
	Thailand	-	5
	Malaysia	-	5
	Philippines	11	13
Pineapple concentrates	World	27851	37390
	Netherlands	19%	
	Kenya	17	16%
	Brazil	15	14
	S. Africa	11	10
	Thailand	0.6	2
	Philippines	15	11
7. Footwear with outer soles and uppers of rubber or artificial plastic materials	World	576360	531892
	Italy	57%	54%
	France	8	7
	Taiwan	8	11
	Hongkong	3	5
	S. Korea	3	-
	U. Kingdom	-	4
	Philippines	-	0.1
with uppers of leather or composition leather and outer soles of rubber	World	2529554	2860085
	Italy	58%	57%
	Spain	8	8
	France	4	4
	W. Germany	-	4
	Austria	3	4
	Portugal	2	-
	Philippines	0.04	0.04
with uppers of textile materials and outer soles of rubber (excluding sports footwear)	World	118496	135818
	Italy	29%	25%
	France	13	12
	Taiwan	12	14
	Spain	10	10

Table 3 (continued)

	S. Korea	9	11
	Philippines	0.6	0.8
8. Furniture, n.e.s., of rattan	World	60464	66317
	Italy	35%	32%
	Spain	8	8
	Ireland	7	–
	W. Germany	–	5
	Philippines	6	6
	Thailand	–	12
9. Articles of basketworks, or of wickerworks,n.e.s.	World	91047	66317
	China	49%	45%
	Yugoslavia	9	9
	Romania	9	11
	Spain	4	5
	Netherlands	–	4
	Philippines	4	3
10. Leaf tobacco fillers and binders, stripped, Virginia-type, flue-cured	World	615055	785006
	US	36%	34%
	Brazil	13	14
	Zimbabwe	13	12
	India	7	7
	Malawi	–	4
	S. Korea	4	–
	Thailand	4	3
	Philippines	0.9	1
Leaf tobacco fillers and binders, native, not stripped	World	242425	272772
	US	37%	36%
	Brazil	17	–
	Zimbabwe	11	16
	Zambia	6	–
	S. Korea	4	–
	Canada	–	4
	Malawi	–	4
	Thailand	1	0.3
	Philippines	2	0.4
11. Cocoa butter (fat or oil)	World	434988	490585
	Netherlands	40%	41%
	W. Germany	12	16

Table 3 (continued)

	Brazil	13	10
	Ghana	7	-
	I. Coast	5	5
	Nigeria	-	8
	Malaysia	2	1
	Singapore	1	1
	Philippines	0.2	-
12. Robusta coffee, raw or green, not roasted	World	3626870	4169375
	Brazil	23%	24%
	Columbia	21	20
	I. Coast	9	9
	E. Salvador	4	-
	Uganda	-	4
	Cameroon	4	-
	Kenya	-	4
	Indonesia	2	2
	Philippines	0.1	0.3

Source: Possibilities of Securing Trade Concessions from the GATT NRMTN, Tariff Commission (figures were derived from the Analytical Tables of Foreign Trade, EUROSTAT 1982 and 1983).

interest to us belong to the latter category, i.e., traditional, low demand industries like agricultural products and garments. Both are currently subjected to the EC's long-standing policies: the CAP for agriculture and the MFA for garments and textiles. The EC White Paper has been silent on these issues, although their existence is clearly incompatible with the abolition of all intra-Community barriers. Many believe that the removal of all price supports in the agricultural sector is politically implausible. In the case of garments and textiles, the MFA, which expired in 1991, was renegotiated to extend until the end of 1992. The present MFA has introduced some flexibility by allowing exporters to transfer between different member states' quotas. There are talks that the EC will replace the present MFA quotas, which are negotiated on a country-by-country basis, with a Community-wide system. The issue then boils down to whether or not the new system would be more liberal than the previous MFA.

Other major Philippine export products to the EC consist of furnitures, handicrafts, and wood products. Though the removal of NTBs in these industries would affect growth, one has to consider that differences in regional consumer tastes are likely to play a key role too. These industries are characterized by high product and high consumer differentiation. As such, economies of scale are expected to be low.

Table 4
CUMULATIVE FOREIGN EQUITY INVESTMENT BY COUNTRY
FEBRUARY 1970–SEPTEMBER 1991
(In million US dollars)

US	1835.74
Japan	649.98
Hongkong	254.36
Netherlands	154.37
United Kingdom	129.72
Switzerland	79.59
Australia	65.89
Canada	52.83
France	44.22
Nauru	10.07
West Germany	38.26
Sweden	38.56
Panama	23.49
Austria	18.04
Singapore	35.88
Denmark	19.40
Luxembourg	13.93
Malaysia	11.42
Bahamas	8.46
New Hebrides	8.21
Bermuda	9.89
South Korea	37.29
Taiwan	32.13
Others	58.70
Total	3630.11

Note: Figures may not add up to totals due to rounding.
Source: Central Bank Required Foreign Equity Investment.

The next question pertains to market access. Do we have the capacity to take advantage of the large market? This capacity would depend on whether or not we are able to meet high quality EC standards. To gain market access, our exports would have to fullfil strictly the requirement demand in the EC and would have to compete with EC firms such as those from Italy, West Germany, and France, and with those from low-cost countries like Spain, Portugal, and Greece. These countries are our competitors in garments (Italy, West Germany, France, Portugal), tuna (Portugal, Spain), footwear (Italy, France, Portugal, Spain), and furnitures (Italy, Spain). (See Table 3 for the respective market shares.)

While exporters of powerful economies are confronting the challenges of 1992 by increasing their investments in Europe, for us, this is not a possible option considering our level of development. For most Filipino manufacturers and exporters, EC 1992 presents a vague subject. This lack of awareness may be traced to the fact that many firms do not trade directly with Europe but go through international trading companies which control the import-export business. Garment exporters, for instance, do not regard the existing quotas as restrictions because they normally fall short of full utilization.

All things considered, Europe 1992 must be viewed with cautious optimism. There are some opportunities as well as potential problems, which we must be alert to. On the one hand, the EC's CAP still poses an obstacle to our exports of tropical products. With talks of replacing the present MFA with a community-wide system, the issue at hand becomes a question of whether this will be more liberal than the previous one. On the other hand, EC 1992 offers some potentials in terms of increased export opportunities. These are in the areas of electronic components, furnitures, handicrafts, wood products, tobacco, food, and beverages.

On Investment

Regarding EC investments in the Philippines, many expect that this will likely decline. To reduce intra-EC gap and improve the capacity of poorer regions of the EC to compete in the single market, investments are likely to flow to the Southern European countries. In addition, the recent dramatic changes in Eastern Europe are too exciting not to be included on top of the EC agenda on external economic relations. Other factors such as geographical proximity, historical and cultural similarities tend to reinforce the belief that a rechanelling of EC investments to its European neighbors is more likely to take place.

To benefit from the single market, it becomes increasingly important for foreign investments to be based in the EC prior to 1992. As earlier mentioned, the two other largest global investors, the US and Japan, have been expanding their investments in Europe. This diversion of resources to the EC will adversely affect the flow of investments to developing countries, which include the Philippines.

5. CONCLUSION AND POLICY IMPLICATIONS

EC 1992 represents a huge market of 320 million people with very high growth potentials. The Philippines has scarcely penetrated the EC market, given our dependence on the traditional markets of the US and Japan. To benefit fully from the opportunities that EC 1992 offers, we have to act now and take the initiative to diversify and start looking for fresh markets.

Europe 1992 implies that trade and market competition will be intensified particularly in high-technology sectors. This will, in effect, boost the demand for electronic components, which the Philippines is currently exporting. The removal of NTBs on our exports of furnitures, handicrafts, and wood products will most likely affect growth in these sectors. Other areas of interest to us include tobacco, food, and beverages. Note that there is one caveat here. Our main exports of garments and agricultural products are currently unaffected by Europe 1992. These products are subject to the EC's long-standing policies of CAP and MFA, respectively, although both subsidy and quota systems are incompatible with the EC plan to forge a single, barrier-free market by the end of 1992.

Recognizing the problems, let EC 1992 serve as a challenge to us. It is imperative for us to become competitive, to plan for and adjust to the new business environment. Clearly, a lot of hard work is needed for us to succeed in rising to the challenge and in seizing the opportunity from EC 1992.

It is not easy to gain access to the EC market. The risks involved are high, but once there, the rewards can be greater. To succeed, local firms have to be open to competition and learn to be more aggressive. The government can help by providing them with all the necessary support. It is crucial for firms to understand what EC 1992 is, the opportunities that it offers, and how to deal with the problems and changes that it implies. The government can help by providing all the necessary information to them; hence, it must keep up with the latest developments in Europe particularly with the technical progress of the directives. It should provide a list of the products that are subject to the harmonization of standards and regulations. It is also important to keep abreast of the developments on what these standards are, how they are applied, and what their implications on our export products are.

To ensure that our export products meet EC standards, it is also important for the government to provide reliable facilities for testing and certification of products as well as to tie up with EC agencies tasked with the same responsibility. The government can also provide support to local firms in seeking out new ways to achieve economies of scale in production, marketing, and distribution as well as in looking for joint ventures with European firms. Moreover, the government can help by promoting Philippine-EC relations, working together with ASEAN countries and linking up with other nations to prevent a world trading system that becomes more fragmented into blocks. Finally, given the present stiff competition for foreign investment, the government must do its best to attract EC investments in the country. The local firms, in turn, must adjust their business strategies to take into account new information, correctly assessing changing consumer needs in Western Europe.

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