

The Philippines at the Crossroads to Economic Globalization

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Abstract

The 21st century New Economic Order (NEO) showed higher level of economic cooperation among nations. As a norm of International Economic Relations (IER), the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) Agreement took effect in 1996. The study is a discussion of the conflict and agreement between domestic economic policies and the GATT/WTO from the point of view of Small and Medium Enterprise owners and managers. By applying the qualitative analytic descriptive method of research and the dualistic theory of international law, the study finds that GATT/WTO a) promotes fair competition, b) makes the manufacturing sector more competitive and c) boosts the economic development in the merchandising sector. The study showed that there is no significant difference between the perceptions of SMEs as regards the impact of membership of the Philippines to WTO/GATT. Being at the crossroad to economic globalization, the Philippines faces the challenges of; a) the need to highlight the congruence of national law and membership to GATT/WTO; b) putting up structures and mechanism for inclusive development; c) revisiting regional economic arrangements and d) countering regional terrorism. Nevertheless, the trajectory of economic model remains toward global trade cooperation.

Keywords

Economic Globalization, Legal Convergence, GATT, Trade Liberalization, National Economy and Patrimony

1. Introduction

Characteristics of NEO

The 21st century economic landscape is characterized by the development of a New Economic Order (NEO) of globalization. The economic order faces the challenges of trade liberalization, integration and deregulation [1]. It is the era of integrated economic interdependence [2] and vulnerabilities of integrated world economy to shocks that may take place in one region affecting the entire world economy. It is the era when the phenomenon of globalization brings about socio-economic and political challenges leading to the development and protection of individual rights including the setting up of common standards for human rights, professional behavior and technological integration. Globalization intensifies economic exchanges and economic cooperation among nation states [3]. It signals the formation of economic organizations, which provides economic arrangement said to be disadvantageous to weaker economies. Globalization is an ideological concept and is linked to political and “social imaginary” which makes social processes, norms, claims and belief system acceptable to a country as they adapt to a certain world view. It espouses the core values of global market as an inevitable destiny of every state economy resulting from its “laizzes faire” operation alongside political democracy aimed at benefiting everyone. Economic globalization is a norm of International Economic Relations (IER). It embraces all international economic laws and agreements governing economic transactions that cross state boundaries having far reaching implications for more than one State; it is intended to affect the economic behavior of a country in such a way that it would encourage open trade relationship [4].

The General Agreement on Tariffs and Trade (GATT) is one of the numerous international economic policies designed to promote freer trade [5]. It was originally conceived as a tool to rebuild domestic economy of nations devastated by the First World War [6]. To speed up economic recovery, the Bretton Woods Conference was held. The Conference aimed at developing freer trade and promoting faster face of growth among countries affected by war by establishing the International Monetary Fund (IMF) and the World Bank. The IMF and World Bank assist member countries solve their short term balance of payments (BOP) problem crucial to economic recovery. On October 30, 1947, 23 nations participated in a conference and resulted in 45,000 tariff concessions amounting to 10 billion in trade. On November of the same year delegates from 56 countries met again in Havana Cuba to draft the charter creating the International Treaty Organization (ITO). The purpose of the ITO was to monitor and implement the provisions of GATT. The creation of ITO did not materialize. Thus, the GATT remained as the only body monitoring the conduct of World Trade ensuring the process in the protection of existing rules in trade and fairness in the distribution of benefits among member countries. In 1994, the GATT in Uruguay Conference was approved containing agreement in a) Trade in Goods and b) Trade in Services. It covers the following trade areas:

“tariffs, non tariffs measures, tropical products, natural resource based products, textile, and clothing agriculture, subsidies, safeguards, trade-related

aspects of intellectual property rights including trade in counterfeit goods, in trade related investment measures.”

In 1995, the GATT Final Act was signed by 125 countries and placed the task of monitoring and supervising the implementation of agreement to the World Trade Organization (WTO). The Final Act of 1995 affirmed the; the creation of WTO, acceptance of the agreement to member state, the holding of conference after one year, and the deposit to the Director General the original copy of GATT agreement for reproduction distribution and authentication of copies to State-signatories (Final Act, 1995). The final act has the following goals a) to increase access of less developed countries to foreign markets; b) to provide opportunities to less developed countries to participate in the services sectors. Meanwhile, the GATT pushed for the following trade principles; a) Common tariff rates among member countries; b) observance of the most favored nation; and c) principle of national treatment. The GATT since then became the only trading agreement involving multi-countries promoting freer trade.

The Philippine membership to WTO/GATT began in 1996. Such membership created legal and economic controversies bearing economic and political repercussions on national economy provisions of the 1987 Philippine Constitution. The issues involved among others are: incongruence to national economic provisions, the equal treatment clause, the Filipino First Policy, its impact on the sovereign power of the State. Despite the many controversies, literature on the matter remains inadequate and the issues are left unresolved among common Filipinos. After 20 years of membership, researches on the impact of GATT to the Philippine economy are wanting. Studies on the matter are based on insights and inferences drawn from CEOs employed by corporations and technocrats serving the interests of the government. This made the perspectives of the Small and Medium Scale Enterprises' (the backbone of Philippine Economy) undocumented and their perception as to the impact of GATT/WTO membership remains unwritten if not totally neglected. It is worth noting, that the essence of globalization is how people give meaning to it, how they experience it and how they feel about it. Thus, the present study entitled “The Philippines at the Crossroads to Economic Globalization” focuses on the perceptions of SMEs owners and managers of the impact of Philippine membership to GATT/WTO to the Philippine economy as a whole and to their businesses.

The study is divided into three sections. The first section contains the discussion of the SMEs description of the impact of GATT/WTO on their businesses. It discusses the economic, socio-cultural and politico-legal impact of Philippine membership to GATT. It also includes profile of the business and how the participants perceived the effects of GATT/WTO membership. The second part compared the perceptions of manufacturing, merchandising and servicing SMEs and investigated whether there is significant difference. The last and final section is the discussion on the issues and challenges which the Philippine economy faces in regard to their membership of the GATT/WTO and the trajectory of

economic model in the Asian region and the World. Guided by the hypotheses: 1) The GATT/WTO membership positively affects the Philippine Economy; 2) The perceptions of participants SMEs are significantly the same in terms of impact of WTO/GATT to their businesses.

2. Methodology

The study applied the qualitative analytic descriptive method of research. The impact of WTO/GATT membership was measured by using the lens of SMEs and secondary data from government offices. The documents were subjected to analysis to describe their possible effects on SME operation in Cabanatuan City Philippines. It systematically and quantitatively discussed the manifest content of GATT document. Inferences are drawn from the manifest and latent contents of domestic laws and GATT agreements as well as from the responses of SME owners and managers. Using the dualistic approach to the study of international relations, its conflict with domestic laws is discussed.

A. Theoretical Framework

The study adopts the dualistic theory of international law.

This theory posits that international law and domestic law belong to two different spheres of law. By the application of “Pacta Sunt Servanda”, categorically means, “obedience in good faith” the international law finds its place within the national and domestic law. This separate dominion of international law from domestic law is manifest under Article 26 of the Declaration of Rights and Duties of states, to wit; “every treaty in force is binding upon parties to it and must be performed by them in good faith.” This implies habitual obedience of the State to international agreement. And non observance of its contents by reason of its disagreement with the domestic law is not a valid defense. Since the two laws have each own legal sphere, legal conflict is inevitable. Thus, under the same document it is clearly worded that:

“every state has the duty to carry out in good faith its obligations arising from treaties and other sources of international laws and it may not invoke provisions in its constitution or its laws as an excuse for failure to perform their duty”. Accordingly, the international law binds the national territory of a signatory state. Under article 29 of the Declaration, it states that, “unless a different intention appears from the treaty or is otherwise established, a treaty is binding upon such party in respect of its entire territory”. This is the reason why some international agreement seems to conflict with the national law of a signatory state.

In case of conflict between the two laws, the domestic law accommodates and assimilates with the international law. In the Philippines, the 1987 Constitution contains a provision which specifically accommodates international law into the domestic law sphere. It says that: “the Philippines adopts the generally accepted principles of international law as part of the law of the land ...” (Section 2, Ar-

ticle II). The Philippine Constitution not only opens the domestic law sphere to allow entry of international law but more so incorporates it to the domestic law. The reception of international law principle immediately converts foreign law into the sphere of domestic law. This is the *Incorporation Doctrine*.

The Dualist framework also receives international law by means of transforming alien law into domestic law. The 1987 Philippine Constitution provides the mechanism for transformation, to wit; “No treaty or international agreement shall be valid and effective unless concurred in by at least two-thirds of all the Members of the Senate”; in essence, there are two legally recognized ways to accommodate international law or agreement into the Philippine legal system: 1) through the Senate concurrence or the *transformation doctrine* and 2) the immediate application of the provision of Article II Section 2 or the *incorporation doctrine*. Based on the above theoretical and conceptual framework, the research paradigm is shown below (Figure 1).

The paradigm depicts the conceptual relationship between International Economic Laws (IEL) and their initial repugnance to National Economic Policy. Inherently, the paradigm depicts the different spheres of law. The domestic economic laws that are distinct and separate from international agreements and principles where the Philippine government is a state signatory. However, legal remedies are provided which *transforms* or *incorporates* the international agreement into a domestic law.

B. The Participants and Study Local

The sampling method applied is purposive sampling. The criteria of the sample population are: a) must be owner and manager of the SME; b) must be willing to be interviewed and answer the questionnaires; c) resident of the city; d) in business for not less than 5 years and e) managing a small or medium enterprise as categorized by the Trade and Investment Act of the Philippines. The researcher sent survey questionnaires via on line using facebook, email and Google account. 32 of the questionnaires sent on line were retrieved within the month of April. The remaining survey questionnaires were done using personal delivery and retrieved in May 2017. The pre-testing of the instrument was done in March 2017.

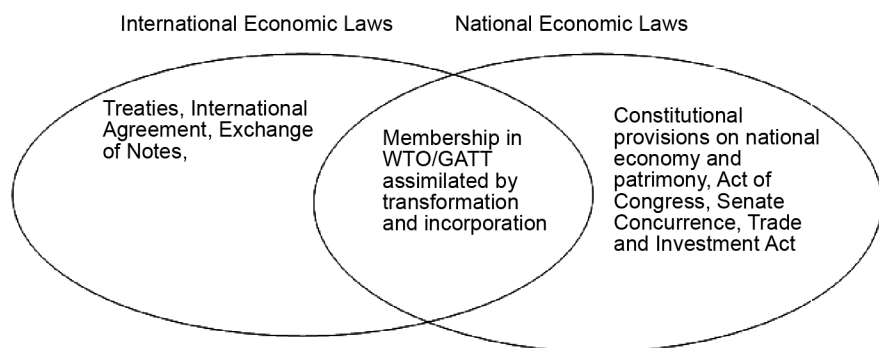


Figure 1. Economic interaction between international and domestic laws based on dualist perspective.

The participants to the study are owners and managers of Small and Medium enterprises in Cabanatuan City, Philippines. It is a first class city in Central Luzon. It is also dubbed as the gateway to the Northern Philippines as traders and commercial activities must pass through the City before they reached the Northern Part of the Archipelago. It has 15 Banks in the City and 12 Universities. It has the largest number of lending institutions and banks in the Region. Cabanatuan City has the population of 302,231 as of 2013. It has a land area of 28,275 hectares and categorized as First Class component city in terms of Income [7].

3. Results and Discussion

A) To Describe the Philippine Membership to WTO/GATT in Terms of

A.1. Economic Impact

A.1.1. Manufacturing

The Philippine membership to GATT/WTO impacts the manufacturing sector. While it is true that GATT drives production of goods because of increase market share [8]. The manufacturing sector still would have to face the challenges pose by big and multi-national industries. This is not supported by the perception of participants study to this study which shows that majority of the SMEs believed that the Philippine membership to GATT promotes fair competition. The 77 percent of the SME owners in Cabanatuan City believe that GATT promotes fair competition (Appendix). 30 percent of the respondents “strongly disagree” and 47 percent disagree that GATT promotes unfair competition”.

The perception of SMEs is supported by many studies showing that GATT increases manufacturing of organization engaged in exportation of goods but not in industries producing simple goods [9]. The modern technology biased of most multi-national corporations gives the latter the upper hand and less restrictions in terms of access to financial support to finance adoption of modern technology thereby increasing their competitive advantage [10]. Some of the respondents believe that GATT/WTO helped the SMEs by brokering fair competition.

The macro economic data supports this observation. For instance, GDP from manufacturing in the Philippines averaged 369227.07 PHP Million from 2008 until 2017 when the GATT implementation is in full swing. The Philippine GNP as per the share of the manufacturing sector would point to the indirect effect of GATT/WTO membership of the Philippines. Thus, **Figure 2** shows the economic performance of the manufacturing sector in 10 years. There is a steady increase in terms of volume from 1997 to 2017 although the performance shifts from time to time. It reached all time low in 1994 and in 1996 but picked up during the rest of the period. The performance of the manufacturing sector can be directly attributed to the GATT/WTO membership as it challenges the SMEs to compete in a fair and square dealing.

A.1.2. Servicing Sector

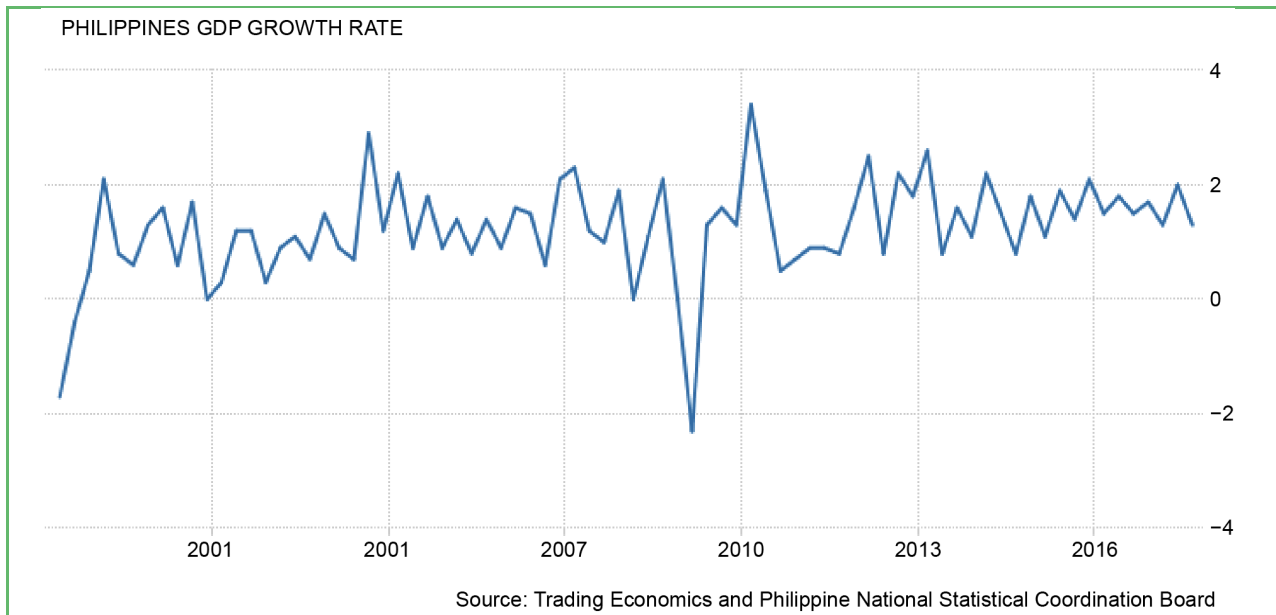


Figure 2. Philippine domestic growth rate and the share of manufacturing sector.

The GATT (Uruguay Round of Talks) has included services as part of its conditions subject to negotiations. The Agreement is also seen as a driver to increase in imports of services. In fact, there is a general objection on the inclusion of services to the agreement. It revolves around the arguments on infant industry and unfair foreign competition in regard to servicing sector [11]. Somehow, study of Bhagwari, (1987) showed that the developing countries have export advantages in export of services. This is seen in the migration trend and pattern in the Philippines showing the increasing pattern in the migration data of service providers to foreign developed countries. Data also showed that the United States of America, a developed country dominates the international market for services. The USA possesses the lion's share of the world's services exports and stands to gain significantly from lower barriers to trade in services [12]. The exports of services are viewed as an indispensable tool to internationalization. It undergoes certain stages which are considered necessary for international economic cooperation. [13] but subject to the political and economic interests of the participating countries especially in the education service industry [14].

In the case of the Philippines, and majority of SMEs considered GATT/ Membership contributory to competitive Services sector. This is supported by the findings in Nigeria [15] where trade liberalization in services is seen as a tool to reduce government control and increase private sector participation in the services market. Based on SMEs perception, 60 percent believe that globalization makes the SMEs more competitive. **Figure 3** shows the macro economic data on GDP services sector. Indicative of growth is the continued increase in volume from 2008 to 2017. It is the period when the GATT/WTO agreements are in effect. The averaged GDP from services is around 917311.25 Million from 2008 until 2017. Reaching the all time high in 2016 and a record low of



Figure 3. The GNP and the share of servicing sector.

675416.60 PHP Million in the quarter of 2008. A glance on the available record from Philippine Statistics Office, showed a steady increase in volume of GDP from services from the time the Philippines became a member of WTO/GATT. The following reveals the trend.

A.1.3. Merchandising

Meanwhile, the greater majority of the respondents or 51 percent are engaged in merchandising. *Ceteris paribus*, the economic boom in merchandising is triggered by the capital investment in real estate. According to Sajor (2003); the economic boom in the Philippines is affected by the global trend resulting in better performance of merchandising industry. It is affected by trade regime that contributes to creating opportunity, ensuring equity, and reducing vulnerability [16]. The Philippines as a developing country participating in the international economic integration has obviously enjoy advantages and disadvantages in terms of Trade Policy and Market Access [17]. **Figure 4** shows the merchandising sector performance from 1969 to 2016.

The steady increase in the performance of merchandising sector as shown by the macroeconomic data (**Figure 4**) is triggered by trade liberalization and globalization. As the respondents would say, they perceived the membership to GATT/WTO as an opportunity to improve the market share of their products if given full government structural and financial support. The open border policy helped them export products abroad and share in the economic abundance of other member countries.

A.1.4. Use of Local Raw Materials

One of the arguments against GATT is its negative impact on the preferential use of local labour and materials as mandated by Section 10, par 2, Article XII of the 1987 Constitution. As the fundamental law mandates, *Filipino labor, domestic materials and locally produced goods and adopt measure that will make them*

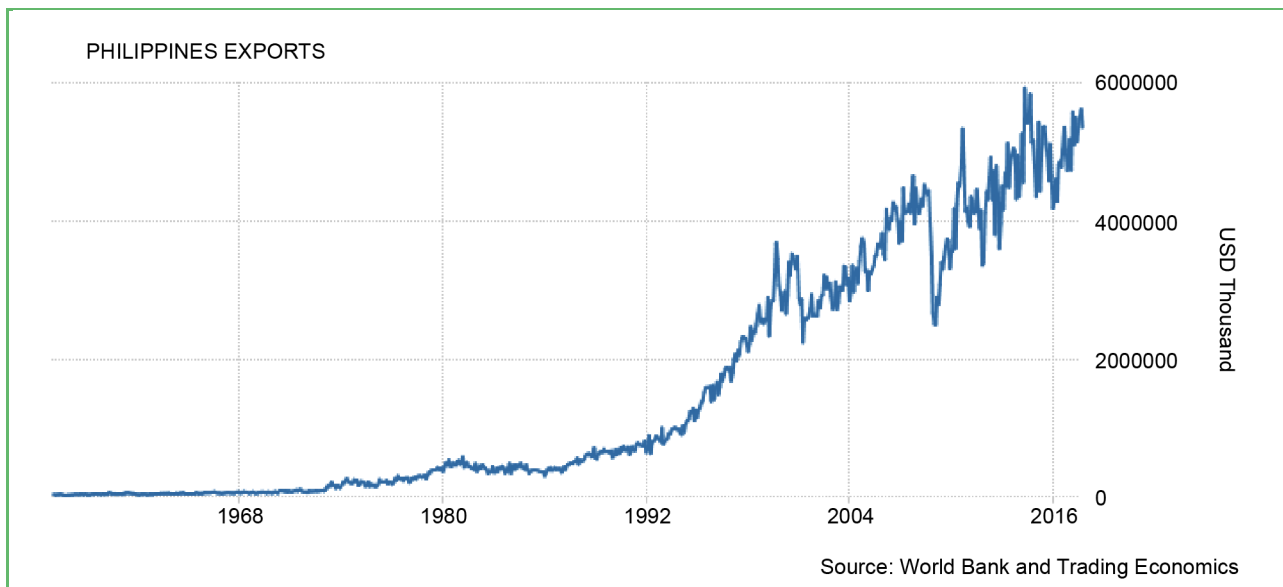


Figure 4. The philippine merchandise exports.

competitive” (Section 12, Article XII). It is argued that the transformation of GATT as an international economic agreement conflicts with domestic policy and the provision of this Constitution. The Constitution protects the economy from foreign domination. It reserves to Filipino citizens certain business or industries and mandates the use of raw local materials and ownership of domestic corporation [18]. Moreover it guarantees the preferential right to own public utility. The Constitution mandates that:

“No franchise, certificate, or any other form of authorization for the operation of public utility shall be granted except to citizens of the Philippines or to corporation or association organized under the law of the Philippines at least sixty per centum of whose capital is owned by such citizens ...”

On the point of view of SME owners and managers, the GATT failed to provide support to producers of raw materials. 58 percent of respondents believed that it has nothing to do with the performance of producers of raw materials. The opinion of the SMEs is supported by researches on the topic. The Philippines as an agricultural country produces raw materials used by industrialized country for producing finished product [19]. The performance of agricultural sector in the Philippines for as producers of raw materials could be seen to complement industries sector of the economies comprising majority of the population and accounting for a huge proportion of their export earnings [20]. The membership to the GATT/WTO liberalized trading of agricultural products or raw materials. According to Salazar *et al.* even with full participation, developing agricultural economy cannot gain from agricultural international trading. The promise of development attached to GATT is also not delivered to the agricultural sector [21]. According to Pagoso *et al.* (2013), the over dependence of the Philippines to primary products for exports ends up experiencing negative bal-

ance of trade. Similarly, Borrás Jr. (2007) believes that the GATT/WTO membership only transformed the agricultural sector from net exporting to net importing exchange. As the macro economic data on Balance of Trade suggests, even after the membership to GATT/WTO, the Philippine economic performance showed a tendency to engage in importation rather than exportation resulting in negative balance in trade. According to the Central Bank of the Philippines and Trading Economic, the Balance of Trade in the Philippines averaged at -283843.17 USD Thousand from 1957 until 2017. It experienced an all time high of 1,144,700 USD in September of 1999 and a record low of -2637938.69 USD thousand in January of 2016. The membership to GATT/WTO strengthened the country's trading relation with other countries. But as the data showed the country imports more it exports resulting in negative balance of trade payments.

A.1.5. National Economy

The aspiration of the 1987 Constitution is to establish an economy effectively controlled by Filipinos. This goal is set aside by globalization. The 1987 Philippine Constitution, in its Preamble, pronounces the importance of securing the future of the next generation Filipinos not only in terms of enriched cultural heritage but also in the area of economic security that will benefit them. Thus the Preamble of the 1987 constitution states that:

“... it will establish a government that will embody our ideals and aspirations, promote the common good ..., develop our patrimony and secure to ourselves and posterity the blessings of independence and democracy ...”

The GATT runs counter to this constitutional aspiration. Instead of the GATT ensures a sustainable enjoyment of economic prosperity to future generation Filipinos, its membership opened up the Philippine borders to the entry of competitive products and technology which would unduly restrict the Philippine products and technology to establish market share within the domestic economy. The dictum of free market economy forces local manufacturers to compete and if not ready, perish. The uncompetitive stance of the local manufacturers places them to an unfair market competition. The high cost of production inputs and backward technology drive the SMEs to participate in unequal market competition due to economic globalization. On the point of view of SMEs such argument is sound. In fact, 61 percent of the respondents believe that Globalization sets aside the establishment of national economy and the Philippine protectionist policy.

However, the apprehension is without basis. In fact, the decision making process of WTO is based on the principle of equality for it adopts “one vote one country rule’ this provides the less developed economies tool to protect their common interests vis-a-vis interest of developed countries. According to the Supreme Court; *The Preamble of WTO ensures that: a) sustainable development is a priority and necessary means shall be applied to ensure protection of the environment while maximizing the use of resources in accordance with the needs and concerns of less developed economy and the level of their economic devel-*

opment needs; b) mutually and reciprocally advantageous economic arrangements; c) eliminate discriminatory treatment on international trade relations; d) with the end in view of establishing a more viable and enduring trade relations.

It is true that the National Economy principle in the Constitution gives preference to goods, services and commercial entities produced and owned by Filipinos. This Filipino First Policy does not however prevent the country from engaging in commercial exchanges with other countries. The argument that GATT would lead to the deterioration of Philippine economy and lose its control of the factors of production is a misplaced interpretation. The GATT is full of economic measures designed to prevent economic abuses against weaker economies e.g. anti dumping measure, counter-vailing measures and the like.

A.1.6. Equal Treatment Clause

The “Equal Treatment Clause” in GATT has the effect of treating products of one contracting party imported into the territory of another contracting party to be accorded a treatment no less favourable than that accorded to the products of national origin in respect of laws, regulations requirements affecting their internal sale, offering for sale, transportation and the like.

Critiques argued that this has the effect of divesting the Philippines as a sovereign State the power to determine the rules to observe and apply to foreign imported goods. The respondents showed that 54 percent of SMEs believe that such an argument is without basis. International economic law (GATT) sets the limits on goods and products crossing borders. The GATT encroaches and divest the power of Congress of the Philippines to limit the exercise of power to tax of the President of the Philippines in regard to tariff rates, customs duties, warfage dues, import quota as well as toll fees (Art VII Section 23). In the area of Intellectual Property Rights, the same declaration is made. Thus,

“each member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property.”

Though the Constitution in most of its economic provisions shows Protectionist Policy, it however allows participation of the country in international trading. In the words of the Highest Court; *“the Constitution does not envision a hermit type isolation of the country from outside world” (Tanada v. Angara)*. The policy of “most favoured nation” and “equal treatment clause” is economic principles ensuring equality and “reciprocity” instead of unfair trade competition. The GATT encourages trade and enterprise to develop and grow under the condition of free trade and “laizze faire”.

B. Socio-Cultural Impact

B.1. Migration of Skilled Workers

The GATT encourages not only movement of goods and services but also manpower leading to “brain drain” and massive unemployment due to increase supply in the labor market surpassing the absorptive capacity of domestic economy. GATT encourages employment competition in the domestic labour

market. The competition between the Filipino labor force and foreigners within the domestic labor market would eventually increase underemployment and unemployment of citizens. The GATT as a tool for economic globalization affects the volatility of labor demand by skill.

The study showed that 59 percent of respondent-SME owners in Cabanatuan City perceived that GATT triggers migration of skilled workers to work abroad. The Philippine international labor migration for the past 20 years shows an increasing pattern. The annual migrant flows increased from 50,000 in 1975 to more than a million by the year 2005 with an average annual growth rate of 9.8 percent between 1975 and 2007. International migration pattern is attributed to several factors: a) the inconsistent record of Philippine economic growth; b) per capita income disparities; c) limited growth opportunities; d) lack of employment opportunities in the domestic market. At present, recent data showed that there are many unemployed Filipinos. Foreign investors take advantage of country's resources to the detriment of Filipino labour force who still need to migrate abroad to find better job opportunities [22]. Massive migration also creates "brain drain" in the domestic labour market specially among health care workers [23].

Figure 5 represents the macro economic data on migration which show a steady increase in the migration volume of Filipinos working abroad. The migration could be temporary or permanent. This unduly deprives the domestic economy the supply of skilled workers needed for development.

The performance in migration can be measured through the remittances from abroad. Although remittances may not indicate the exact nature of migration of Filipino workers but yet could be a basis to measure and prove the phenomenon of brain drain in so far as it is part of the impact of Globalization. From 1990 before the GATT/WTO membership, the migrants workers remittances accounted

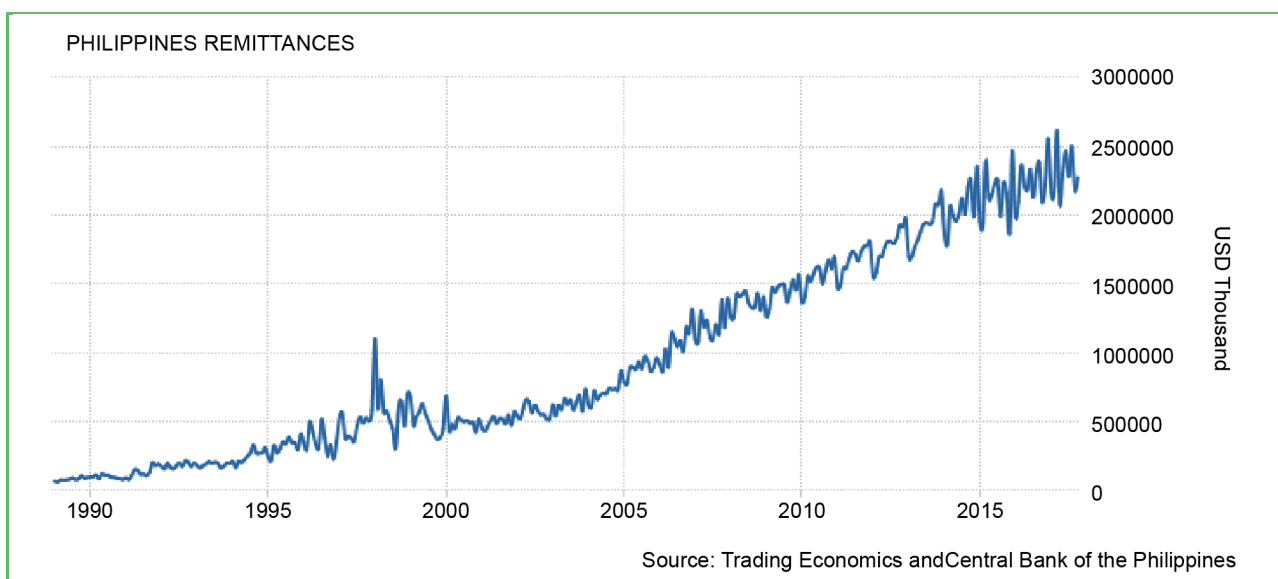


Figure 5. Migration trend and pattern.

to half a million dollars to 25 million in 2015. It increased 500 percent from the 1990 record. The increase of remittances is attributed to the increase in the volume of migrant Filipinos working abroad confirming in effect the impact of GATT/ WTO on labor migration.

B.2. Improved Quality of Life

The goals of national economy are also affected by the implementation of GATT. Section 9 article II, sets down the general direction of the Philippine Economy and the economic goals which it would like to realize. These goals are characterized by the establishment of a just and dynamic social order having as its important parameters; prosperity and independence and freedom from poverty by means of policies that provide 1) adequate social services, 2) promote full employment, 3) a rising standard of living, and 4) an improved quality of life for all. The Philippine membership to GATT WTO is an abandonment of these goals. Among the SMEs, globalization contributes to the poverty of the Filipino people. The 70 percent of the respondents argued that the introduction of GATT aggravates the poverty problem in the country. Although globalization contributes to increase in economic variables indicating development, the actual distribution of the fruits of development remains maldistributed.

B.3. Unemployment

Among the SME respondents, 70 perceived that GATT did not contribute to employment generation providing the opportunity to achieve full employment in the country. The goal of national economy is to create opportunities for the citizens to enjoy the blessings of democracy conceptually stated as an improved quality of life, a rising standard of living, and a condition of *full employment for all*. The GATT aims to encourage industries to become more competitive and produce goods and services with quality but of cheap in cost. The GATT allows the entry of quality products from abroad pushing the local industries to embrace ways and means necessary to develop efficiency in production. The Constitution discourages inefficiency while promoting competitiveness in trade. The entrance of imported goods and services competing in terms of quality against local products provides freedom of choice to the consumers challenges local industries to adopt modern and efficient methods of production. Trade liberalization helps expand foreign trade increasing in the process employment opportunities and improve labour income. All these competitive posture would increase demand for local labour [24]. **Figure 6** presents the macro economic data showing that unemployment rate decreased in the recent years, to wit.

The respondents believed that employment opportunities are provided by domestic corporations rather than international corporations triggered by Philippine membership to globalization. The increase in labour demand is brought about by a robust domestic economy driven by domestic demand for consumption.

B.4. Poverty Incidence

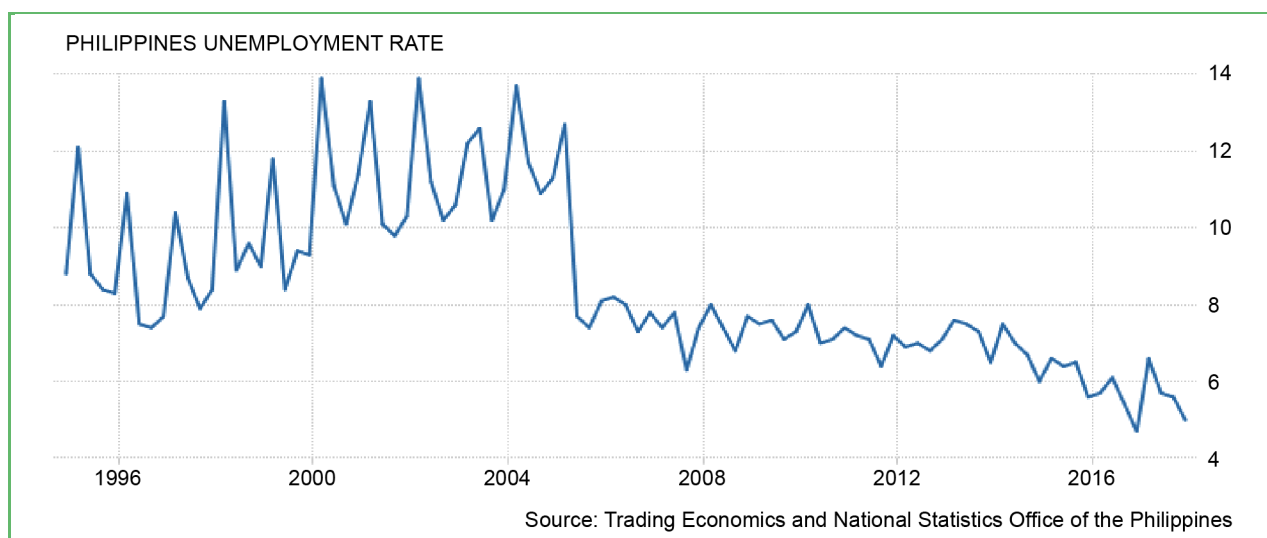


Figure 6. Unemployment rate pattern.

The opening of world trade affects the economic development of member countries. 70 percent of respondents perceived that GATT/WTO membership helps improve the country's performance in terms of lessening the poverty incidence. Decrease in poverty incidence [25] is also found to be related to the GATT/WTO [26] as it encouraged employment and production brought about by economic global trade liberalization in terms of increase in demands for goods and manpower. According to the SME owners, there is no quarrel as to the impact of GATT/WTO on providing economic benefits. Despite pleasing records as to the lessening poverty incidence brought about by globalization, the unequal distribution of economic opportunities in the Philippines aggravates the over concentration and control of economic benefits to a small segment of the economy resulting in the endless cycle of poverty experienced by the majority who are living below the poverty line. There is a need for an effective program ensuring inclusive economic growth so that the disconnect between economic records/variables showing development and the reality of life of many Filipinos may be filled up. Below are the employment records of the Philippines showing an increasing trend which would otherwise be reflected on the poverty incidence level. The per capita income of employed persons is a tool to effectively fight poverty. But as the perception of the respondents show, the socio-economic system of the country prevents the common people to reap the fruits of economic development. The poor becomes poorer and the rich becomes richer. A self explanatory **Figure 7** on employment records is presented below.

C. Politico-Legal Impact

C.1. Limitation on the Sovereign Power

It is argued that the Philippine membership to WTO/GATT inevitably derogates the State's sovereign power. From the point of view of the respondent SME owners, 55 percent perceived that the membership to GATT/WTO effectively reduced the State sovereign power to govern.

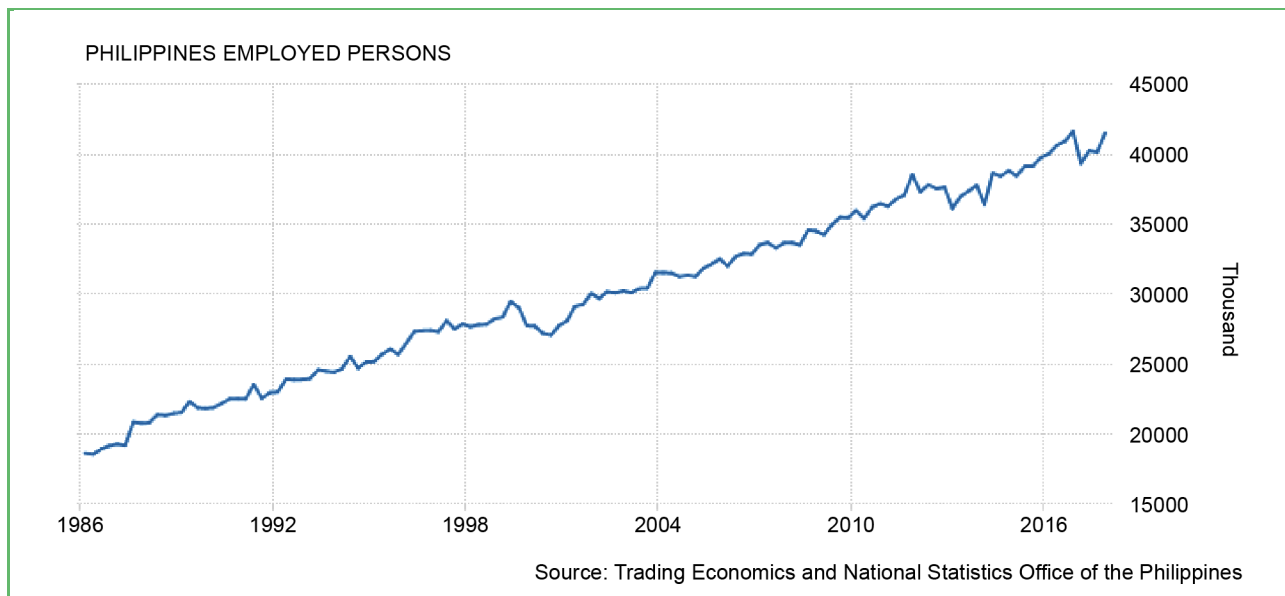


Figure 7. Employment rate in the philippines.

The Westphalian principle of sovereignty adopts a strong and resilient nature of sovereignty [27]. It treats sovereignty as supreme over other international agreement. It is absolute and limitless.

This strong and absolute concept of sovereignty has evolved into a contract-based relation of States. Upon entering into a treaty, auto-limitation of sovereignty sets in. This means that a certain degree of independence is sacrificed at the exchange of economic benefits that a treaty could bring about to its people. The Philippines as a signatory to the GATT allows certain degree of sovereign derogation in exchange for the general welfare and benefits that the agreement may provide. In many treaties where the Philippines is a signatory, there is no derogation of sovereignty. Instead, the GATT is an affirmation of the right of Congress to fix tariff rates and international trading fees. This is because the Congress has already set the limits on tariff rates when it passed the Tariff and Customs Code. Under the Code is section 401 of the said law which the President used to determine propriety of rates and fees covering foreign trading activities.

The government is a tool to carry out the will of an independent State. It is inherently vested with three great powers: the executive power (Article VII, Section 1) translated into the power of the President of the Republic of the Philippines to execute laws.

The approval of the GATT and the membership of the Philippines to the organization tasked to monitor compliance to its provisos unduly stripped off the Philippine Congress the exclusive power to legislate and determine economic policies of the country. As it is worded in the Constitution under Article VI, section 1:

“Legislative Power is vested in the Congress of the Philippines consisting of 24 Senators and no more than 250 members of the House of Representa-

tives.”

The provisions of the GATT prevent the Congress to determine tariff rates and customs duties. By opening the borders to foreign goods, which ought to be treated like domestic goods, the exclusive power of Congress to tax and import duties is supplanted.

The GATT is incompatible with the economic provisions of the Constitution. As has been stated, treaty and international agreement find their way to the domestic law sphere either thru *transformation or incorporation*. In actual practice of foreign policy, a treaty is different from executive agreement. In fact, Executive Order 459 defines treaty as:

“international agreement entered into by the Philippines which require legislative concurrence after executive ratification, while executive agreement is akin to a treaty except that it does not require legislative concurrence”.

In the international law sphere, Congressional Act is necessary to convert a treaty into domestic law when such act involves, a) agreement granting privileges and immunities to specified persons, b) observance of norms of international conduct, c) allocation of funds and d) imposition of penal legislation.

C.2. Set Tariff Rates

The respondent SMEs believe that globalization prevents the Philippines to determine tariff rates. 55 percent of the respondents answered that since GATT is an automatic adaption in the Philippines, it indirectly prevents the Congress to exercise its economic rights included among others the exclusive right to determine tariff rates.

Legal opinion says that it is not true. The GATT treats less developed countries and developed countries differently in so far as tariff reduction and period of full implementation of GATT Provisions is concerned. The schedule of implementation gives undue advantage to weaker economies. The tariff reduction scheme under the GATT is worded as:

“GATT requires a tariff reduction rate of 36% for developed countries to be effected within a period of six (6) years while developing countries are required only to an average tariff reduction of 24% within a period of ten (10) years. While in terms of removal of domestic subsidies, the developed countries are required under the GATT to remove 20% of subsidies for a period of 6 years as compared to only 13% for developing countries to be effected within 10 years”.

The above provision of the GATT clearly shows its intention to assist developing economies by lessening the tariff rates for a longer period of time and higher percent of reduction. This would encourage small traders to invest more of the save capital through reduced tariff rates for 10 years to the improvement of the quality of products making them more competitive after 10 years ready and is robust to compete in a free market competition. Instead of looking at the

GATT as a barrier to the development of weaker economies, the consensus among member nations is to support them based on the needs of their economy and ultimately “share in the growth in international trade commensurate with the needs of their economic development”.

C.3. Filipino First Policy

Globalization is incongruent to the “*Filipino First Policy*”. A constitutional principle giving preference to Filipinos in the matter of economic decision making and utilization of economic opportunities, to wit; “*In the grant of rights, privileges, and concessions, covering the grant of national economy and patrimony, the State shall give preference to qualified Filipinos*” (Section 10, par 2, article XII).

The GATT opens to foreign competition the ownership of business in the Philippines [28]. The case of Manila Hotel, a cultural heritage, is a living example of the risk the country is facing as a member of the trade organization. The Manila Hotel is a part of the Philippine Cultural Heritage. It was subjected to acquisition of a foreign corporation. On the domestic law perspective, the Manila Prince hotel being a part of the Philippine national economy and patrimony cannot be owned by a foreign trader.

According to Justice Bellosillo:

The Filipino First Policy enshrined in the 1987 Constitution, i.e., in the grant of rights, privileges, and concessions covering the national economy and patrimony, the State shall give preference to qualified Filipinos [29].

The GATT collides with the restrictions on ownership of Domestic Corporations.

C.4. Taxes and dues for Imported Goods

Furthermore, Article VI, section 28 par. 4 provides that “*No law granting any tax exemption shall be passed without the concurrence of a majority of the members of the Congress.*” The GATT having in its proviso pertaining to how foreign goods should be treated within the Philippine territory indirectly assumes the duty of legislation which originally belongs to Congress. The general elimination of quantitative restrictions on foreign goods to provide advantage to member country, such as:

“a) the importation of the enterprise of products used in or related to the local production that it exports; b) the importation by an enterprise of products used in or related to its local production by restricting its access to foreign exchange inflows attributable to the enterprise c) the exportation or sale for export specified in terms of particular products in terms of volume or value of products, in terms of a preparation of volume or value of local production.”

4. Conclusions

The HI of the study hypothesized that the perceptions of the respondent—SME’s

of the impact of GATT/WTO are significantly different.

H0: The table of statistical treatment of ANOVA showed that there is no significant difference between the perceptions of groups of SMEs so far as the impact of globalization is concerned. Based on the evidences thus presented, the hypothesis is accepted and the H1 is rejected. Therefore the conclusion is presented below, to wit.

SUMMARY

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
Column 1	22	53.42857143	2.428571429	0.43537415
Column 2	22	58.53047619	2.66047619	0.030461678
Column 3	22	55.78571429	2.535714286	0.057119728

ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	0.592716251	2	0.296358125	1.70009548	0.190938482	3.142809
Within Groups	10.98206667	63	0.174318519			
Total	11.57478292	65				

Interpretation: Since the computed value is less than the critical value, thus, there is no significant difference among the perceptions of the three groups on the impact of GATT/WTO.

Therefore: The null.

5. Issues and Challenges

A.1. Issues

A.1.1. The Need for Inclusive Development in the Philippines

The study showed that based on the perception of owners of small and medium scale enterprises there is a need to promote inclusive development in the Philippines. However, as to who gains in the economic development, the data do not speak for the reality. The ordinary citizen is still experiencing economic hardship. The measure of GNP and GDP and their increase growth rate do not resemble the reality [30]. Majority of goods and services are concentrated in the hands of the economic elites, or a few rich owners of companies [31]. This unequal distribution of gains prevents translation of economic gains into an improved quality of life for the poor. There is therefore the need for the government to provide access for the poor to enjoy the fruits of economic gains brought about by the Philippine membership to GATT/WTO.

A.1.2. The true essence of economic globalization rests on the sovereign political power of the electorates. The Highest Court of the land decided in favor of the Constitutionality of Philippine membership to WTO/GATT. The legal in-

terpretation is binding and legally implementable. However, such legal interpretation does not automatically prevented the people to measure up the economic impact of WTO/GATT. Whether the impact is positively or negatively affecting the Philippine economy, it remains within the people to decide on how they would make the politicians pay for their reluctance to oppose what seems to them unequal trade relations. The Supreme Court cannot decide on the issue beyond its justifiability and legality. As to whether or not GATT/WTO membership helped the people improve their condition, it is a prerogative that the electorate may exercise during elections.

A.1.3. Return to Protectionist Policies (Great Britain)

The recent exit of United Kingdom (UK) Great Britain from the European Union is an issue that has political-economic effects to be considered [32]. The economic model of globalization runs counter to the Brexit charting different direction influencing to a great extent the trajectory of economic policy of Great Britain separating itself from the economic regional block.

A.1.4. Promotion of Human Rights in a Free Market Set up

The market globalization may improve the economic condition but may create negative impact on the promotion of human rights and individual freedom. The rise of globalization encouraged unfair labor practices in some countries. In South East Asia, many workers had to engage in unfair labor contract leading to unemployment and underemployment [33].

A.1.5. China and the Free Market World

The development of China and its aggressive political posture remains a threat to economic globalization as it may collide with the common economic aspirations of WTO/GATT. The political interest of China in the region is an issue to resolve as it directly affects the economic goals of international trading. The territorial expansionary policy of China against the claims of Asian countries may cause political destabilization that may shake the global economic order [34]. China has also the economic and political impacts on financial lending to other countries. The lending activity which according to many “has strings attached” which in the long run may affect the political economic power configuration in Asia directly challenging the global free market arrangement.

A.2. Challenges

There are challenges and alternatives facing the WTO/GATT membership. The regionalization, economic localization and global terrorism are developments in the Asia Pacific region bearing repercussions to the dominance of globalization as the prevailing world economic model.

A.2.1. Regionalization and Regional Economic Arrangement of Protectionism

A challenge to globalization is the development of regionalization in terms of socio-cultural orientation. The regionalization that started by Japan when it rallied behind the establishment of South East Asia Co.—prosperity Sphere and the Malaysia’s campaign for the development of Asian values and primary right of Asian people to enjoy the fruits of economic development in Asian region are

proofs of the regions willingness to develop a cultural front exclusive for Asians [35]. This may extend to the economic front. The Regional economic blocks are also a reality in the Philippines and a pattern in international trade policies and economic cooperation. Regionalization is a challenge to the globalization model. The Asia Pacific Economic Cooperation (APEC) and Asian Monetary Fund [36] are economic arrangements seen as potential challenges to globalization.

A.2.2. The Development of Community Self Sufficiency Movement in Many Parts of the Region as an Alternative to Economic Globalization

The development of local currencies took place after the economic recession in the economic globalization order. The community self sufficiency movements like the Community Supported Agriculture (CSA) in Japan the development of “bia” as community currency in Thailand and the LokSamiti Movement in India where economic initiatives showing the tendency of Asian region to move out of economic globalization and return to the old and traditional self sufficiency economy.

A.2.3. Global Terrorism and the Creation of Global Political System of Violence Directly Challenging the Economic Hegemony of Globalization

Articulation of regional interests and right to self determination are the terrorist group’s operational justification within the regional setting. The terrorist group like the Maute’s of Mindanao are economic elites turned terrorists and has an established link with the global terrorist group of Islamic State of Syria and Iraq (ISSI) whose membership comes from muslim dominated countries of Indonesia, Malaysia ,Philippines and as far as Russia [37]. The terrorist extremist cells JemayahIslamiyah, Al Queda and its networks of active terrorists groups sowing terrors in the region threatening not only the economic gains of globalization but also of the prevailing political ideology of political democracy. Their values, goals and means are manifestly against globalization and its core values.

Finally, despite threats to civilized and globalized economic communities and the confrontation between Islamism and liberal democracies [38] as the political ideology of globalism, the trajectory of economic model will remain one that is compatible to the cherished values of peace, prosperity, human dignity and freedom.

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Appendix

Table A1. Personal Profile:

A. Nature of Business

Nature of business	Manufacturing	Merchandising	Servicing	Total
Category	10	67	55	132

B. Classification

Registration	Frequency	Total
Corporation	0	0
Small and Medium	132	132
Micro	0	0
Total		

C. Number of Years in Business

GATT/WTO Membership	Strongly Disagree 1	Disagree 2	Agree 3	Strongly Agree 4	Total	WM
5. Promotes unfair competition	39(30%)	61(47%)	28(21%)	3(0.02)	130	1.97
6. Undermines competitiveness of local industry	17(13%)	61(47%)	52(40%)	1	130	2.27
7. Triggers unemployment	13(10%)	62(48%)	15(11%)	40(31%)	130	3.10
8. Supports producers of raw materials	26	40	51	26		2.77
9. Grants foreigners right to own public utility	29(22%)	41(32%)	56(43%)	4(0.030%)	130	2.26
10. Provides full employment	28(21%)	29(22%)	50(38%)	17(13%)	130	2.33
11. Establishes national economy	14(11%)	36(0.08)	64(49%)	16(12%)	130	2.60
Total						

Table A2. Perceptions on the impact to:

A. Economic

Number of years	Total
6 - 10 years	35
11 - 15 years	24
16 - 20 years	40
21 over	31
Total	

B. Politico-Legal

GATT/WTO Membership	Strongly Disagree 1	Disagree 2	Agree 3	Strongly Agree 4	Total	WM
12. Violates preference to qualified Filipinos	10(0.08%)	55(42%)	61(47%)	4(0.030%)	130	2.45
13. Promotes economic equity	10(0.08%)	41(31.5%)	28(21.5%)	3(0.023%)	130	
14. Intervenes upon the economic power of Congress	17(13%)	41(31.5%)	70(54%)	2(015%)	130	2.43
15. Disadvantageous economic arrangement (Equal Treatment Clause)	10(0.076)	51(39%)	66(50%)	3(0.02%)	130	3.30
16. Intervenes upon the executive power of the President	26(20%)	57(44%)	45(35%)	2(0.15%)	130	2.17
17. Sets aside the Filipino First Policy	20(15%)	53(41%)	44(34%)	6(4.6%)	130	2.16
18. Encroaches upon Economic power of Congress	55(42%)	4(0.030%)	53(41%)	18(14%)	130	2.07
Total						

C. Socio-Economic Impact

GATT/WTO Membership	Strongly Disagree 1	Disagree 2	Agree 3	Strongly Agree 4	Total	WM
19. Promotes Brain Drain	1	40(31%)	76(58%)	13(1%)	130	2.60
20. Improves the quality of life for all	38(29%)	53(41%)	18(14%)	22(17%)	130	2.83
21. Promotes unemployment	22(17%)	51(39%)	56(43%)	1	130	2.27
22. House hold Income disparity	13(1%)	45(35%)	50(38%)	13(1%)	130	2.34
23. Improves delivery of social services	40(31%)	66(51%)	21(16%)	3(0.023%)	130	1.75
24. Encourages school drop out	3(0.023%)	89(69%)	38(29%)	0	130	1.90
25. Increases poverty incidence	13(1%)	77(59%)	40(31%)	0	130	2.20
Total						