



Developing Complementarities: Between Industry and Services and Between Trade Protection and the Social Good

Reaction to Keynote Speech of Wigberto Tanada during a Fair Trade Alliance
Workshop/Conference on 19 July 2005 at Greenhills, San Juan, Metro Manila,
Philippines

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I would like to congratulate Honorable Wigberto Tanada and the Fair Trade Alliance for the boldness of their economic and trade proposals. I agree with Mr. Tanada when he asserts that we are now experiencing an interlinked political and economic crisis, despite efforts by government economists to show macroeconomic figures touting a recovery of the economy (by focusing on our fiscal position) and bemoaning the current political crisis as an unfortunate destabilization of such a promising process. They speak of a 15 year high in the GNP growth, an increase in personal consumption (6%), a single-digit inflation rate (8.3%) and a liquidity-driven rally resulting from the government's effective decrease in the budget deficit. What they don't speak about, on the other hand, are the following: that fuel and power prices are up by 1.3% and cost of services – education is particular – are up by 3.8%; that we are still in a deficit by about 1.7 billion and that there is still a target of 4 billion US Dollars for fresh loans. Overall, the picture gets clearer.

Yes, there are some positive economic management results but these are not good enough. Moreover, the whole economic recovery package is based on two very volatile strategies: (1) reliance on foreign direct investments; and (2) expansion of employment in the services sector, including overseas contract work (call centers, transport, and all sorts of backroom processing office work such as accountants, finance analysts, nurses, technicians, etc). One bright spot of hope that our government economists and planners is peddling about town is the 6.9 % growth of the services sector. It is in fact the sector that now propels our economy, what with the continuing underperformance and deterioration of the agricultural sector and the lacklustre and also deteriorating performance of the industrial sector.

The rise of the services sector in the developed countries, the Philippines, included, can partly be attributed to a re-organization of production driven by rising labour costs and stronger regulatory capacity of developed country states. It was during the mid-70s when developed countries began to experience "de-industrialization" reflected through the offshoring of manufacturing to subsidiaries and even to unrelated firms. At the same time, outsourcing of services grew though not to other countries yet.

Firms spun-off from manufacturing entities as service subcontractors. It is only in the more recent decades that offshoring and outsourcing combined in the services sector through what we now call business process outsourcing, call centres, and the like.

The Philippines was an important location for offshored manufacturing but this appears to be less true today despite the liberalization of the foreign investment rules. The Philippines, however, is well-placed to become a favoured offshoring destination for services. While this positive development may have its employment generation advantages, its sustainability in the long-term may not be feasible because its nature differs from that of the developed countries' services sectors that are the leaders in this market. And now, of course, there is China that sucks in almost all of the FDIs coming to Asia.

The strength of the services sector in the developed countries is that services provides support and complements industrial production, which while no longer located in their own countries remain under their control especially in areas of finance, research and product development. The Philippines does not have this kind of strength. There is a qualitative difference in the kind of services sector that we are producing compared with those of the developed countries that we cannot ignore and that can spell the sustainability of services as a source of growth. The quality difference is simply in the sense of being at the low value-added portion of the value chain as we were in garments and electronics. More importantly, there is the advantage brought about by complementarities generated between industry and services, out of which new services are generated (these are called producer services in the economics literature). It is not surprising to read or hear experts talk about how technology has helped to spur the growth of the services sector. The complementarities between the manufacture of new technologies has helped to provide online banking services, for example.

The location of a firm or country in the value-chain and the complementarities between industry and services are not unrelated. Moving up the value-chain receives much impetus from the complementarities just described. It seems, therefore, that there is an additional reason for creating a national development plan for international trade that supports and protects agriculture and industry and that is the generation of complementarities in order to move up the value chain.

Among the reasons that motivate us to develop this national plan for trade is that the Philippines desires to achieve competitiveness at the global scale, the attainment of which depends on how fast this country can move up the value-chain. IGTN does not particularly subscribe to this idea that nations exist to compete with each other for market shares. What we can accept is that firms and corporations compete with each other for market shares. What is happening is that governments have internalised this need to compete when this objective represents only a small section of society. Thanks to the WTO and all the hyper-liberalists around!

One of the most common methods for competition is to use women's work as the basis of competition. When manufacturing was off-shored to our export processing

zones, we used women's labour. Now that services are off-shored, we find women once again as a source of competitive advantage. Women are also a strong force among our overseas Filipino workers. How much of a difference is there between working in a garments factory and medical transcription or working in an electronics factory and a call center? How long will our development plans continue to use women's cheap labour as leverage for competitiveness?

To make this situation worse for our women, we continue to rely on them to provide care as they engage in unpaid household work in the absence of state-supported essential services and the inability of men to share in the responsibilities for care work.

As we develop our national plan for trade, protection is appearing to be a key strategy. Protection is geared towards the vulnerable sectors of our society. But who are the vulnerable? There are those of us who are vulnerable in the global setting unable to compete but are in a position of strength and privilege within the national setting. And then there are those who are vulnerable in any setting, global or national. In international trade, it is not surprising that we come together to support the protection of our industrialists who are weak globally. The protection that they receive would be equally beneficial to workers since employment is protected as well. But, within national borders, conflicts can arise between these two groups, where labour and women's rights are easily sacrificed. There must be a principle upon which the uneasy alliance for protection can stand more firmly.

We propose the use of the social function of property that we find in our national constitution. Although our constitution leaves this social function undefined, we can remind ourselves of this principle as that in which property must fulfil its social function which is a contribution to the well-being of community and society before it can receive state protection. This principle has largely been applied to land but we challenge you to expand the application of this principle to other forms of property. What is necessary now is for us to determine what is a social function. Normally, the identification of the social function involves negotiation and bargaining among social actors as an exercise in the application of substantive democracy.

This proposal is not to be interpreted as the creation of a social clause. Where the social clause defines limits and limitations, the specification of a social function forces property to have positive obligations with respect to the rest of society. Thus, there is an opportunity to a better balancing of property rights and fundamental rights.

Hence, an obligation is incumbent upon the provision of protection to property accorded by the state. In our current context, there is a responsibility attached to the demand from government protective trade measures and that, we believe, would include upholding workers' and women's rights, among others. The demand for protection would imply a serious commitment from the protected to fulfil their social good.