

# **The proposed tax measures may aggravate the industrial crisis**

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**THE UP ECON PAPER HAS DONE THE COUNTRY SOME** good. It has reawakened the nation about the gravity of the fiscal crisis, which, if left unresolved, may precipitate a full-blown politico-economic crisis similar to what we experienced in 1981-95 or what Argentina had to suffer in the early years of the millennium

**H**owever, to our mind, the UP Econ paper could have done the country better if it did not remain silent on the major root causes of the fiscal crisis. For instance, it was quiet on the problem of smuggling, outright and technical, which is depriving the country of at least PhP175 billion annually or almost equal to the annual fiscal deficit. About half of these smuggling-related revenue losses are due to the gross undervaluation of Philippine imports. For example, some Chinese shoes are valued as low as \$0.10 to \$0.50 a pair. Import undervaluation means the government is unable to collect

the correct import duties, averaging 5-6 per cent last year, and the 10 per cent VAT. Import undervaluation also explains why UNCTAD and IMF data show why official Philippine imports for 2003 total \$37.5 billion, and yet our trade partners claim a total of \$45.5 billion of goods being exported to the Philippines last year.

The UP Econ paper was also silent on the unilateral tariff liberalization program which has reduced Philippine tariffs to 'nuisance' rates of 0-5 per cent. The radical tariff liberalization program is the main reason for the reduction of the Bureau of Customs' collection from 4.8 per cent of the total revenues in 1996 to 2.4 per cent in 2002. as pointed out by Justice Florentino Feliciano, a former presiding official in the WTO dispute settlement body, the unilateral tariff liberalization constituted '*unilateral total disarmament*', as the program put the country's domestic producers at a great disadvantage vis-à-vis high tariff countries such as China, Thailand, India and Vietnam as well as vis-à-vis developed countries such as Australia and the United States which also make effective use of non-tariff barriers like health, environment, phyto-sanitary and other product standards as barriers to the entry of our exports. The unilateral tariff liberalization and the high cost of doing business are two major reasons for the collapse of a big number of local industries and the decision of some multinationals to transform their Philippine manufacturing operations into import-and-distribute ones.



**W**e, at the Fair Trade Alliance, believe that the fiscal crisis is rooted in the industrial crisis. One reason for the declining tax intake of the government is precisely the *shrinking industrial sector*, the most taxable among the different economic sectors (services, agriculture and overseas employment). As reflected in the NSO statistics, the formally registered enterprises have been going down since the mid-1990s. As a result, the number of employed enterprise workers went down from six million in 1999 to 5.7 million in 2003.

What has been expanding instead is the informal sector. But being informal and unregistered, enterprises in this sector do not pay taxes. And so are enterprises in the free trade zones which are given fiscal incentives (and yet, are also beginning to leave, in favor of China and Vietnam). And so are the smugglers and the tax evaders.

Now the UP Econ paper is being used by the government to push for new tax measures. We are afraid that the burden of resolving the fiscal crisis is being passed on to the country's honest and over-burdened producers and taxpayers, through the graduated expansion of VAT and the imposition of taxes on power and telecommunications. At the same time, the fiscal crisis is in effect being used to freeze public spending on education, health and vital social and physical infrastructures. Both sets of measures will further erode the much-eroded competitiveness of domestic industry and agriculture. In short, the proposed cures may seriously injure if not kill the taxable sector itself.

We humbly suggest that the government and the policy makers use the fiscal crisis as an opportunity to put our economic house in order and institute bold reforms, including the implementation of non-tax revenue measures. These should include the following:

- A no-nonsense drive against smuggling. Big-time smugglers and their cohorts in government should be hauled to prison.
- Intensification of the drive against tax evaders and the fast-tracking of the resolution of all big tax cases pending in courts.
- The upward re-calibration of tariffs for all industrial and agricultural goods based on the Philippines' maximum WTO bindings, except for raw materials used by local industry, to level the trading field.

**F**inally, there should be an overhaul of the existing agro-industrial plan which has failed the nation. The failure of the government to pursue an alternative, independent and progressive agro-industrial policy which is not debt-dependent and which seeks the all-out development of the industrial and agricultural potentials of the economy is at the roots of the present fiscal and industrial crisis. Unless we replace the neo-liberal dogma in economic planning and programming in favor of the all-out strengthening of Philippine industry and agriculture, the nation shall be in perpetual crisis - fiscal and otherwise.

