



## Philippine Agriculture under the World Trade Organization, 1995-2005: Gains, Losses, and Prospects

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**ABSTRACT.** The paper reviews the Philippines's implementation of the Agreement on Agriculture (AoA) and the agricultural sector's performance in the World Trade Organization (WTO) from 1995 to 2005. It posits that the forecasted benefits from the implementation of the AoA were based on a host of faulty assumptions. The continued proliferation of trade distorting domestic subsidies in developed countries, the use of tariff peaks and other forms of nontariff barriers, and the Philippine government's failure to deliver the necessary safety nets to small farmers and agricultural producers undermined the country's capability to gain from liberalized trade under the WTO. The paper also examines the evolution of the Philippines's position on the AoA as the country became an active member of developing-country formations in the WTO, such as the G20 and the G33. The paper underscores the importance of a comprehensive strategy in trade negotiations—one that links productivity and competitiveness enhancement programs to trade liberalization commitments and harmonizes negotiating agenda across multilateral, regional, and bilateral trade agreements.

**KEYWORDS.** World Trade Organization · Agreement on Agriculture · Philippines · General Agreement on Tariffs and Trade · Uruguay Round agreements · G20 · G33

### INTRODUCTION

In 1994, during the debate on the Philippine government's ratification of the Uruguay Round (UR) agreements, no policy in recent decades had generated as much controversy as the provisions on agriculture. Much of the debate centered on whether acceding to the World Trade Organization (WTO) would benefit the sector. What ensued was a battle that drew a sharp line between binary poles—those professing the merits of trade liberalization under a multilateral regime and those foretelling the demise of the rural economy.

Striking at the core of the thirty-five million impoverished peasants who were encumbered by landlessness, high production costs, and

decreasing market, the agreement was criticized as antidevelopment at best and the harbinger of doom at worst. The General Agreement on Tariffs and Trade–Uruguay Round (GATT-UR) agreements opponents articulated their arguments based mainly on the potential inundation of the Philippine domestic market with cheap imports. At the same time, the oligarchic elite, whose wealth and power are derived from oligopolistic relations of exchange in agriculture owing to protectionist measures by the state, were quick to play the nationalist card and jump into the anti-imperialist banner. On the other hand, the advocates of GATT-UR dismissed the defeatist attitude or standard leftist rhetoric of their antagonists, claiming that the treaty's ratification is the country's shortcut to a newly industrialized country status. The GATT-UR Agreement on Agriculture (AoA) immediately emerged as the potential dealmaker or dealbreaker as it stirred questions of justice and equity vis-à-vis global competitiveness and dismantling monopolies.

More than ten years have passed since Philippine agriculture was governed by the rules and disciplines of a global trade regime. The uproar has not died down. The peasant movement is still unrelenting in its demand to take agriculture out of the WTO. On the other hand, fearing governments' recourse to bilateral trade agreements, several civil-society groups are cautious to make such a sweeping call. While others are cynical, arguing that the WTO has become a proverbial culprit and a scapegoat for purely domestic concerns—from the archaic problem of inadequate basic infrastructure and other support services to corruption in the bureaucracy which has intensified the massive smuggling of cheap agricultural produce. Meanwhile, there is guarded optimism among the engineers of the Philippine inclusion in the WTO. In 2002, Thomas G. Aquino, Department of Trade and Industry Undersecretary for International Trade, publicly acknowledged in a WTO symposium on the Doha Development Agenda that while the Philippines subscribes to the theory that liberalized trade has the potential for reducing poverty,

the present prevailing view is that the Philippines has yet to experience, to the necessary degree, actual benefits from WTO membership. It has to be shown that the rules-based system has indeed significantly benefited developing countries despite the unconvincing record for the past seven years. (Aquino 2002, 9)

Taking the case of the UR AoA, this research intends to review the performance of the country in the WTO. It does not, however, attempt to comprehensively measure the impact of AoA on Philippine

agriculture as it is limited to an evaluation based on the arguments for the ratification of the treaty put forward in 1994. The following questions guide this inquiry: (1) To what extent were the commitments, pertaining to the AoA, have been implemented by the Philippine government? (2) Have the promised benefits of WTO accession to Philippine agriculture been realized? What were the factors that may have contributed to the current outcome? (3) What has been the negotiating position of the Philippine government in agriculture since the treaty took effect up to the WTO ministerial conference in Hong Kong? (4) What policies should be crafted, strengthened, or repealed, given the Philippine agriculture's ten-year performance under the WTO-AoA regime?

To locate the assessment within the development of Philippine agriculture, the first part of the paper provides an overview of pre-1995 structural conditions that influenced its insertion into the global trade system through the WTO. Thereafter, the debate during the ratification in 1994 is revisited, specifically the arguments that centered on agriculture. The assessment of Philippine agriculture's accomplishment under GATT-UR is organized into: *implementation* (fulfillment of the market access commitments pertaining to the AoA made by the Philippine government and the agriculture-related support measures laid out in the Government of the Philippines's Action Plan in relation to the GATT-UR), *growth and development* (realization of the gains from the WTO-AoA guaranteed in 1994 due to market access opportunities), and *negotiation* (Philippine government's negotiating position and strategy on agriculture, particularly during ministerial conferences, WTO's highest decision-making body).

## THE PHILIPPINE AGRICULTURAL SECTOR PRIOR TO 1995

Prior to the ratification of the AoA, agriculture was already in a state of crisis. The basic indicator of performance—gross value added (GVA)—showed that agriculture had significantly lost steam as with the exception of livestock and poultry, many commodities had practically stopped growing since the 1980s. The growth rate for rice, though positive, was below the population growth rate (table 1).

The area devoted to agriculture had been decreasing since the early 1990s suggesting that the agricultural land frontier had been reached in the late 1970s and 1980s (Lim 1996). There was also the downward trend of relative prices of agriculture vis-à-vis industry and services

Table 1. Growth of agricultural gross value added (in constant prices) by commodity

Year	1960- 70	1970- 80	1980- 90	1990- 91	1991- 92	1992- 93	1993- 94
Overall total	4.2	3.9	1.0	1.4	0.4	2.1	2.6
Crops							
Total	3.8	6.3	1.6	2.9	0.6	2.9	3.4
Palay	4.5	4.7	2.7	4.0	-5.6	3.3	11.7
Corn	5.3	5.9	3.5	1.3	-0.8	3.9	-5.8
Coconut	2.3	4.9	-4.9	-4.0	0.3	0.2	0.1
Sugar	4.8	2.9	-5.3	27.2	4.8	7.9	1.3
Banana	5.5	15.6	-3.0	-0.3	3.6	0.3	1.4
Other	3.6	9.5	1.1	2.7	0.4	0.9	1.9
Livestock and poultry							
Total	3.2	3.0	4.7	2.1	5.1	5.3	3.8
Livestock	3.1	0.5	4.9	1.2	0.8	4.7	4.8
Poultry	3.7	9.2	4.4	3.4	10.0	6.2	2.6
Fisheries	6.9	4.5	2.4	4.0	1.2	1.4	1.1
Forestry	5.1	-4.4	-7.0	-3.4	-11.5	-16.5	-15.0

Source: Tolentino et al. (2001, 32).

(Balisacan 1998, Lim 1996). While policymakers cast their hope in the international market for agriculture's survival, the comparative advantage of the Philippines in trade had also been questioned. In the 1960s, agriculture was a net foreign exchange earner, contributing nearly two-thirds of total exports and accounting for only about 20 percent of total imports. But by the 1990s, agricultural imports exceeded agricultural exports. Table 2 shows measures of revealed comparative advantage declining sharply for agriculture as a whole and for all major agricultural exports (David 2003).

In the main, the Philippine agricultural sector was characterized as having an elitist agrarian structure, and is perpetually burdened by weak and inconsistent policy frameworks.

## LANDING IN THE WTO

Before the Philippines's accession to the WTO, the government had already embraced policies aimed at reducing barriers to trade. Compared to countries such as Indonesia and Thailand, the Philippines carried out much earlier and more widely the policies of deregulation and privatization, especially those that relate to agriculture, without reforming the basic structural problems that beleaguered the sector.<sup>1</sup>

Table 2. Trends in revealed comparative advantage in agriculture and selected major agricultural exports, 1960-1995<sup>a</sup>

Year	Agriculture <sup>b</sup>	Coconut	Sugar <sup>c</sup>	Banana	Pineapple (canned)	Pineapple (fresh)
1960	3.0	—	—	—	—	—
1965	2.7	131.8	15.3	—	—	—
1970	2.6	145	21.4	—	—	—
1975	3.8	211.2	22	29.3	—	—
1980	2.9	224.1	12.1	30.4	82.2	48.9
1985	2.4	212.3	7.6	31.2	91.6	59.7
1990	1.6	212.4	3.8	23.4	70.2	54.6
1995	1.1	153.5	2	14.1	41.5	23.6

Source: David (2003, 182).

<sup>a</sup> Estimated as the ratio of the share of a commodity group in a country's exports to that commodity group's share of world exports. Except for 1960, years represent a three-year average centered on the year shown.

<sup>b</sup> Includes fisheries.

<sup>c</sup> Sugar has historically been exported to the United States at a premium price. Hence, a value greater than unity does not reveal comparative advantage in this case. However, the sharp declining trend may still be interpreted as a rapid deterioration in comparative advantage.

The Philippine Senate ratified the UR agreements in 1994, despite massive protests from many farmers' organizations and civil-society groups. The ratification signaled the beginning of various legislative initiatives and decisions to realign Philippine laws in a way that would support the commitments made by the executive branch of the government in the UR negotiations.

On March 28, 1996, the Philippine Congress passed Republic Act (RA) 8178,<sup>2</sup> also known as the Agricultural Tariffication Act. RA 8178 repealed and amended several laws that provided the use of quantitative restrictions on imports to protect specific commodity sectors. Among these are:

1. RA 1296, entitled "An Act to Prohibit the Importation of Onions, Potatoes, Garlic, and Cabbages, Except for Seedling Purposes, and to Provide Penalties for the Violation Thereof";
2. RA 2712, entitled "An Act to Prohibit the Importation of Coffee";

3. Presidential Decree (PD) 1297 as amended, entitled “Centralizing the Importation of Ruminants for Breeding, Slaughter and Beef”;
4. Paragraph 10 of Section 23 of RA 7607, entitled “An Act Providing a Magna Carta for Small Farmers”;
5. Paragraph (a) of Section 15 of RA 7308, entitled “Seed Industry Development Act”;
6. Section 4 of RA 4155 as amended, entitled “An Act to Promote and Strengthen the Virginia Tobacco Industry”; and
7. PD 1483, entitled “Authorizing the Importation of Foreign Cigar Leaf Tobacco for Blending Purposes.”

The law exempted rice from trade liberalization in view of the staple grain’s economic, political, and social significance.

RA 8178 also detailed the creation and implementation of the country’s minimum access volume (MAV) mechanism, which is the country’s tariff rate quota (TRQ) system. Tariff revenues generated from the importation of agricultural products within the MAV were allocated to the Agricultural Competitiveness Enhancement Fund (ACEF). The ACEF was to be used for irrigation, farm-to-market roads, post-harvest equipment and facilities, and credit and other support services essential in improving the competitiveness of the country’s agricultural sector in the world market.

Apart from RA 8178, other laws were passed to enable the Philippines to keep its commitment to the WTO. Among these are RA 8800,<sup>3</sup> which provided for the creation of special safeguards measures, and RA 8751,<sup>4</sup> which amended the provisions of the Tariff and Customs Code on countervailing duties. Congress also approved laws in support of the Philippines’s commitment to other accords such as the Agreement on the Application on Sanitary and Phytosanitary Measures and on Trade-Related Intellectual Property Rights.

Following its Schedule of Concessions, the Philippine government bound tariffs to the initial maximum level of 100 percent (World Trade Organization). The starting bound level was based on PD 1464, otherwise known as the Tariff and Customs Code of 1978, which gave the country a self-imposed tariff cap of 100 percent. This self-imposed cap limited the country’s capability to absorb future tariff cuts. More

Table 3. Frequency distribution of tariff lines across tariff ranges, 1995-2004

Tariff range	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
10-30	1	1	1	1	1	1	1	1	1	1
31-50	23	23	36	36	44	44	44	44	90	90
51-70	14	14	9	9	51	5	1	1	1	1
71-90	8	8	50	50	1	1	1	—	1	1
90-100	50	50	0	0	0	0	0	—	—	—

Source: Mangabat (1998).

significantly, it narrowed down the policy space available to the government in terms of protecting small farmers and agricultural stakeholders from importation by removing its option to apply higher tariffs.

The final bound tariff rates were set within the 40-to-50-percent range for the majority of the country's sensitive agricultural products. The only exemption is for sugar, because the powerful sugar bloc had been able to lobby for an 80-percent tariff bound level for the commodity after the UR negotiations. Table 3 shows the frequency distribution of sensitive products across different tariff ranges throughout the implementation period.

In sum, although the Philippines had already been implementing a unilateral tariff reduction program, its market access commitments under the AoA remain a significant development in Philippine trade policy as it formally bound the country to undertake trade liberalization within a multilateral framework.

### Gains

In 1994, the economists predicted the following benefits from the implementation of the AoA:

1. Expansion of export markets for the Philippines as a result of trade liberalization;
2. Greater consumer welfare as consumer prices were expected to go down due to increased competition; and
3. Increased employment and livelihood opportunities in the rural sector

In the main, they argued that the reduction of tariffs, the removal of imports restrictions and other forms of nontariff barriers, as well as the harmonization of sanitary and phytosanitary measures would facilitate

the entry of Philippine agricultural commodities into the international market. Moreover, they pointed out that the agreements' mandated cutback in trade-distorting subsidies would help create a level playing field in the world market for agricultural commodities and will give Philippine agricultural products a better chance of competing with those of other countries. David (1994), for instance, predicted that the approval of the AoA would be more difficult for developed countries, since they lack comparative advantage in agriculture and their farmers were dependent on subsidies to promote agricultural production and exports. For her, developing countries were the ones in a position to benefit most from the trade pact because it would yield greater trade opportunities and better incentives for production.

The forecasted gains from the implementation of the AoA were not limited to the agricultural sector. The AoA was also expected to benefit consumers since liberalization would give them cheaper agricultural commodities. Also, the increased competition brought about by the entry of imported agricultural products was expected to increase market competition, spur local farmers to improve productivity and production efficiency, and drive down consumer prices.

The government provided very specific forecasts on the expected gains from the AoA. It projected additional annual export earnings of up to PHP3.5 billion, as a probable outcome of the opening up of new export markets due to the AoA, and a PHP60-billion increase in agricultural GVA. It also forecasted the creation of 500,000 new jobs in the sector every year due to the anticipated increase in demand for Philippine agricultural products in the world market.

Agricultural exports increased from USD1.9 billion in 1993 to USD2.3 billion in 2003. Commodities that showed remarkable growth in exports were banana, shrimps and prawns, seaweeds and carrageenan, unmanufactured tobacco, and milk and cream products. Bananas, shrimps and prawns, and carrageenan enjoyed tariff cuts or, in some cases, zero tariff bindings in the Japanese, US, and EU markets (David 1994). Some of these commodities registered export growth rates of more than 100 percent over the last few years. Export revenues from bananas, for instance, grew from USD149 million in 1990 to USD362 million in 2005. The country's main agricultural markets are Japan, the US, European communities, Korea, and China. Table 4 shows the revenues from our top agricultural export products for 2005.



Table 4. Value of top Philippine agricultural exports, 2005

Agricultural export commodity	Free on board value (in USD million)
Coconut oil	657.22
Bananas, Fresh	362.58
Pineapple and pineapple products	204.28
Desiccated coconut	127.14
Tobacco manufactured	112.81
Tuna	102.01
Shrimps and prawns	93.51
Fertilizer	92.27
Milk and cream products	79.94
Seaweeds and carageenan	71.90

Source: Drawn from the National Statistics Office.

Crude and refined coconut oil remained as the country's top export commodity, generating USD657.22 million in 2005. Sugar exports, which used to be the country's second highest agricultural export in the 1980s and contributed up to 25 percent of export revenues during the said period, declined. In 2004, sugar export revenues accounted for a mere 2.6 percent of total export revenues.

## LOSSES

Despite the increase in exports of a few agricultural commodities, the years covering the implementation of the AoA were characterized by the Philippines's transformation from a net agricultural exporter to a net agricultural importer. The increase in export revenues mentioned earlier is small compared to the government's forecasted expansion in exports as a result of the country's ratification of the UR agreements. Agricultural imports have expanded at an alarming pace, increasing from USD1.6 billion to USD3.2 billion during the same period. Hence, from charting a positive trade balance of USD300 million in 1993, the country registered an agricultural trade deficit of USD900 million in 2003. Figure 1 traces the development of imports and exports, as well as the country's agricultural trade balance from 1980 to 2005 (Bernabe and Montemayor 2006).

A study of the country's agricultural trade profile will show that rice, which continues to enjoy trade protection through a quantitative restriction on importation, saw the biggest increase in agricultural imports over the last decade (table 5). Rice imports had risen from 202,000 metric tons, equivalent to USD37.14 million in 1993 to 1

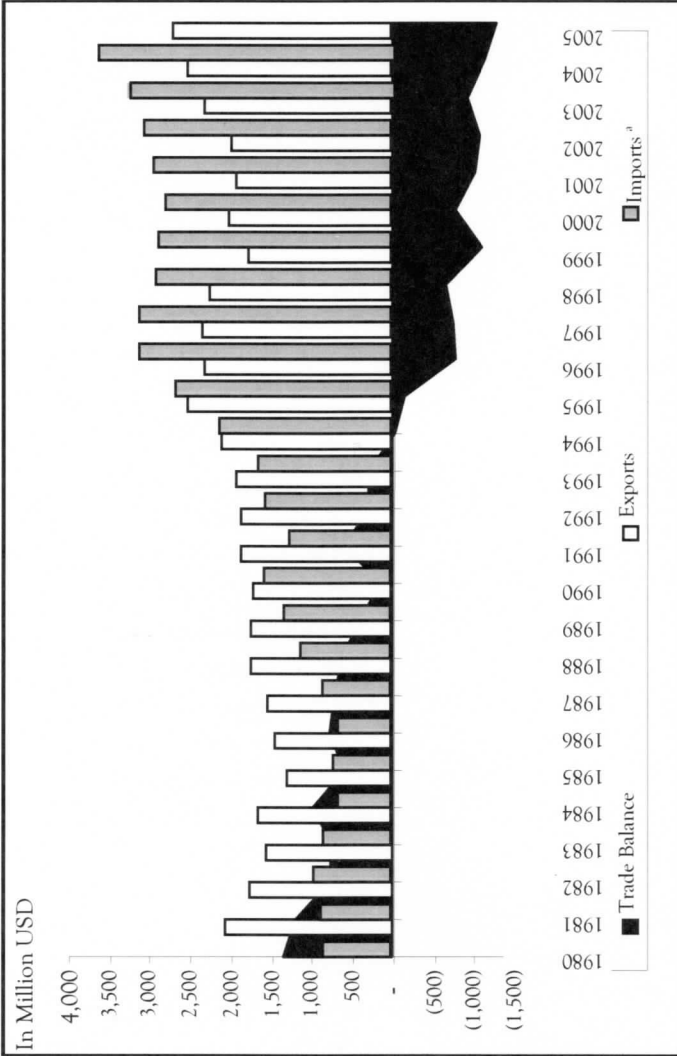


Figure 1. Philippine agricultural trade balance, 1980-2005  
a CIF value starting 2003

Table 5. Comparison of local production and importation of selected agricultural products (in thousand metric tons)

Year	Source	Rice	Corn	Onion	Pork	Chicken
1990	Production	6,095	4,854	61.47	824.58	267.51
	Imports	606	346	0.18	1.18	0.19
1991	Production	6,326	4,655	60.35	845.21	286.87
	Imports	0	0	<0.001	0.74	0.03
1992	Production	5,970	4,619	56.708	845.25	356.398
	Imports	1	1	<0.001	0.79	0.04
1993	Production	6,170	4,798	61.46	880.95	364.48
	Imports	202	1	0.21	0.42	0.11
1994	Production	6,892	4,519	73.64	921.76	376.61
	Imports	0	1	<0.001	0.70	0.20
1995	Production	6,894	4,129	88.43	969.86	399.55
	Imports	264	208	0.001	2.18	0.19
1996	Production	7,379	4,151	83.32	1,036.52	455.10
	Imports	867	405	1.37	6.073	0.20
1997	Production	7,370	4,332	85.38	1,085.54	496.69
	Imports	722	308	0.81	10.369	0.97
1998	Production	5,595	3,823	86.98	1,123.77	491.23
	Imports	2,171	462	11.41	12.59	2.42
1999	Production	7,708	4,585	84.97	1,171.76	496.43
	Imports	834	149	16.18	31.65	29.39
2000	Production	8,103	4,511	84.22	1,212.54	533.12
	Imports	639	446	10.03	32.34	16.79
2001	Production	8,472	4,525	82.61	1,265.89	587.07
	Imports	808	172	17.93	22.02	11.15
2002	Production	8,679	4,319	96.36	1,332.35	627.11
	Imports	1,196	278	6.75	25.64	12.18
2003	Production	8,829	4,616	93.84	1,384.58	635.13
	Imports	886	100	11.58	29.43	13.64
2004	Production	9,481	5,413	86.74	1,365.61	664.88
	Imports	1,001	23	7.09	34.08	20.54

Source: Bureau of Agricultural Statistics.

million metric tons, with a value of USD263.05 million in 2004. The increase in domestic demand for the staple grain outpaced growth in production.

High import growth rates were also observed in many of the commodity sectors subjected to tariff cuts. Corn importation, for instance, despite increases in domestic production, had risen, expanding from 172,000 metric tons in 2001 to 278,100 metric tons in 2002. Onion imports also grew from 210 metric tons in 1993 to 17,930 metric tons in 2001 (Bureau of Agricultural Statistics). Dramatic

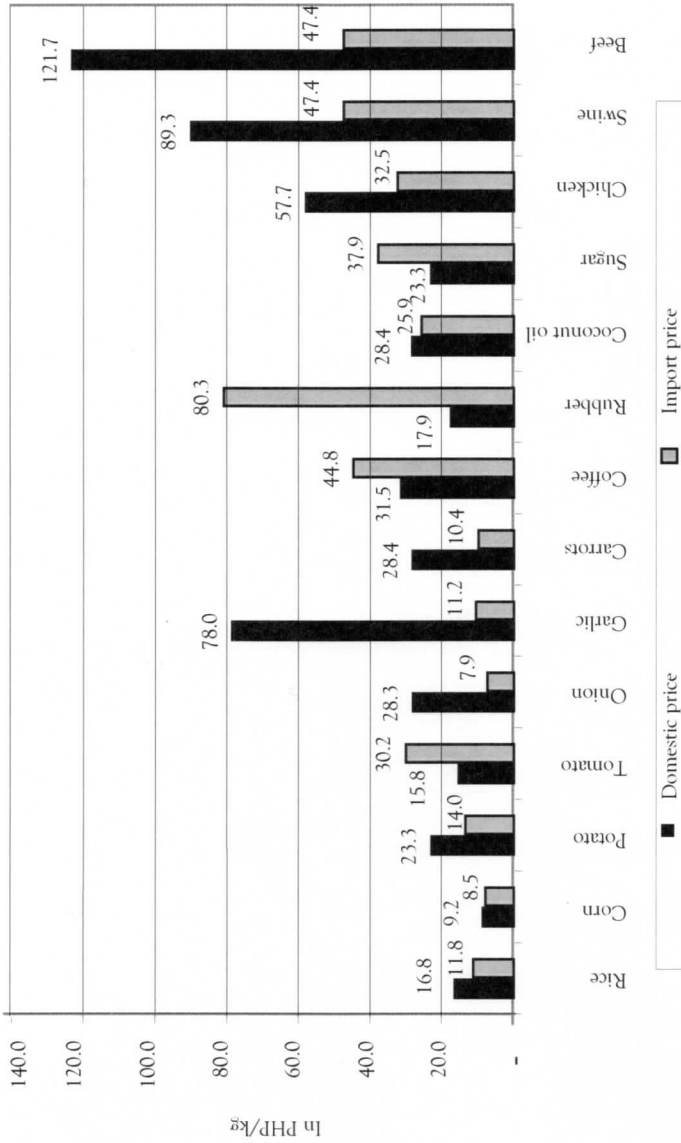


Figure 2. Comparison between Philippine import and wholesale domestic prices of selected commodities, 2002-2004  
 Source: Bernabe and Montemayor (2006) using data from the Bureau of Agricultural Statistics.

growth in importation was noted in the poultry and livestock subsector. Pork import growth rates jumped from an average of 8.13 percent in 1990-1994 to 231 percent in 1995-2000. Importation of chicken also expanded from 190 metric tons in 1990 to 20, 540 metric tons in 2004 (Bureau of Agricultural Statistics). These increases in imports have contributed to the Philippines's transformation from a net exporter to a net importer over the last few years.

The failure of the Philippines to generate the expected increases in agricultural exports diminished its capability to realize the other promised benefits from the AoA. These include the creation of 500,000 new jobs per year, as total agricultural employment barely grew from 11.14 million in 1993 to 11.2 million in 2003 (Bureau of Agricultural Statistics).

### **EXPLAINING THE GAP BETWEEN PROMISES AND REALITY**

Apart from the rise in domestic demand, one of the reasons identified for the exponential growth in importation of the previously mentioned goods relates to the price differential between domestic and imported prices. Domestic prices are generally higher than imported prices, providing greater incentives for traders to import agricultural commodities. Based on a comparison of import and domestic prices of selected agricultural commodities, using 2002-2004 average, domestically produced agricultural products such as rice, corn, onion, garlic, poultry, pork, and beef were generally priced higher compared to their imported counterparts (Bernabe and Montemayor 2006). Figure 2 compares imported and local prices of other agricultural products.

The large price differential between domestic and imported agricultural products has made local farmers especially vulnerable to displacement. Traders have greater incentive to import rather than to buy from local agricultural producers.

Farmers and small agricultural producers identify high cost of production and marketing as some of the key factors for the high prices of domestically produced commodities. As a consequence, the local agricultural sector was unable to effectively compete in a liberalized market. This in turn can be attributed to a host of determinants, foremost of which is the lack of public and private investment on essential productivity- and competitiveness-enhancing support services. Indeed, beginning in the mid-1980s, government spending on agriculture never exceeded 5 percent of the total national budget.<sup>5</sup>

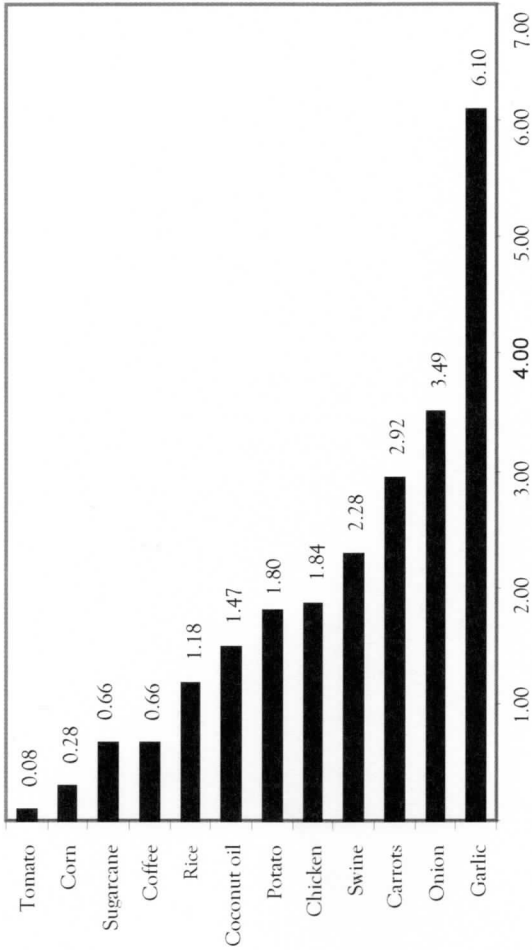


Figure 3. Vulnerability of selected Philippine commodities, 2002-2004  
Source: Bernabe and Montemayor (2006) using data from the Bureau of Agricultural Statistics.

Table 6. Subsidies per worker among selected WTO members

Country	Subsidy per worker (in USD)
Canada	4,240
European Union (15)	11,310
Japan	9,170
Switzerland	18,162
United States	20,942

Source: Data from the Philippine Agriculture Office in Geneva.

A comparison of the import vulnerability ratio, computed as the ratio of the prices of imported to domestic products, will show that many commodities, if not applied sufficient tariffs, will be in danger of being displaced in the market by imported agricultural items. Among the products with high import vulnerability ratio are rice, coconut, potato, chicken, swine, carrots, onion, and garlic (figure 3). The prices of these commodities are at least 2.2 to 6.1 times higher than their imported counterparts (Bernabe and Montemayor 2006). For these commodities, equalizing domestic and imported prices will require tariffs higher than 100 percent, which is way below the country's final bound rates in the WTO.

It is important to look back at the assumptions underlying the rosy forecasts in 1994 to understand why the promised benefits of the AoA did not materialize. These assumptions, some explicit and some implicit, were (David 1994):

1. That developed countries will dismantle their subsidies;
2. That developed countries will phase out nontariff barriers;
3. That harmonization of Sanitary and Phytosanitary (SPS) measures will eliminate the use of these measures as trade barriers;
4. That the Philippine government will deliver on its promised safety nets; and
5. That all the other WTO members have committed to very low tariffs.

Table 7. US and EU product specific aggregate measure of support, 2001

United States Product	Aggregate measure of support (in USD million)	European Union Product	Aggregate measure of support (in USD million)
Dairy	4,483.3	Beef	11,190.3
Soybeans	3,610.0	White Sugar	5,808.6
Cotton	2,810.1	Butter	4,443.5
Corn	1,269.6	Common wheat	2,270.7
Sugar	1,060.9	Barley	2,194.4
Rice	762.9	Olive oil	2,070.4
Peanuts	304.6	Skimmed milk powder	1,507.6
Wheat	189.4	Tobacco	963.9
Sunflower oil seed	54.5	Maize	706.7
Canola oil seed	22.9	Rice	393.1

Source: US and EU notification to the WTO, 2000-2001.

### Unsuccessful Subsidy Reduction in the WTO

The implementation of the AoA in the past ten years showed how unrealistic these assumptions were. That the trade pact would lead to the substantial reduction of trade distorting domestic support and export competition was proven to be untrue given the continued proliferation of unfair subsidies in the world market, largely from developed countries.

Subsidy levels during the implementation of the AoA remained high, with the US extending as much as USD20,942 in annual subsidies per agricultural worker. Countries such as Canada, Japan, Switzerland, and members of the EU have provided annual subsidies ranging from USD4,240 to USD18,162 per worker. Table 6 shows the level of subsidies in selected countries.

Loopholes in the AoA's provisions on domestic support and export subsidy reduction gave developed countries the flexibility to maintain high levels of unfair support to their agricultural producers. For instance, instead of providing for reduction in trade distorting domestic support, the AoA merely placed a cap or binding on the level of subsidies that developed countries can provide. It also allowed developed countries the option to maintain substantial subsidies. The absence of disciplines specifying the maximum amount of subsidies that a particular product can receive enabled developed countries to concentrate support on a few products in which it has market interest. Table 7 provides information on the products supported by the United States and the European Union.



Some of the products above, like rice and corn, are imported by the Philippines and have offered direct competition to domestically produced goods in the local market. Other commodities such as beef, soybean, and other vegetable oils are substitutes to locally produced swine meat, corn, and coconut oil, respectively.

On export subsidies, the AoA provides that, at the end of the implementation period, subsidy levels should not be greater than 64 percent of a developed country's budgetary outlays on the same, during the base period of 1986-1990. Also, at the end of the implementation period, the quantity of export products with subsidies should not be greater than 79 percent of the said quantity during the same base years. This indicates that developed countries can still continue providing a substantial percentage of their subsidies throughout the implementation period.

It is clear therefore that the AoA, contrary to expectations, did not lead to the creation of a level playing field in the world market. Indeed, the continued proliferation of trade-distorting domestic support and export subsidies has perpetuated the current imbalance in international agricultural trade. Countries like the Philippines, with little budgetary resource to support their small farmers, had a limited chance to effectively compete in the said market.

### **Limited Market Access for Philippine Agricultural Products**

During the debate on the ratification of the UR agreements in 1994, the government assured farmers that the costs of lowering market protection for Philippine agricultural products would be adequately compensated by the export opportunities that would open up as other countries also undertake tariff reductions in line with the market access tenets of the AoA. However, a review of the tariff rates of member countries in the WTO will show that the Philippines's market access commitments are greater compared to the commitments of other countries (table 8). The Philippines, on account of PD 1464, did not provide tariffs higher than 100 percent, even for its sensitive agricultural products. Developing countries such as Colombia, Mexico, Venezuela, Turkey, Romania, Bangladesh, India, Indonesia, Malaysia, Korea, Sri Lanka, Thailand, and Tunisia set customs duties higher than this tariff level. In some of these countries, the percentage of agricultural tariff lines with tariffs higher than 100 percent ranges from 39 to 69 percent of total agricultural tariff lines (Vlanhantoni-Tikof 2005).

Table 8. Share of tariff lines with duties above 100 percent in selected countries

Developed countries	Share of tariff lines with duties above 100%	Developing countries	Share of tariff lines with duties above 100%
Canada	0.0	Argentina	0.0
EU-15	0.9	Brazil	0.0
United States	0.0	Colombia	22.9
Japan	0.3	Mexico	4.9
Australia	0.0	Venezuela	14.5
New Zealand	0.1	Turkey	16.8
Norway	44.2	Romania	39.6
Switzerland	6.9	Bangladesh	69.0
Iceland	8.1	India	44.7
		Indonesia	3.2
		Republic of Korea	10.1
		Malaysia	1.5
		Philippines	0.0
		Sri Lanka	0.0
		Thailand	2.1
		Tunisia	50.3

Source: Vlanhantoni-Tikof (2005).

The continued use of high levels of tariffs in other countries limited the Philippines's opportunity to penetrate new markets and undermined the government's 1994 forecasts of increased exports. Additionally, despite the AoA's expressed objective of removing nontariff barriers and harmonizing SPS measures to ensure that these are not used to hinder trade, these nontransparent means of trade protection continue to proliferate.

The Philippines's experience with Australia, in the case of trade in bananas demonstrates how SPS measures can be used to block trade. In 2002, Australia banned the entry of Philippine bananas for biosafety reasons (Makati Business Club 2002). However, there are concerns that the import restriction against the said product is mainly an accommodation of the strong lobby by the Australian Banana Growers Council. The council lauded the decision of the Australian government to impose the ban.

It is clear that the opening up of markets—one of the main premises of the government's projected benefits from the implementation of the agreement on agriculture—was not realized. As many countries continue to adopt high tariffs and impose a host of nontariff measures to block trade, the Philippines had dutifully and progressively cut down trade

Table 9. Government allocation for agriculture, 1997 to 2006

Year	Regular budget	GATT adjustment fund	Agricultural fisheries modernization program fund	Total
1997	2,690,163	14,474,968	—	17,165,131
1998	2,838,722	12,892,205	—	15,730,927
1999	3,344,289	11,612,233	—	14,956,522
2000	4,164,823	—	16,635,428	20,800,251
2001	4,656,604	—	11,449,739	16,106,343
2002	5,599,053	—	14,440,018	20,039,071
2003	4,444,621	—	12,129,019	16,573,640
2004	4,252,089	—	9,361,554	13,613,643
2005	4,273,715	—	10,261,068	14,534,783
2006	4,353,783	—	11,465,850	15,819,633

Source: Musngi 2006 citing Department of Agriculture data.

protection for many of its agricultural products and opened its market to imports.

### Failed Promise on Safety Nets

Though farmers' organizations and civil-society groups lost the 1994 ratification debate, they were successful in making policymakers aware of the need to provide safety nets to the agricultural sector. They have highlighted the general state of unpreparedness and inability of the sector to compete in the world market. In response, the government assured farmers that it would provide the necessary safety nets in the form of improved support services to help promote global agricultural competitiveness.

There was also an expectation among economists, that the commitment to liberalize would put pressure on the government to focus on extending strategic and sustainable support programs geared towards improving long-term productivity in the sector such as rural infrastructure, research, and technology development, among others. These measures were viewed to be superior and more sustainable to what were viewed as palliative type of support programs such as those involving price and input subsidies.<sup>6</sup>

However, public investment in the sector remained largely inadequate in the years following the ratification of the UR agreements. In fact, only 55 percent of the sector's budget requirements, as envisioned in the Philippine Action Plan had been translated into actual programs and projects (Briones and Habito 2005) (table 9).

In 1997, Congress legislated an additional PHP120 billion fund for the modernization of the sector by passing RA 8435<sup>7</sup> or the Agricultural Fisheries Modernization Act (AFMA). The PHP120-billion fund was programmed to be allocated over a period of seven years and was earmarked to finance the delivery of essential support services, including irrigation, post-harvest facilities, infrastructure, credit, marketing, research and development, extension services, among others. However, the additional budget for the sector, which was envisioned to be over and above the usual budget of the Department of Agriculture (DA) did not materialize. While there have been moderate increases in the budget, these are not at the level expected by the stakeholders under the AFMA. In many cases, the DA merely implemented its usual programs for the sector and reported these as part of AFMA implementation.

Moreover, the implementation of AFMA had been saddled with problems related to the ever-changing leadership in the DA. The priority attached to the program's implementation, particularly on the creation of the Strategic Agricultural and Fisheries Development Zones swelled and waned with each new leadership in the said department and undermined the general effectiveness of the said program for agriculture.

### ASSAILING THE AOA

It is apparent that the forecasted benefits from the implementation of the AoA were based on a host of assumptions that did not materialize. This validated the concerns and apprehensions raised by farmers' organization and civil-society groups during the 1994 debate. It also fueled the growing disenchantment with the rapid opening up of markets, not only among stakeholders but also among policymakers.

The negative impact of liberalization on the livelihood of many small producers created a broad spectrum of organizations and networks lobbying against liberalization. Some groups, such as the Alyansa Agrikultura (Agricultural Alliance), a coalition of agricultural producers, which includes vegetable growers, livestock and poultry raisers, crop farmers, fisherfolks, and rural women's groups, have lobbied the government to address, among other things, the problem of excessive importation. In particular, the alliance called on the government to increase tariffs on selected agricultural commodities and to ban importation when there is sufficient domestic production. Other

groups, such as the Stop the New Round Coalition, have called on the state to reject a new round of negotiations. The coalition has pointed out the impossibility of securing a fair agreement within the WTO, given the latter's trade liberalization framework, as well as the highly skewed power relations between developed and developing countries. Still, other groups, such as the Kilusang Magbubukid sa Pilipinas (Peasant Movement of the Philippines), have called on the government to withdraw its membership in the multilateral trade body.

Some stakeholder groups and industry associations have coured their concerns and recommendations on the WTO through the Task Force on WTO Agricultural Agreement Renegotiations (TFWAAR). The task force was organized by the Department of Agriculture in 1998 to serve as a consultative body that can provide policy direction to the department in negotiations on the WTO. The DA formed TFWAAR in response to criticisms that the agency did not consult and involve stakeholders in the formulation of the Philippines's position and negotiating agenda during the Uruguay Round. The absence of stakeholders' participation in the formulation of the country's schedule of concessions has been identified as one of the main reasons why market access commitments are more than what the specific commodity subsectors can bear.

The task force is composed of farmers groups, nongovernment organizations, as well as industry and stakeholders associations within the agricultural sector. Other members of the task force include representatives from various government agencies such as the Department of Trade and Industry (DTI), and the National Economic and Development Authority (NEDA), among others. The private sector representatives in TFWAAR are highly critical of the aggressive liberalization commitments undertaken by the Philippines during the UR negotiations. They have repeatedly cautioned the government from undertaking the same level of tariff reduction commitments in the present negotiations.

Despite the differences in the positions of the various groups campaigning and lobbying on agricultural trade, collectively they were able to exert pressure on government to re-evaluate its position vis-à-vis the AoA. The DA, in particular, acknowledged the imbalances in the UR agreement and its devastating impact on the Philippines's agricultural sector. It recognized the concerns raised by many developing countries that the AoA is focused mainly on market liberalization but had very inadequate provisions to ensure substantial reduction in trade distorting domestic support and exports subsidy.

In 2001, the Philippine Agriculture Office in Geneva submitted to the WTO a proposal that sought to strike a balance in the three pillars of the agreement. The Philippines proposed the creation of a rebalancing or interlinkaging mechanism that would give developing countries the right to increase tariffs, if developed countries are not willing to eliminate or substantially reduce their trade distorting subsidies. This proposal was intended to help link movements in market access, domestic support, and export subsidies. The proposed mechanism, which is an output of the TFWAAR, was welcomed by many developing countries as well as international civil society organizations (Department of Agriculture 2002). However, changes in the leadership in the DA affected initiatives to campaign for the proposal's adoption in the WTO. The Philippines's submission, despite early positive reviews, did not gain currency within the multilateral trade organization.

In 2003, prior to the WTO ministerial meeting in Cancun, the Philippines issued a statement articulating the difficulty it faced as a result of the tariff reduction commitments under the AoA. It highlighted the fact that many of its "small producers are being slaughtered in (their) own markets (and that) even the more resilient are in distress" (Republic of the Philippines 2003). The special safeguard measure (SSG) in the AoA, which was supposed to help countries address import surges and import price depression, had not been very useful to the Philippines because its triggers were based on a fixed base period, making it inaccessible to practically all commodities in the country, except onion and chicken.

As part of its response to the growing clamor for increased trade protection from its agricultural stakeholders, the Philippines joined the Alliance for Special Products (SP) and Special Safeguard Mechanisms (SSM) in 2003. The SP and SSM facilities are designed to help developing countries safeguard important sectors from rapid liberalization. In particular, special product refers to commodities that would be accorded market access flexibility on account of their importance to developing country's food security, livelihood security, and rural development. The market access flexibility may be in the form of exemption from tariff reduction or smaller tariff compared to the normal cuts. The SSM allows developing countries to apply additional import duties in cases of import surges or import price depression.

The alliance, which is composed of developing countries, namely Cuba, Dominican Republic, Honduras, India, Indonesia, Kenya, Mauritius, Nigeria, Pakistan, Panama, Peru, Philippines, Turkey,

Uganda, Venezuela, Uganda, and Zimbabwe, is highly critical of the AoA's focus on market access. In its statement, the alliance stated thus:

Unbridled trade liberalization that has singularly and mistakenly focused only on tariffs elimination and blind to the other equally important elements and pillars, not to mention our development needs, has no human face and is fast dismantling, rather than helping us build, our launching pads to economic and social development—the true intent of the multilateral trading system. Such liberalization contradicts the Doha Mandate. (Alliance for Special Products and Special Safeguard Mechanisms 2003)

The alliance views SP and SSM as essential features of any future agreement on agriculture. It maintained its position that “no agreement in the modalities of the agriculture negotiations can ever be viable without these two elements” (Alliance for Special Products and Special Safeguard Mechanisms 2003). The alliance for SP and SSM was later on transformed into the Group of 33, which carried on the advocacy for these trade facilities in the WTO ministerial meetings in Cancun and in Hong Kong, as well as in the post-Hong Kong negotiations.

The negative experience from the opening up of markets brought about by the AoA is not confined to the Philippines. Among developing countries, there is a growing dissatisfaction with the imbalances of the trade pact and its negative effect on the livelihood and welfare of many of their resource-poor farmers and agricultural stakeholders. All over the world, civil society groups were also waging systematic and broad campaigns against the WTO.

One of the initial signs of growing global discontent with liberalization was evident during the Seattle Ministerial Meeting in 1999. The said meeting was interrupted by massive protests by many cause-oriented groups carrying a broad range of issues, including economic, environmental, social, and even cultural concerns. The protests outside the meeting were matched inside by a brewing sense of dissatisfaction among many developing countries over the provisions as well as the implementation of the different agreements. In agriculture, developing countries' dissatisfaction revolved around the rapid opening up of markets, the continued use of trade distorting domestic subsidies in developed countries, and the so-called implementation issues in the AoA. These factors derailed the said ministerial meeting and hindered member countries from laying down the groundwork for the launching of a new round of negotiations during the said meeting. The Philippine delegation headed by then-DTI Secretary Jose T. Pardo and then-DA

Secretary Edgardo Angara issued a statement expressing concern that “other (WTO) Members do not adhere to the goal of substantial, immediate and lasting reforms in the areas of export and domestic subsidies” and that “market access alone appears to be their main concern.” This situation, according to the Philippines, “hardly provides developing countries any economic and political justification for further trade liberalization.”<sup>8</sup>

Keenly aware of the growing disenchantment with the WTO among its developing country members, the multilateral trade body launched the Doha Development Round during the fourth ministerial meeting held in Doha, Qatar in 2001. The Doha Development Agenda (DDA) claimed to put the development of least developed and developing countries at the core of the negotiations on new agreements covering agriculture, nonagriculture market access, and services. However, the DDA had been criticized by many civil-society organizations, such as the Focus on the Global South, for it is still cast within the aggressive market liberalization framework of the WTO.

The crisis in the WTO emboldened developing countries like the Philippines to take on a more defensive stance in the negotiations. During the Cancun ministerial meeting in 2003, Philippine head of delegation and then-DTI Secretary Manuel Roxas issued a statement declaring that “no deal is better than a bad deal” (*Manila Bulletin* 2003). This statement mirrors the sentiments of many developing countries that have become wary of accepting agreements that are highly skewed in favor of developed countries. The Cancun ministerial meeting is significant in the sense that it marked the new and important role played by developing country formations in the trade talks.

The Philippines is an active member of the Group of 20 Developing Countries (G20) and the G33, developing country alliances that figured prominently in the said meeting. The G20, which is headed by Brazil, is composed of export-oriented developing countries and some net-importing countries. Its main advocacy during the Cancun talks was the removal of trade distorting domestic support and export subsidies in developed countries. The G33, on the other hand, is headed by Indonesia and is more concerned with securing market access flexibilities for developing countries through the SP and SSM. The Philippines’s participation in these developing country formations is an expression of government’s twin negotiating objectives in the agriculture negotiations. These are the removal of trade distorting domestic support and export subsidies as part of its offensive goal, and



the protection of important commodity subsectors from aggressive trade liberalization, as part of its defensive position.

The Philippines is also a member of the Cairns Group, which is primarily composed of agriculture exporting countries. Some local groups have raised issues over the Philippines's continued membership in Cairns because of the latter's strong advocacy for greater market access and trade liberalization. Nevertheless, the Philippines views Cairns as one venue through which it can push for the removal of trade distorting domestic support and subsidies to support its agricultural exporters.

The collapse of the Cancun ministerial meeting further highlighted the crisis within the multilateral trade organization, brought about mainly by the difference in position of developed and developing countries. In agriculture, it underscored the inherent weaknesses in the way modalities in market access, domestic support, and export subsidies in the current agreement are structured.

During the Hong Kong ministerial meeting in 2005, the Philippines focused its negotiating efforts on securing favorable modalities on special products and special safeguard mechanism. As a member of the G33, it espoused the group's position on SP and SSM during the said meeting. The G33 has put forward very concrete recommendations on these trade facilities. In particular, it proposed that special products should be self-designated, which means that developing countries should have the right to choose which among its agricultural commodities should be given SP status, for as long as these meet the general criteria of being important to the country's food security, livelihood security, and rural development. The G33 also proposed that special products should comprise at least 20 percent of total agricultural tariff lines and that it should be given maximum market access flexibility. The market access flexibility would be in the form of exemption from tariff reduction and the application of lesser tariff cuts compared to the usual tariff cuts for nonspecial products.

## **PROSPECTS FOR PHILIPPINE AGRICULTURE UNDER THE WTO**

The future of Philippine agriculture under the WTO will depend primarily on two factors, namely (1) the level of development and competitiveness of the local agricultural sector and (2) the nature of the modalities that will be worked out in current negotiations on the AoA.

It is clear that much improvement, particularly in terms of public as well private investment in the sector, will have to be undertaken to help farmers become competitive in the domestic and international markets. Without support from the government, the small farmers and producers will have limited chances of successfully competing with agricultural imports, some of which are recipients of support and subsidies from their respective governments.

At the same time, the nature of the modalities that will be negotiated in the WTO will have an impact on the Philippines's policy space, particularly on its capability to safeguard its producers from the possible negative effects of liberalization. For instance, a Doha deal that prescribes huge cuts in import duties will narrow down the Philippines's already very limited policy space, given that the country's tariffs are already very low. Likewise, a new AoA that allows the continued proliferation of trade-distorting domestic support and subsidies by developed countries will further restrict our exporters' chances of opening up and expanding into developed country markets. Finally, a Doha Round that offers SP and SSM modalities with very few flexibilities for developing countries will weaken the country's capacity to sustain agricultural subsectors that are crucial to its food security, livelihood security, and rural development objectives.

Hence, improving the country's prospects under the WTO will require significant and parallel interventions in domestic agricultural policy and in the current agricultural trade negotiations.

The recommendations below identifies concrete policies that government can adopt to improve the future of Philippine agriculture.

## POLICY RECOMMENDATIONS

Given the obstacles that the Philippines faces with an underdeveloped and underperforming agricultural sector and the challenges posed by the advent of an unregulated and liberalized trade regime, there is an urgent need to adopt and implement drastic policies that would address the above-mentioned issues.

1. The Philippine government must seriously consider the adoption of a comprehensive support program for its agricultural sector similar to the farm bill currently being implemented by the United States to support its domestic agricultural producers. The farm bill should

be designed to support agricultural subsectors that are most vulnerable to displacement due to liberalization. Concurrently, it should invest resources that will enhance the competitiveness of its agricultural exporters in the international market.<sup>9</sup> The Philippine Farm Bill should be better funded than the Agricultural Fisheries Modernization Act and should focus on providing support and subsidies beyond what is presently covered by the said law. AFMA has very limited provisions to accommodate the extension of allowable and GATT-legal subsidies to small farmers. As a developing country, the Philippines, under WTO rules, is allowed to provide subsidies up to 10 percent of the value of its agricultural production. However, according to the DA, the subsidy levels extended to farmers have only reached up to 3 percent of the said value. The proposed Philippine Farm Bill should provide support that will maximize this flexibility given to developing countries.

2. Liberalization must be calibrated vis-à-vis the delivery of support services. This means that the policy decision to reduce tariffs must be linked and rationalized with the government's provision of essential support programs. This will entail the setting up of concrete and specific benchmarks, in terms of actual program delivery, to be used as gauges in determining whether the government can undertake further tariff reduction. At the moment, the Philippine government, on account of its commitment to the WTO, is compelled to reduce tariffs according to a predefined schedule, regardless of the level of development of its various agricultural subsectors. Unfortunately, it has no corresponding accountability mechanism for the delivery of safety nets and competitiveness enhancement measures to its agricultural stakeholders. As can be gleaned from the Philippines's experience, delinking market access from domestic support has seriously undermined the capability of small agricultural producers to remain economically viable in a liberalized trading regime. Hence, establishing the delivery of important and specific support services as prerequisites to tariff reduction will

help ensure that the local producers are provided the necessary support services that can help them effectively compete with cheaper and usually subsidized imports.

3. Government must continue to strengthen its consultative process, not only in the agriculture negotiations, but also in the other aspects of the trade talks, such as services and non-agricultural market access (NAMA), which covers trade in industrial goods. It must institutionalize consultative mechanisms that already work, such as the DA's TFWAAR. Though not perfect, the TFWAAR provides a mechanism through which stakeholders are informed of the status of the negotiations and consulted on crucial aspects of the trade talks. The task force also provides a mechanism through which nongovernment organizations (NGOs) and agricultural producers' groups can voice out their position on policies that have bearing on trade. A similar mechanism should be set up for NAMA and other services.
4. It is important to ensure that negotiating gains in the WTO are not undermined by the government's commitment in the different bilateral and regional trade agreements. For instance, the features of the SP and SSM facility that the Philippines, as a member of the G33, is currently advocating in the WTO, should be maintained and pursued as part of the country's negotiating objectives in the various free trade pacts. Rationalizing negotiating objectives across the different trade pacts underscores the need for a national comprehensive trade agenda. The comprehensive trade agenda will help ensure the cohesiveness of the country's negotiating position and initiatives across all trade talks, be it in the multilateral, regional, or bilateral level. Related to this, it is worthwhile to support current legislative proposals calling for the creation of a Philippine Trade Representative Office (PTRO). The PTRO bill seeks to create a single body that will undertake negotiations in all areas of trade (agriculture, industries and services, among others) and for all trade

agreements. The PTRO's negotiating position and efforts will be guided by a comprehensive trade agenda that will be formulated in consultation with stakeholders. One of the features of the PTRO bill is the institutionalization of stakeholders' participation in the formulation of the government's position in the various trade agreements. The PTRO is designed to address the concerns raised by stakeholders regarding the manner in which trade agreements are presently being negotiated. These concerns include the absence of stakeholders' participation in the formulation of negotiating positions, the lack of cohesiveness in negotiating efforts among the various government agencies that work on trade, and the need to establish accountability among government officials involved in trade negotiations, among others.

5. The Philippines must continue its membership and active participation in developing-country formations such as the G33 and the G20. These alliances enable the country to effectively pursue its advocacies within the WTO. In particular, it must maintain its advocacy to allow developing countries to safeguard sectors that are crucial to food security, livelihood security, and rural development from liberalization, via the SP and SSM facility. ❀

## NOTES

1. The country unilaterally adopted a series of tariff reform programs aimed at liberalizing trade. Accordingly, the government reduced average agriculture nominal tariffs from 35 percent in 1985 to 28 percent in 1995. In 2004, average nominal tariff on agricultural products was further reduced to 10.57 percent. Date from the Philippine Tariff Commission.
2. Entitled "An Act Replacing Quantitative Import Restriction on Agricultural Product, Except Rice, With Tariffs, Creating the Agricultural Competitiveness Enhancement Fund, and for Other Purposes."
3. Entitled "An Act Protecting Local Industries by Providing Safeguard Measures to be Undertaken in Response to Increased Imports and Providing Penalties for Violation Thereof."
4. Entitled "An Act Strengthening the Mechanisms for the Imposition of Countervailing Duties on Imported Subsidized Products, Commodities or Articles of Commerce in Order to Protect Domestic Industries from Unfair Trade Competition, Amending for the Purpose Section 302, Part 2, Title II, Book I of

- Presidential Decree No. 1464, Otherwise Known as the Tariff and Customs Code of the Philippines, As Amended.”
5. Data sourced from the Bureau of Agricultural Statistics, in real terms based on 1994 CPI.
  6. For instance, see David (1994, 141-170).
  7. Entitled “An Act Prescribing Urgent Related Measures to Modernize the Agriculture and Fisheries Sectors of the Country in Order to Enhance Their Profitability, and Prepare Said Sectors for the Challenges of the Globalization Through an Adequate, Focused and Rational Delivery of Necessary Support Services, Appropriating Funds Therefore and For Other Purposes.”
  8. Statement of the Honorable Jose T. Pardo, Secretary of Trade and Industry of the Philippines during the WTO Ministerial Meeting in Seattle, December 1999. WT/MIN(99)//ST/6.
  9. The Office of Congressman Lorenzo Tanada III is already considering the possibility of filing a Philippine Farm bill to address the concerns raised by farmers regarding the lack of support services and its impact on their capability to compete with imported agricultural products.

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